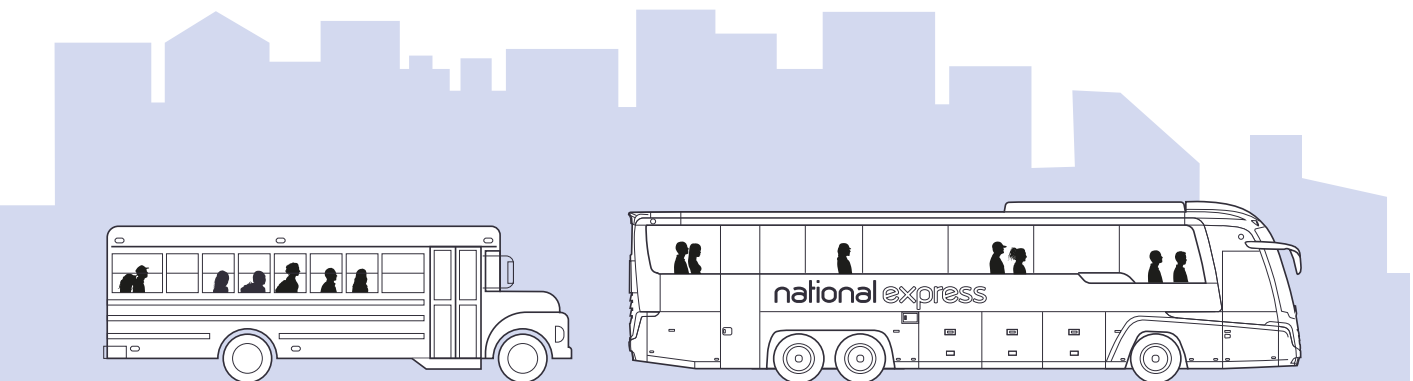
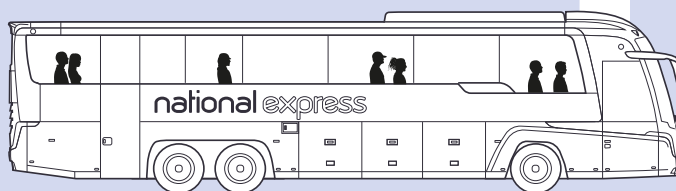
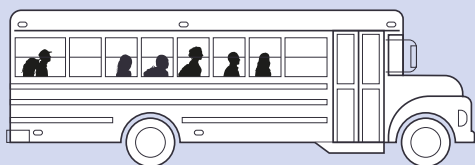




Consistent delivery. Accelerating momentum.

Annual Report 2018



Our Purpose

To provide a crucial service by conveniently and safely connecting people to jobs, education, shopping and leisure in an environmentally responsible way, through value fares.

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



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

www.nationalexpressgroup.com



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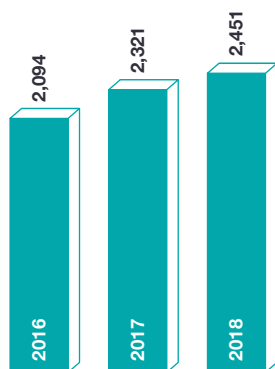
Unless otherwise stated, all operating profit, margin and EPS data refer to normalised results, which can be found on the face of the Group Income Statement in the first column. The normalised result is defined as being the IFRS result excluding intangible amortisation for acquired businesses, result from the year from discontinued operations and in the prior year, UK restructuring and US tax reform. The Board believes that this gives a more comparable year-on-year indication of the operating performance of the Group and allows users of the financial statements to understand management's key performance measures. Further details relating to separately disclosed items are provided in note 5 on page 130 to the Financial Statements. In addition, unless otherwise stated, all pre-tax results and margin data refer to the Group's continuing operations. Constant currency basis compares the current year's results with the prior year's results translated at the current year's exchange rates. The Board believes that this gives a better comparison of the underlying performance of the Group.

All definitions of alternative performance measures used throughout the Annual Report are included on page 205-206.

A resilient growth story

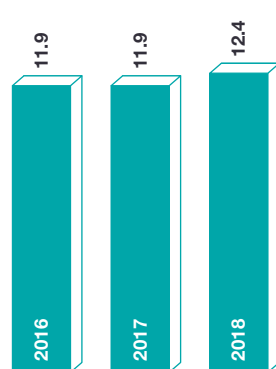
GROUP REVENUE (£m)

2,450.7



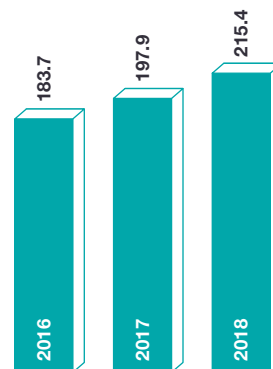
ROCE (%)

12.4



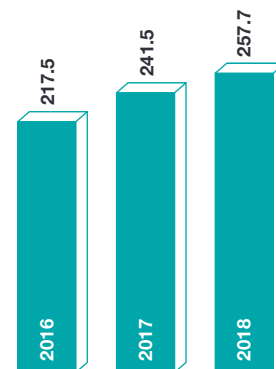
STATUTORY OPERATING PROFIT (£m)

215.4



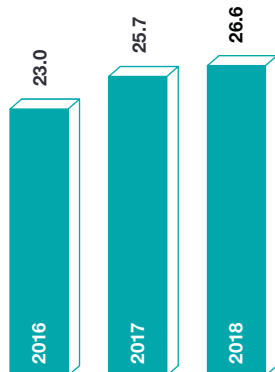
NORMALISED OPERATING PROFIT (£m)

257.7



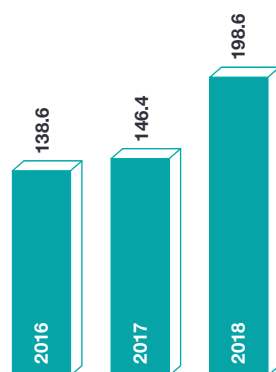
STATUTORY EARNINGS PER SHARE (p)

26.6



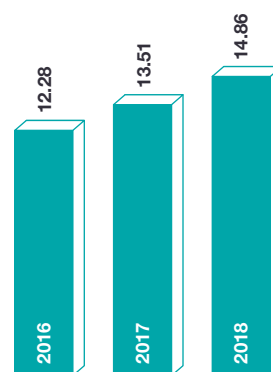
FREE CASH FLOW (£m)

198.6



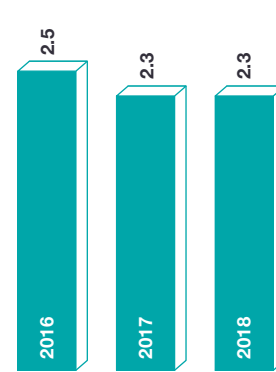
DIVIDEND PER SHARE (p)

14.86



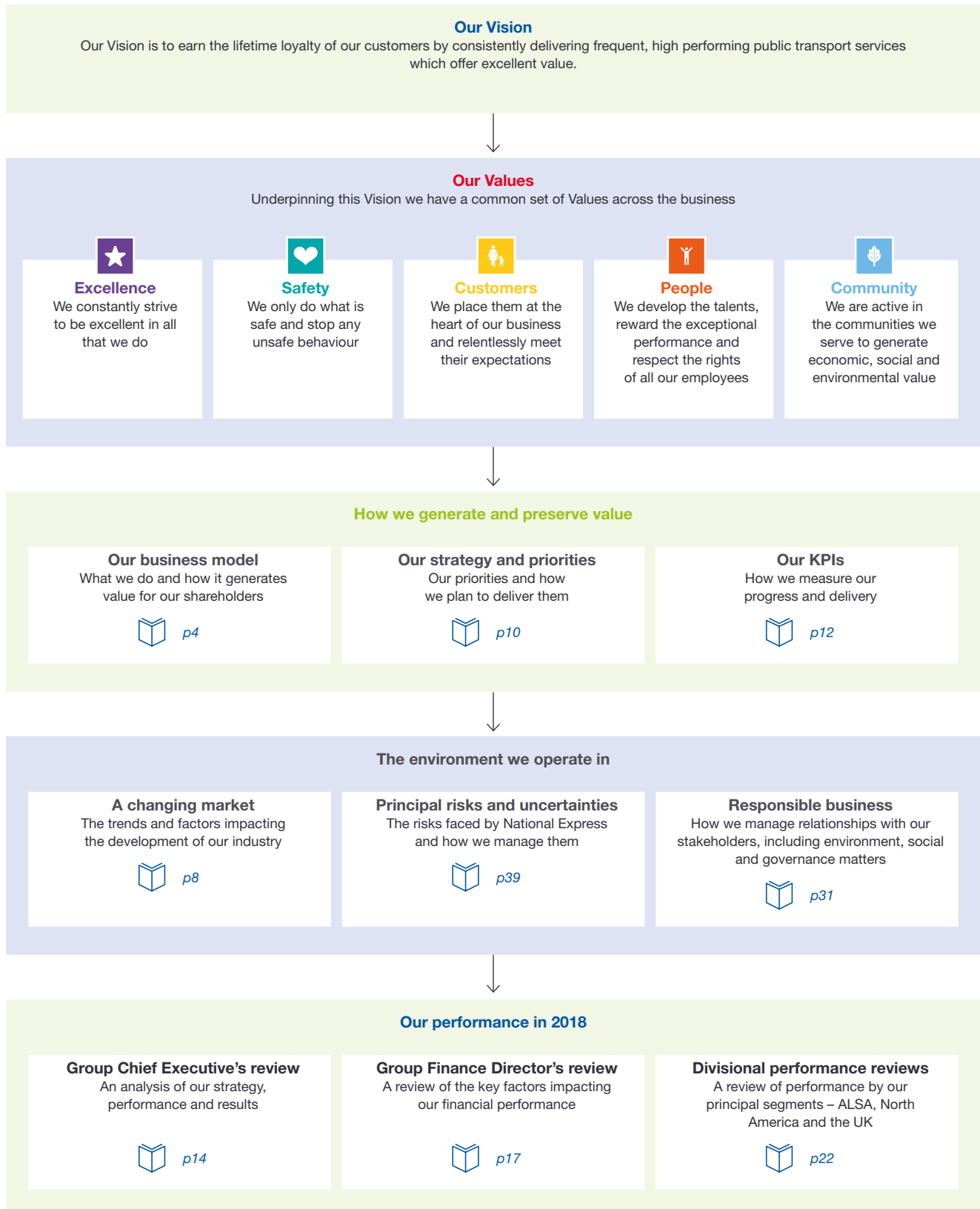
GEARING (x)

2.3



	IFRS basis		Normalised basis	
	2018 £m	2017 £m	2018 £m	2017 £m
Revenue	2,450.7	2,321.2	2,450.7	2,321.2
Operating profit	215.4	197.9	257.7	241.5
Profit before tax	177.7	156.4	220.0	200.0
Profit for the year	138.7	134.3	171.0	152.0
Profit after tax from continuing operations	138.7	128.4	171.0	152.0
Basic earnings per share (pence)	26.6	25.7	32.9	29.1
Free cash flow	198.6	146.4		
Net debt	951.5	887.9		
Full year proposed dividend per share (pence)	14.86	13.51		

Generating stakeholder value



Chairman's statement

Building on opportunities

Sir John Armitt CBE

Chairman



Dear fellow Shareholder

Introduction and overview

It gives me great pleasure to report to fellow shareholders that National Express has enjoyed a record-breaking 2018. The Group delivered significant increases in revenue, profit and free cash; our profit performance was a record on every measure. Driving this were record performances in both our North American and ALSA divisions. Our UK bus and coach businesses also had a very strong year, in contrast to some of the pervasive commentary around our sector.

These record-breaking results have been delivered through a combination of organic growth and new acquisitions. The Group again carried more passengers than it did the year before and our targeted acquisition strategy has added prime new businesses to our portfolio. We augmented this with business wins, from the substantial urban bus operation in Rabat, Morocco (which will make us the largest private operator in that country) to the 20 smaller 'tuck in' contracts in North America. We will also start our next German rail operation – the Rhine-Ruhr Express – later this year.

This combination of organic growth, targeted acquisitions and strategic contract wins is helping deepen our presence in significant urban markets as well as diversify our earnings streams. As Dean Finch makes clear in his Group Chief Executive's report, we are seeking to build a multi-modal presence in selected large and wealthy cities, to provide a range of services in an efficient, safe and valued manner. We are building platforms from which we can

both grow into new local market segments by serving them efficiently from our existing locations and begin to offer comprehensive door-to-door journeys for customers.

As a Board we have worked closely with the Executive team as they develop interesting ideas around the future of transport and mobility. We believe that this model, with customers looking for 'seamless' end-to-end journey information and options through a single technology platform, is likely to increasingly define transport. National Express is investing now to position ourselves appropriately in this area. As our significant growth in digital revenue, with increasingly sophisticated online and app presences and industry-leading Revenue Management Systems in the UK and Spain demonstrate, we are already seeing the benefit of targeted investment in areas where customers want innovation and modernisation. This is an approach that we will maintain.

A trusted operator and partner

The Board has always been greatly impressed with Dean's determination and focus on safety within our business. In the last year, the Group has significantly expanded the number of vehicles fitted with Lytx DriveCam smart safety cameras and rolled out enhanced driver monitoring. These technologies are also augmented with personalised feedback sessions between managers and drivers, drawing on the information generated. Both our UK bus and coach businesses were again awarded five-star British Safety Council awards.

As a company we greatly value our relationships with customers, local partners and regulators. This is demonstrated by our award-winning and pioneering Bus Alliance in the West Midlands and the long-term nature of our regional and urban contracts in Spain, for example. We also believe we have an important role to play in society, which is why we were so pleased to become the first private transport group to become a Living Wage Foundation accredited employer in the UK.

It is this combination of consistently strong financial performance with an active sense of our responsibility as an employer that helped us secure the accolade of Britain's Most Admired Transport Company in the 2018 Management Today awards. I would like to personally commend Dean, Chris, Matt and the rest of the Executive team for their hard work to deliver both this record result and such an accolade.

The year ahead

The Board expects the Group to build again on these results to deliver further growth in 2019. While there remains considerable uncertainty regarding Brexit at the time of writing, as a business we have reviewed a range of potential scenarios and do not believe we are exposed to any material adverse direct consequences. Nonetheless, as set out in the Finance Director's review on page 17 and the Risk section on page 39, we have sought to mitigate any potential impacts.

Dividend

It is with this confidence in mind that the Board is recommending, for the third successive year, a 10% increase in the final dividend for 2018 to 10.17 pence which will bring the full year dividend to 14.86 pence per share. Subject to shareholder approval of the final dividend at the AGM, it will be paid on 14 May to those shareholders registered on 23 April 2019.

Sir John Armitt CBE

Chairman

28 February 2019

Governance highlights

The Board is fully committed to ensuring that high standards of good governance are in place and consistently applied in the boardroom and throughout the organisation. It also embraces the increased emphasis of the new UK Corporate Governance Code, which applies to the Company from 2019. This pronounces that a positive relationship between companies, shareholders and other stakeholders (including the workforce) is a driver of long-term sustainable growth and having a strong workplace culture aligned with the Company's purpose, business strategy and values is an essential underpin to any successful business. At National Express, many of these fundamentals already exist, but during the rest of this year the Board and management will be looking at ways in which we can further strengthen and extend our current position in response to the new Code.



[Read more p62](#)

National Express at a glance

NUMBER OF PEOPLE EMPLOYED
WORLDWIDE

49,000

NUMBER OF KILOMETRES TRAVELLED

1.1bn

NUMBER OF PASSENGER JOURNEYS

898.2m

NUMBER OF VEHICLES OPERATED

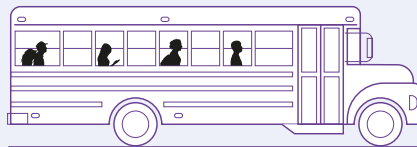
30,500

National Express is a leading international public transport operator, diversified internationally and by business area.

We have best in class margins and strong sustainable cash flow generation which allows us to drive both organic and acquisition-led growth.

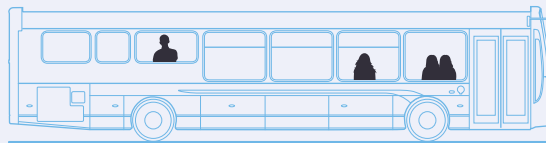
REVENUE BREAKDOWN BY BUSINESS LINE

Student transportation (North America school bus)



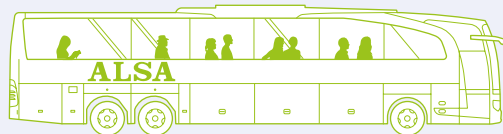
£775m

Urban bus (UK bus, North America transit, ALSA urban bus)



£710m

Regional/long haul coach (ALSA regional and long haul, UK coach)



£655m

Charter and other (North America, ALSA and UK)

£245m

Rail (German Rail)

£70m

Note: Data above rounded to nearest £5 million

What we do

We own and lease buses, coaches and trains which we use to deliver local, regional, national and international transportation services. In our UK coach operations, we also outsource certain services to select partner operators. Irrespective of the operator, all vehicles are driven and maintained to our global standards, either on a network of services scheduled by National Express or delivered point to point on private hire.

In Spain, Morocco, North America and Germany, services are run typically under an exclusive concession or franchise of fixed duration granted by a competent body (e.g. government, school board) and after a competitive bid process. In the UK, coach services are unregulated while for UK bus services, contracting differs by geography.

Where we operate

We hold the largest market share for long haul coach transport in both Spain and the UK, and are the second largest school bus provider in North America. We also operate urban bus and transit operations in the USA, Canada, Morocco, Spain and the UK. We operate rail operations in Germany.

REVENUE BREAKDOWN BY TERRITORY



How we create value

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



Growing revenue

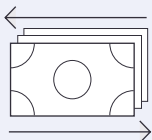
National Express generates revenue from two principal sources. The Group engages in multi-year contracts with bodies such as school boards in North America or local authorities in Spain and Morocco and these make up 48% of revenue. Revenue is generated either on a per mile/kilometre basis, or per route travelled. The Group generates a further 38% of revenue through ticket sales to the public, such as in the UK bus and coach businesses, coach and some bus services in Spain and Morocco, and the German rail business. In these, National Express is marketing the product and taking revenue risk. Concession revenue from local authorities in the UK, Spain and Germany delivers 3% of Group revenue with charter/private hire contributing a further 6%. The remaining 4% is from other revenue streams such as on-board entertainment, SMS alerts, booking fees and advertising.

The Group uses technology to support its revenue growth. Our Revenue Management Systems ('RMS') enable us to segment our customer offer through a better understanding of customer needs and purchasing behaviour to drive revenue through differential pricing depending on time of journey, ticket type, buying channel etc. Our customer facing apps support our customers in getting the product they need at a price they can afford.



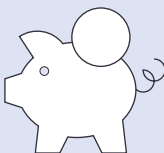
Converting it to profit

National Express margins are industry leading. We focus on delivering operational excellence in all we do. Sophisticated network optimisation is a key factor. We optimise peak vehicle requirements and loading factors through review and redesign of our networks, reducing the cost of delivering a high quality service to our customers. We use scheduling software to allow optimisation of routes and asset usage in our student transportation and transit markets in North America. Our diversity and scale are an important factor in managing indirect costs, enabling us to optimise cost and quality across the Group's supply base.



Delivering cash flow

National Express has a track record of consistently generating cash flow from its operations. The Group has delivered over £785 million of free cash flow over the last five years and is extremely disciplined in its management of working capital and in the conversion of operating profit into free cash.



To fund returns and re-investment

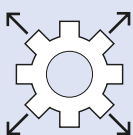
Our first priority is to re-invest in the core business. After maintaining our base business, we invest cash back into the operations to grow, having invested £506 million both organically and inorganically since 2014. This has strengthened our market-leading positions in coach in the UK and in Spain; built out key hub positions in North American student transport; and enabled us to move into adjacencies like urban bus in Morocco or charter in North America. In addition, we can deliver consistent, competitive returns to shareholders. Over the last five years the Company has returned £301 million through dividends, growing dividend per share by 44%.

How we sustain advantage



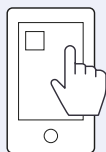
We engage our customers through clear marketing

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



We operate at scale

We seek leadership positions in the markets in which we operate, whether national, regional or local. In the UK and Spain, our long haul coach operations are market leaders. In urban bus and transit, we are focusing on growing urban hubs in multiple geographies.



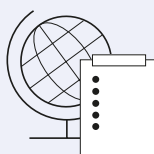
We deploy new technologies rapidly

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



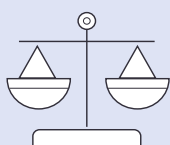
We prioritise safe operations

The Group operates and rigorously enforces consistent, world class safety policies in all markets, supported by leading edge technology. Our focus on Zero Harm supports our primary goal – to get customers to their destination safely and ensure the safety of our employees.



We enforce consistent global policies and processes

Our global Delivery Excellence team works to improve critical process across all operations, continually looking to raise standards whilst our global Master Driver and Master Technician programmes drive a consistently high standard of capability across our markets.



We operate a balanced and resilient portfolio

Around 50% of our revenue is contracted over multiple years, meaning we are less exposed to changes in travel patterns caused by economic cycles. Our diversification means that no one contract accounts for more than 2% of revenue. We are internationally diversified, meaning our cash flows are somewhat insulated from any one country's economic or political challenges, and also that we have the option to move our capital globally to develop growth options where they are most attractive.

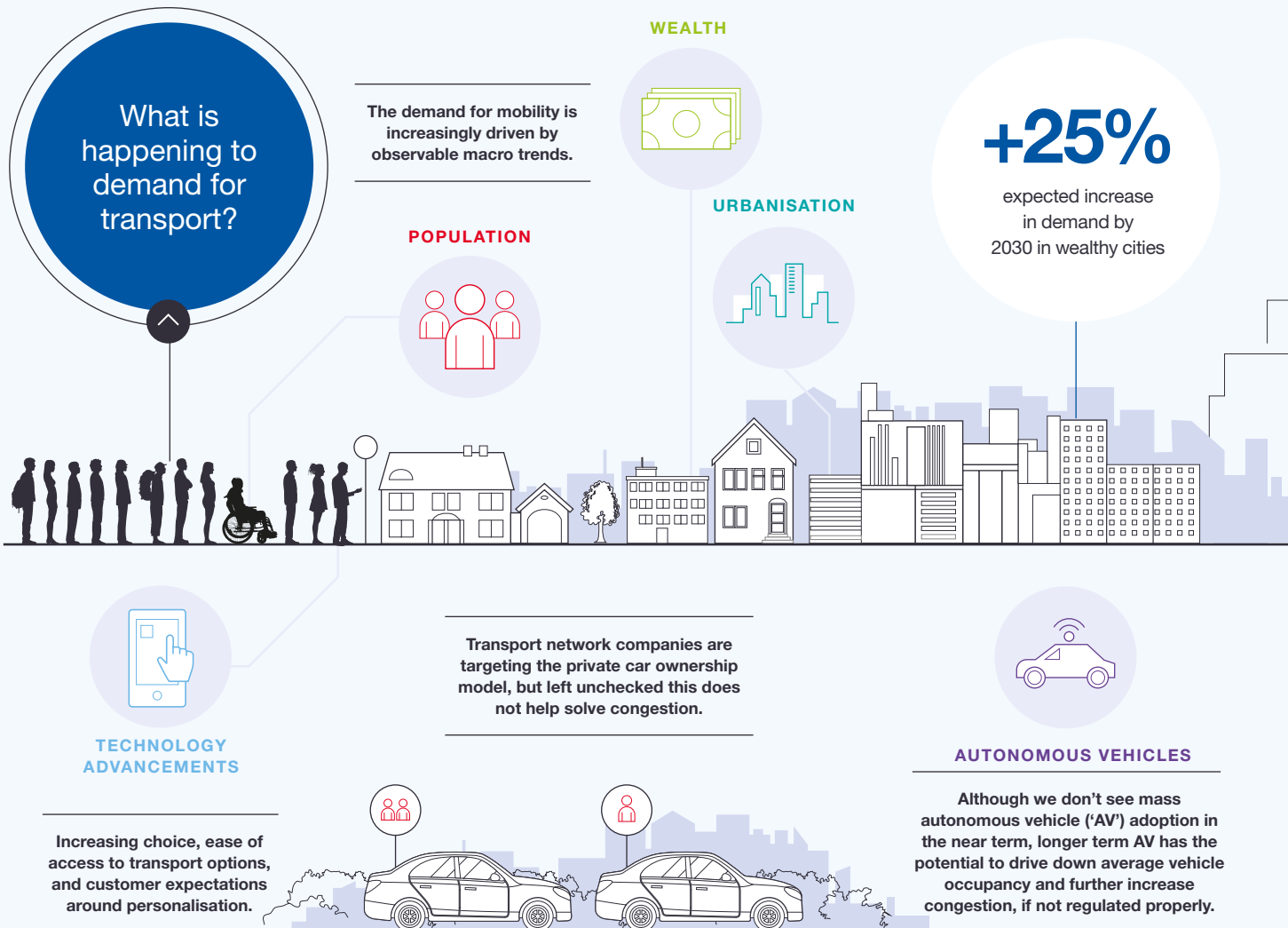
Mass public transport is the only viable solution for increasingly congested and polluted cities

Market overview

Urban areas are seeking to meet ever-increasing demand for integrated, door-to-door journeys while managing the challenges of congestion, carbon and clean air. The public want convenient, trouble-free access to clean, uncongested, liveable cities. Transport authorities want to offer better integrated public transport to become cleaner and less congested.

We are at an inflexion point in transport, where private car ownership is beginning to decline, but demand for travel is growing in cities with limited space for expansion of transport infrastructure. These factors mean that safe, efficient mass transit will be increasingly important for prosperous and developing urban areas.

Public transport will be part of an integrated transport network, with technology enabling real-time journey choice and flexible payment options. The successful operators of the future must therefore provide sophisticated technology platforms and quality services or be able to integrate seamlessly into them.



How will cities respond?



- Cleaner and less congested cities need high quality, safe, efficient public transport
- Regulation will focus on driving demand towards integrated mass transit solutions

What does this mean for the transport industry?



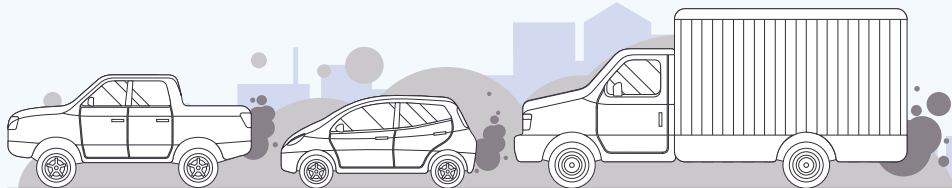
- Efficient public transport will form the backbone of cities' sustainable transport strategy. At the edges of the network, smarter, deeply integrated feeder services will provide the links into high capacity, frequent services through the urban core
- Running mass transit services is a field of expertise that presents a high barrier to entry. For operators to be successful, they must provide a safe, reliable, efficient and cost effective service, which puts the customer at its heart
- Cities will want multi-modal capabilities to provide the seamless services customers need. The industry will need technology platforms, capabilities and expertise to support that goal, integrating core networks with complementary transport modes

The result?

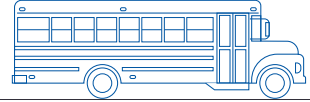
Without intervention and quality public transport services, this will result in inevitable gridlock in our cities, worsening air quality, and city spaces that are unliveable.

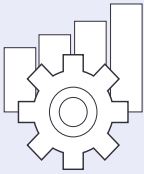

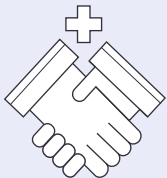
+80%

expected increase in demand by 2030 in developing countries



Driving our business forward through our three strategic priorities



Objective	Definition	Performance
 <p>Delivering operational excellence</p>	<p>We aim to be the safest, cleanest, most reliable, convenient and best value transport provider in the modes we operate</p>	<ul style="list-style-type: none"> – Another year of record passenger numbers in UK coach and ALSA, with Group passenger journeys growing by 1.7% – All eligible businesses have EFQM¹ five-star ratings; UK coach awarded Enhanced Recognition for Excellence; UK bus and coach re-awarded British Safety Council Sword of Honour – North America delivered its best ever FWI² score: we remain committed to the highest levels of safety, launching our Target Zero campaign across all businesses in 2018 – Received Britain's Most Admired Transport Company award from Management Today – UK coach won several UK Coach Awards, including Operator of the Year – ALSA awarded Renowned Figure in the Automotive Industry 2018 by the Eduardo Barreiros Foundation
 <p>Deployment of technology</p>	<p>We utilise technology to raise customer and safety standards, drive efficiencies in our business and facilitate growth</p>	<ul style="list-style-type: none"> – New mobile websites and ticketing apps are driving higher online transactions, higher conversion rates and lowering costs – Proportion of journeys through digital channels in UK bus increased significantly to 60% – Our real-time RMS in ALSA and UK coach have driven growth in revenue, passengers and yield – Continued roll-out of Lytx DriveCam technology across ALSA and North America, delivering a reduction in the number of collisions and associated costs – Partnering and investing with local innovation hubs to access new ideas and emerging technology
 <p>Growing our business through acquisitions and market diversification</p>	<p>We continue to grow our diversified, international portfolio of transport businesses through selective acquisitions and diversification into complementary markets</p>	<ul style="list-style-type: none"> – We acquired 11 businesses in the year, both in existing and complementary markets: <ul style="list-style-type: none"> • seven in North America, including two providing entry into the Charter School market • three in ALSA, including a new market entry into Galicia, and entry into the services market for the growing cruise market in Spain • a coach operator in the UK, expanding into both B2B and inbound tourist services – Entry into our fifth city in Morocco, winning a significant urban bus contract in Rabat, starting in mid 2019 – Entry into the minicab services market in Spain, with services in Madrid and Barcelona

¹ European Foundation for Quality Management – recognises operational excellence and awards ratings to businesses based on a number of criteria, including quality of leadership and strategic direction together with development and improvement of people, partnerships and processes in order to deliver value-adding products and services to their customers

² Fatalities and Weighted Injuries Index



Future outlook

- Network reviews driving efficiency across UK and ALSA
- New products and services e.g. weekly capping fare options on contactless and auto renew subscriptions
- Development of on-demand services and multi-modal solutions
- Increased ancillary revenue drivers in UK and ALSA and charter revenues in North America
- Investing in electric and hybrid vehicles, for cleaner journeys and cities
- Mobilisation of RRX rail contract in Germany and urban bus contract in Rabat, Morocco

Measuring our progress

We believe passenger growth and improvements in safety standards through a reduction in safety-related incidents are key indicators of driving the high safety and service standards, which ultimately helps deliver further growth in revenue, profit and cash.

 See KPIs p12-13

FWI²
Passenger journeys

Mitigating risks

 See Risks p39



- Further optimisation and automation of RMS to drive incremental demand and higher fleet utilisation; and hence increased profit
- Further enhancements to websites, apps and ticketless payment systems to deliver greater personalisation and improved services
- Completion of the roll-out of Lytx DriveCam; rolling out of a Driver Fatigue alerts system in our coach operations
- Technology to support our World Class Driver programmes
- Building technology platforms, capabilities and expertise to provide integrated transport solutions
- Developing multi-modal solutions and on-demand services

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

 See KPIs p13

Percentage of sales through digital platforms

 See Risks p39



- Further selective acquisitions, principally in North America and Spain
- Extending our offering into new regional markets and cities or building further scale in existing markets and cities
- Driving incremental revenue and profit through providing additional commercial services, making greater use of our fleet
- Multi-modal services within big cities, providing complete mobility solutions, through integrated platforms
- Investments in assets that provide platforms for future growth

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

 See KPIs p12

ROCE

 See Risks p39

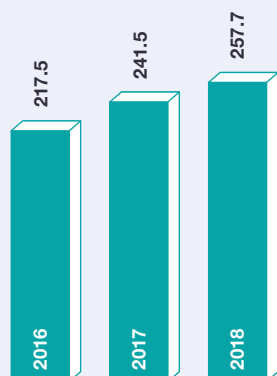


Measuring our progress

Financial

NORMALISED OPERATING PROFIT

2018: £257.7m



KPI definition

Group normalised operating profit from continuing operations.

Relevance to strategy

Key measure of the overall performance of the business.

We are focused on driving growth in operating profit in order to drive higher and sustainable returns for our shareholders and providing the platform for further growth for all our stakeholders including our employees, our customers and our partners.

Performance

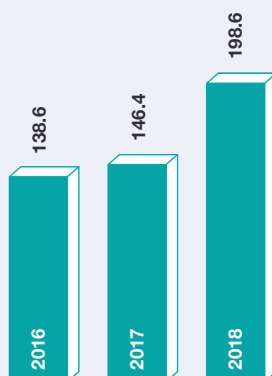
- Record Group normalised operating profit, up 7.7% in constant currency and 6.7% on a reported basis
- Growth being delivered both organically and through acquisitions

Remuneration linkage

Group normalised profit before tax is one of three bonus inputs within the Executive Directors' annual bonus structure.

FREE CASH FLOW

2018: £198.6m



KPI definition

Free cash flow is the cash flow available after deducting net interest and tax from operating cash flow. See reconciliation on page 19.

Relevance to strategy

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

This focus on strong cash generation ensures that we are running the business efficiently, converting profit to cash to enable investment into the business and returns to shareholders, and providing the platform for further growth for all our stakeholders including our employees, our customers and our partners.

Performance

- Normalised operating cash flow of £253 million, up £42 million on 2017
- Generated a record £199 million of free cash, £52 million higher than last year
- Generated over £785 million of free cash flow in the last five years

Remuneration linkage

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

RETURN ON CAPITAL EMPLOYED

2018: 12.4%



KPI definition

Return on capital employed ('ROCE') is normalised operating profit, divided by average net assets excluding net debt and derivative financial instruments, translated at average exchange rates. See reconciliation on page 19.

Relevance to strategy

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

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

Performance

- ROCE has increased to 12.4%, reflecting the accretive impact of our high return acquisitions
- Invested £124 million of net maintenance capital, predominantly in replacing our fleet in our existing operations
- Invested £6 million in growth capital expenditure to support growth in digital and e-commerce initiatives and mobilisation costs in German Rail
- Strong returns generated by our recent acquisitions, with acquisitions delivering returns of at least 15%

Remuneration linkage

ROCE is one of the performance conditions for the Long-Term Incentive Plan.

Non-financial

<p>SAFETY – FATALITIES AND WEIGHTED INJURIES ('FWI') 2018: 9.291</p>  <table border="1"> <thead> <tr> <th>Year</th> <th>FWI</th> </tr> </thead> <tbody> <tr> <td>2016</td> <td>17,085</td> </tr> <tr> <td>2017</td> <td>8,574</td> </tr> <tr> <td>2018</td> <td>9,291</td> </tr> </tbody> </table>	Year	FWI	2016	17,085	2017	8,574	2018	9,291	<p>PASSENGER JOURNEYS 2018: 898.2 million</p>  <table border="1"> <thead> <tr> <th>Year</th> <th>Passenger Journeys (million)</th> </tr> </thead> <tbody> <tr> <td>2016</td> <td>871.3</td> </tr> <tr> <td>2017</td> <td>882.1</td> </tr> <tr> <td>2018</td> <td>898.2</td> </tr> </tbody> </table>	Year	Passenger Journeys (million)	2016	871.3	2017	882.1	2018	898.2	<p>PERCENTAGE OF SALES THROUGH DIGITAL PLATFORMS 2018: ALSA 42.2%, UK: 51.2%</p>  <table border="1"> <thead> <tr> <th>Year</th> <th>ALSA (%)</th> <th>UK (%)</th> </tr> </thead> <tbody> <tr> <td>2016</td> <td>37.10</td> <td>41.4</td> </tr> <tr> <td>2017</td> <td>40.4</td> <td>44.7</td> </tr> <tr> <td>2018</td> <td>42.2</td> <td>51.2</td> </tr> </tbody> </table>	Year	ALSA (%)	UK (%)	2016	37.10	41.4	2017	40.4	44.7	2018	42.2	51.2
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<p>KPI definition The Fatalities and Weighted Injuries ('FWI') Index weights injuries by severity to give an overall standard based score.</p>	<p>KPI definition Passenger numbers as measured by the aggregate of passenger journeys across our five operating divisions. Our numbers for North America are estimated as our school bus services are non-ticketed.</p>	<p>KPI definition Sales transacted through digital channels including websites, mobile apps, ticket machines and contactless payment, as a percentage of sales.</p>																												
<p>Relevance to strategy Safety is of paramount importance to a public transport operator and is a core measure of our strategic priority: Delivering operational excellence. Safety is at the heart of our Values and is our priority for both our customers and our employees. High safety standards also help to drive sustainable growth through customer loyalty and new business wins.</p>	<p>Relevance to strategy Growth in passenger journeys is a leading indicator for growing our business and a core measure of our strategic priority: Delivering operational excellence. Passenger journeys are reflective of underlying demand for travel. National Express is targeting increased passenger ridership as a longer-term driver of sustainable value for both the business and the environment, with public transport a key solution to lowering carbon emissions and easing travel congestion.</p>	<p>Relevance to strategy Deployment of technology is one of our strategic priorities and a key driver for raising customer and safety standards together with growing our business and reducing costs. National Express is targeting increased sales through digital channels, not only to provide more convenient and faster methods of payment and to increase customer loyalty, but also to reduce costs and fraud. The convenience of mobile/contactless payment also encourages customers to travel more frequently via public transport, which reduces carbon emissions and travel congestion.</p>																												
<p>Performance</p> <ul style="list-style-type: none"> – in 2018 we saw an 8.3% increase in the FWI score compared with the previous year: however, when adjusting for increased mileage the FWI score was level with the result in 2017 – Our North America business saw a significant improvement, recording its lowest ever score and a reduction of 33% on the prior year – 74% improvement in safety performance since the introduction of Driving Out Harm in 2010 (when adjusting for increased mileage) 	<p>Performance</p> <ul style="list-style-type: none"> – A record number of passengers carried in 2018, with 898 million passengers travelling on our services, up 1.7% in the year – Record number of passengers in UK coach, and in ALSA record passenger numbers in Spain, Morocco and Switzerland – Growth in passengers across each of our businesses 	<p>Performance</p> <ul style="list-style-type: none"> – Very strong growth in digital sales in UK bus following the launch of contactless payment in 2018, with the proportion of journeys booked through digital channels increasing to 60% – In UK coach proportion of revenue secured through digital channels up by 9.4% over the last two years to 70% – New app launches in ALSA helping to drive digital sales – up 4.4% to 42.2% of sales – Digital revenue now represents 16.3% of Group sales, up 13.3% over the year 																												
<p>Remuneration linkage Improvement in FWI is a bonus input within the Executive Directors' annual bonus structure.</p>	<p>Remuneration linkage Non-financial targets within the Executive Directors' annual bonus structure typically include a component of personal objectives relating to business development metrics.</p>	<p>Remuneration linkage Non-financial targets within the Executive Directors' annual bonus structure typically include a component of personal objectives relating to business development metrics.</p>																												

Record results and growing momentum

Dean Finch

Group Chief Executive



Our diversified international portfolio of industry-leading businesses is combining organic revenue growth with strategic acquisitions to deliver increasing shareholder returns.

Overview

We have again delivered another record-breaking set of results, with revenue, profit and free cash all growing strongly. Both of our international divisions delivered record revenue and profit performances, with our UK businesses also growing very strongly. Our diversified international portfolio of industry-leading businesses is combining organic revenue growth with strategic acquisitions to deliver increasing shareholder returns. We are delivering on our aim of being a market leader on service, price and customer relationships and growing our presence in the most affluent cities and regions.

Every division not only delivered organic revenue growth, but the Group also saw an accelerating trend in the second half of the year. This demonstrates the benefit of our focus on operational excellence and the investment in technologies that deliver improved and more efficient services. Ultimately, we are seeking to earn customers' trust by setting fares at prices they value on services that they can rely on to complete their journey in a punctual and safe way. It is pleasing, therefore, that as well as growing commercial patronage across the Group, our contract portfolio remains typically medium to long-term reflecting the loyalty we are seeking to secure and providing a diverse and secure earnings stream. Our largest single contract is less than 2% of Group revenue.

We have made important progress in three crucial areas during the year to help deliver on this agenda.

First, sophisticated digital booking and ticketing systems that allow us to serve old and attract new customers in compelling ways. Our Revenue Management Systems ('RMS') in the UK and Spain are industry-leading and are driving passenger and yield increases. West Midlands buses have the largest contactless ticketing network

outside of London, and have daily price capping in place.

We continue to grow the proportion of sales made through digital channels (up over 13%) and are leveraging these increasingly sophisticated systems in new ways. For example, these systems enable the integration of third party sales channels into our booking processes, a key area for future growth in public transport. We saw 63% growth in this segment in 2018 and are investing to capture the significant further opportunities we believe exist in this area.

Second, we have also continued to invest to improve our operational performance, including the accelerated roll-out of Lytx DriveCam smart safety cameras as well as driver aid and monitoring technologies. We now have nearly 19,000 vehicles installed with DriveCam, and alongside speed monitoring and targeted driver training this is helping to reduce accident frequency. In North America alone, where over 15,000 vehicles now have DriveCam installed, we saw the average cost of injury claims from collisions reduce by 22.4% year on year, demonstrating the cost saving opportunity.

Third, we are using technology to improve management controls, drive service improvement and deliver efficiencies. We have invested in technology to enhance controls such as the real-time monitoring of on-time performance, sophisticated vehicle diagnostics and immediate feedback to the driver on their driving performance through a personalised app. These systems, augmented by new management processes, are driving improvements, such as: higher average bus speeds in the West Midlands, against the national trend; reduced vehicle breakdowns; and a reduction in accident frequency.

Our organic revenue growth and tight cost control are helping drive strong and

sustainable cash flows, allowing us to increase shareholder returns whilst also pursuing value-enhancing investments and strategic acquisitions. In 2018, we continued to do this in a disciplined manner; targeted returns for acquisitions remain above 15%. We made a further 11 acquisitions in the year, maintaining our disciplined approach to securing the best returns. In North America we made seven acquisitions, ALSA added three new businesses and the UK one.

These new acquisitions often consolidate our existing presence to pursue growth efficiently and enable us to expand into new complementary markets. In North America alone, we won 20 small contracts in areas where we have existing operations, allowing us to grow our presence efficiently. In Geneva, building from our small international service depot, we purchased the AlpyBus ski-transfer business and then combined this with further acquisitions and contract wins in local transit services to build a successful multi-modal hub, operating in 10 market segments. In 2018, AlpyBus grew revenues nearly 30% and passengers by 13.6%.

This hub strategy, combined with the digital innovation outlined above, provides an important potential growth area in the coming years. We believe the successful operator of the future will need to combine a reputation for operational excellence with a sophisticated digital presence that either enables multi-modal integration that offers customers door-to-door journey options at a price they value, or is easily able to 'plug'

their services into an existing platform that provides this capability.

Our strategy therefore remains focused on the three key pillars I have set out a number of times:

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

Our sustained focus on these three areas is helping to underpin our consistent delivery of strong and growing shareholder returns. Our free cash flow performance was particularly strong, at £198.6 million (2017: £146.4m). Group Return on Capital Employed improved 50 basis points, to 12.4%. Normalised earnings per share again grew strongly, up 13.1% to 32.9 pence (2017: 29.1p). As a measure of our confidence in the future, we have proposed a 10% increase in the final dividend.

Equally, I was delighted we secured the accolade of Britain's Most Admired Transport Company in the 2018 Management Today awards. This award showed that we have managed to combine consistently strong financial performance with a reputation as a good company and

employer. It is an achievement that employees across National Express feel rightly proud of.

Before I explain in more detail how each division has contributed to this record performance, I will set out the Group's financial highlights.

Financial performance highlights

National Express had a very strong year across all key financial metrics. Group revenue increased by 6.9% on a constant currency basis (5.6% on a reported basis). This has been driven by strong growth in every division, with both North America and ALSA setting new revenue records.

German Rail saw a decline in revenue, down 15.1% in constant currency terms. This decline is due to the benefit of catch-up revenues not recognised in 2016 being realised in 2017 and a year-on-year change in presentation of revenue. Like-for-like revenues increased 5.4% in German Rail.

Revenue in constant currency	2018	2017
ALSA (€m)	842.3	757.4
North America (US\$m)	1,416.1	1,311.3
German Rail (€m)	76.6	90.3

Revenue in £m		
ALSA	745.1	663.5
North America	1,060.8	1,017.2
UK	577.0	561.5
German Rail	67.8	79.0
Group	2,450.7	2,321.2



The contactless way to pay

The introduction of contactless payment to our West Midlands bus fleet in 2018 has proved popular with customers.

Less than a year after the payment system was launched, a customer has made the three millionth contactless payment on our West Midlands buses.

A quarter of all bus fares in the West Midlands are now paid for with contactless cards. Use of the card is capped at the adult day ticket rate, providing great flexibility for multiple journeys.

Contactless is not the only digital way of paying that has proved popular with bus passengers. National Express West Midlands has sold its four millionth ticket on a mobile. 17% of the region's bus revenue now comes from people using their phones to buy tickets.

Our profit performance was particularly strong. We set records for every Group profit metric. Group normalised operating profit increased by 7.7% to a new record of £257.7 million on a constant currency basis, up 6.7% on a reported basis (2017: £241.5m). Both North America and ALSA again set new records, with the UK achieving the highest rate of profit growth at 12.6%.

These results were adversely impacted by £3 million of currency translation, driven by the strengthening of Sterling against the US Dollar. Normalised profit before tax increased by 11.3% on a constant currency basis, and 10% on a reported basis, to a new record of £220 million (2017: £200m). Group statutory profit before tax also increased by 13.6% to another new record of £177.7 million (2017: £156.4m). Across the last five years, the compound annual growth rates of our Group profits reveal a strong and consistent delivery: statutory profit before tax has grown at a compound annual rate of 21.9% in that period, while normalised operating profit has grown at 8.2% compounded.

Normalised operating profit in constant currency	2018	2017
ALSA (€m)	119.1	108.3
North America (US\$m)	129.4	121.6
German Rail (€m)	3.4	5.9

Normalised operating profit in £m		
ALSA	105.3	94.9
North America	96.9	94.3
UK	79.9	70.9
German Rail	3.0	5.2
Central functions	(27.4)	(23.8)
Normalised operating profit	257.7	241.5
Interest and associates	(37.7)	(41.5)
Normalised profit before tax	220.0	200.0

Outlook

While 2019 has many uncertainties, I believe National Express is well placed to continue to grow.

We have plans in place to capitalise further on the improvements in all our businesses that are underpinning these record results. For example: we are already progressing with further improvement to RMS in the UK and Spain that will help drive up load factors again; and, in North America we are improving asset utilisation and wage and

hour controls, alongside further overhead cost reduction. When combined with the fact that Spanish concession renewals have still not resumed, we have a strong underlying momentum to build on further.

Our strong cash generation remains a focus and enables us to continue to invest in our existing businesses and new strategic acquisitions or market entries. This year sees the start of our Rabat urban bus contract and RFX German rail services, significant new additions to our portfolio. We believe there are also opportunities for strong growth in the Spanish mini-cab and US Charter School markets, as we leverage our presence in large cities to provide multi-modal services. Our pipeline of acquisitions remains very strong and we hope to continue to expand our presence in rich and growing urban areas this year.

So in 2019, we are again anticipating organic revenue and profit growth. While the political context, certainly in the UK, may be uncertain, we are determined to remain a consistent source of growth in shareholder value.

Dean Finch

Dean Finch

Group Chief Executive
28 February 2019



Encouraging innovation

One of our strategic priorities is to utilise technology to improve the way we operate and facilitate growth.

During 2018, we launched a new innovation programme to explore and develop digital opportunities for the business.

National Express Innovation and Science ('NXIS') taps into the creativity of start-up enterprises to develop new solutions for the business.

Eight enterprises started with NXIS in Birmingham in December and are due to deliver proposals in Q2 2019. Other NXIS hubs are being created in Spain and the USA, and will begin work during 2019.

Significant growth

Chris Davies

Group Finance Director



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, result for the year from discontinued operations and in the prior year, US tax reform and UK restructuring. The Board believes that this gives a more comparable year-on-year indication of the operating performance of the Group and allows the users of 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 205.

Statutory profit

The Group again delivered a record statutory profit after tax amounting to £138.7 million (2017: £134.3m) driving basic earnings per share of 26.6 pence (2017: 25.7p), with the result in the prior year including gross profit from discontinued operations of £5.9 million following the exit of our UK rail operations. Profit after tax from continuing operations grew by 8%.

Statutory profit

Reconciliation of statutory profit to normalised operating profit	2018 £m	2017 £m
Normalised profit before tax	220.0	200.0
UK restructuring	-	(5.6)
Intangible amortisation	(42.3)	(38.0)
Profit before tax	177.7	156.4
Tax charge	(39.0)	(28.0)
Profit after tax from continuing operations	138.7	128.4
Profit from discontinued operations	-	5.9
Profit for the year	138.7	134.3

Revenue

Revenue bridge	£m
2017 revenue	2,321
Currency translation	(28)
2017 revenue at constant currency	2,293
Growth in the continuing business	84
2018 acquisitions	74
2018 revenue	2,451

Group revenue for the period was £2,450.7 million (2017: £2,321.2m), an increase of 6.9% on a constant currency basis (up 5.6% on a reported basis with £27.7 million of foreign currency losses on translation). Revenue growth of £83.5 million from our existing businesses, representing growth of 3.6%, was boosted by a further £73.7 million from acquisitions, principally in North America and Spain.

The Group has seen an improved trajectory in revenue with growth accelerating in the second half of the year. Revenue growth has been delivered across each major division with performance particularly strong in our overseas businesses. ALSA delivered a record level of revenue, growing by 11.2% in constant currency, with strong organic growth of 6.1% boosted by three acquisitions made in the year. Record passenger numbers in both Spain and Morocco, up 5.7% and 2.1% respectively, have driven strong revenue growth, while AlpyBus has also delivered very strong organic growth of 29.1% following a successful ski season and new services during the summer months. Growth in Spain reflects good performances across our services in regional, urban and long haul, with a strong summer season in long haul reversing the small decline seen in the first half of the year, with our increasingly sophisticated Revenue Management System ('RMS') driving growth in passengers and average ticket price.

Our business in North America delivered revenue growth of 8.0% on a constant currency basis, with organic growth benefiting from the 2018/2019 bidding season in which we achieved an average price increase of 3.7% across the entire portfolio and 6.5% on those contracts up for bid and renewal. This growth was augmented by seven acquisitions in the year. Our Transit business is now delivering annualised revenue of over \$350 million, growing by 17% in the year.

Our UK business delivered a particularly strong performance in the second half of the year, with an improving trajectory delivering revenue growth of 2.8% for the year as a whole. This was driven predominantly by our coach business where revenue increased by 5.4% overall and by 7.4% in the core operations, with RMS helping to drive record revenue and passenger numbers. Targeted marketing campaigns and significant levels of rail disruption also helped to boost growth. Our UK commercial bus business grew revenue by 0.8%, driven by commercial passenger growth of 1.1%, benefiting from the continuation of the low fare zones together with the launch of contactless payment in 2018 and growing penetration of m-tickets. This growth comes despite a reduction in mileage of 2.9%, meaning revenue per mile increased by 4.0%.

The fall in revenue in German Rail reflects the catch-up revenues recognised in 2017 coupled with a change in presentation of income and cost receivable from the local authority. Underlying revenue grew by 5.4%.

Normalised profit

Profit bridge for the continuing operations	£m
2017 normalised operating profit (as reported)	242
Currency	(3)
Normalised operating profit at constant currency	239
Growth in continuing business	29
2018 Acquisitions	17
Fuel	19
Driver wages in North America and Spain	(16)
Maintenance and safety investment	(12)
General cost inflation	(24)
Other	6
2018 normalised operating profit	258

Group normalised operating profit increased by 7.7% to £257.7 million on a constant currency basis, up 6.7% on a reported basis (2017: £241.5m), after the adverse impact of £3 million of currency translation driven by the strengthening of Sterling against the US Dollar. The Group delivered a robust performance from its existing businesses, as the drivers of revenue growth noted above flowed through to a £29 million contribution to

profit. This was supplemented by the 11 acquisitions made during the year.

We benefited by £19 million from lower hedged fuel prices but this was mostly offset by above-inflation driver wage increases, predominantly in North America. During the year, we increased investment in maintenance and safety programmes in North America, and whilst this creates a short-term drag on North American operating margin, we will reap the rewards in the medium term.

General cost inflation across the Group amounted to £24 million.

The Group continues to evaluate strategic options for its UK property portfolio. Following on from our disposal of Sipson Road in 2017, we completed sale and leaseback transactions on our depot in Dundee and three depots in the West Midlands for cash consideration of £16.5 million. The incremental profit impact of these transactions was £5.2 million and is reported within the 'other' movement above.

Segmental profit performance

	2018 Local currency	2017 Local currency
ALSA €m	119.1	108.3
North America US \$m	129.4	121.6
German Rail €m	3.4	5.9
	2018 £m	2017 £m
ALSA	105.3	94.9
North America	96.9	94.3
UK	79.9	70.9
German Rail	3.0	5.2
Central functions	(27.4)	(23.8)
Group normalised operating profit	257.7	241.5

We have delivered profit growth across each of our core businesses, with the strongest performance in our UK business, where normalised operating profit increased by 12.6%, reflecting strong operating performances in both our bus and coach businesses, with operating margin improving by 120 basis points to 13.8%. This strong performance reflects record revenue in our core coach business, together with cost efficiencies, new routes, network reviews, and lower fuel costs as

well as the profit on disposal of property noted above.

ALSA also delivered a strong performance with a record profit of £105.3 million, with a normalised operating profit increase of 9.9% on a constant currency basis, driven by a combination of strong organic growth in Spain and Morocco, together with the benefit of acquisitions made in 2017 and 2018. This was further augmented by cost efficiencies and lower fuel costs which largely offset cost inflation. ALSA has benefited from a one-off gain on the sale of taxi licences which was broadly offset with a one-off adjustment to the timing of revenue recognition for certain contracts as part of the move to IFRS 15.

North America delivered a record profit of £96.9 million, with normalised operating profit increasing by 6.4% on a constant currency basis driven by strong performance in the acquisitions made in 2017 and 2018. Driver wage inflation of 3.5%, along with increased investment in maintenance programmes and safety technology, has driven a 20 basis point decline in 2018 profit margin, but positions the business for higher return in the medium term.

Our German Rail operations delivered an operating profit contribution of €3.4 million (2017: €5.9m), representing an operating margin of 4.4%, with profit in 2017 boosted by the catch-up of revenue not previously recognised.

Central costs have increased by £3.6 million, reflecting amongst other things, increased investment in operational excellence and talent teams, as well as the full year effect of our international/commercial development team in 2018.

Group normalised operating profit margin grew by 10 basis points at 10.5% (2017: 10.4%).

Summary income statement

	2018 £m	2017 £m
Revenue	2,450.7	2,321.2
Operating costs	(2,193.0)	(2,079.7)
Normalised operating profit	257.7	241.5
Share of results from associates	0.9	(3.5)
Net finance costs	(38.6)	(38.0)
Normalised profit before tax	220.0	200.0
Tax	(49.0)	(48.0)
Normalised profit after tax	171.0	152.0

Net finance costs were stable at £38.6 million (2017: £38.0m).

We recorded a profit of £0.9 million (2017: loss of £3.5m) from associates and joint ventures, with the loss last year reflecting the write-down of our investment in a minority stake in Deutsche Touring Group, a German partner in Eurolines, which entered into administration in 2017.

Normalised profit before tax of £220.0 million represents growth of 11.3% on a constant currency basis, up 10.0% on a reported basis (2017: £200.0m).

The normalised tax charge from continuing operations was £49.0 million (2017: £48.0m), a normalised effective tax rate of 22.3%, (2017: 24.0%) in line with previous guidance. The decrease in the normalised effective tax rate is largely the result of mix of profits, with a significant proportion of profits coming from the US where the federal corporate income tax rate reduced from 35% to 21%, effective from 1 January 2018.

Normalised basic earnings per share were 32.9 pence (2017: 29.1p), an increase of 13.1%.

Return on Capital Employed ('ROCE')

ROCE is a key performance measure for the Group, guiding how we deploy capital resources and as such is a key component of executive incentives. ROCE has increased to 12.4% (2017: 11.9%), demonstrating our disciplined approach to capital allocation and balance sheet management and the accretive impact of our high return acquisitions.

	2018 £m
Reconciliation of ROCE	
Group statutory operating profit	215.4
Intangible amortisation for acquired businesses	42.3
Return – Normalised Group operating profit	257.7
Average net assets	1,181.8
Remove: Average net debt	919.7
Remove: Average derivatives, excluding amounts within net debt	4.7
Foreign exchange adjustment	(22.2)
Average capital employed	2,084.0
Return on capital employed	12.4%

Cash management

The Group delivered £198.6 million of free cash flow in the period (2017: £146.4m), an increase of £52.2 million, which constitutes free cash flow conversion of 77%, creating a solid platform for investing in growth and paying dividends.

	2018 £m	2017 £m
Free cash flow		
Continuing normalised operating profit	257.7	241.5
Depreciation and other non-cash items	144.4	135.5
EBITDA	402.1	377.0
Net maintenance capital expenditure	(123.9)	(165.2)
Working capital movement	(17.5)	4.8
Pension contributions above normal charge	(7.4)	(5.0)
Operating cash flow	253.3	211.6
Net interest paid	(33.6)	(50.6)
Tax paid	(21.1)	(14.6)
Free cash flow	198.6	146.4

The Group delivered £402.1 million of EBITDA in the period (2017: £377.0m), an increase of £25.1 million. Net maintenance capital expenditure payments reduced by £41.3 million to £123.9 million, driven by sale and leaseback transactions, most notably the UK depots noted above. Going forward, we expect maintenance capital expenditure to revert to a normalised level of around 1.1 to 1.2 times depreciation. The working capital outflow of £17.5 million in 2018 compares with an inflow of nearly £5 million in the prior year, which partly reflected catch-up receipts in our German Rail business in 2017. The outflow in 2018 reflects a return to normal working capital

movements associated with a growing business. The combination of these movements delivered operating cash flow of £253.3 million (2017: £211.6m), an increase of £41.7 million.

The Group also delivered a £17.0 million reduction in net interest paid, returning to a normalised interest payment in the period, with 2017 reflecting a double coupon payment following the bond issue in that year.

The resulting free cash flow of £198.6 million (2017: £146.4m) represents an increase of £52.2 million but we would expect free cash flow to normalise at around £150 million to £160 million in 2019.

	2018 £m	
Reconciliation of free cash flow to net cash flow from operating activities		
Free cash flow	198.6	
Add: Operating cash flows from discontinued operations	0.4	
Remove: Net maintenance capital expenditure	123.9	
Remove: Movements in arrangement fees	0.3	
Remove: Profit on disposal of tangible and intangible assets	(16.7)	
Other movements	0.3	
Net cash flow from operating activities	306.8	
	2018 £m	2017 £m
Net funds flow		
Free cash flow	198.6	146.4
Net growth capital expenditure	(5.8)	(13.2)
Net inflow from discontinued operations	0.4	27.5
Acquisitions (net of cash acquired)	(154.5)	(101.5)
Dividends	(70.8)	(64.7)
Other, including foreign exchange	(31.5)	(4.4)
Net funds flow	(63.6)	(9.9)
Net debt	(951.5)	(887.9)

Growth capital expenditure during the period of £5.8 million included investment in digital and e-commerce initiatives in the UK, new fleet for the minicab business in Spain and costs associated with the mobilisation of our RRX rail contract in Germany.

Cash inflow from discontinued operations of £27.5 million in the prior year relates to the exit of the UK rail business.

We have continued our strategy of making selective acquisitions where the returns and strategic fit justify the investment, and we completed 11 such investments in the year: seven in our North American division, three in ALSA and one in our UK coach business. Total net consideration for these acquisitions was £142.8 million of which £26.8 million is deferred into future years. £38.5 million of deferred consideration relating to acquisitions completed in prior years was settled in 2018, resulting in a total net funds outflow in the period of £154.5 million. We continue to deliver strong performances from our acquisitions, delivering returns on invested capital of at least 15% in the first full year after acquisition.

Other items include £21.8 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 £63.6 million (2017: outflow £9.9m), resulting in year end net debt of £951.5 million (2017: £887.9m).

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 considers three principal factors, in addition to level of cover:

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

In line with the interim dividend, the Board has proposed a 10% increase in the final dividend to 10.17 pence, to give a full year dividend of 14.86 pence at 2.2 times cover.

Treasury management

The Group maintains a prudent approach to its financing and is committed to an investment grade credit rating. The Board's policy 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 upgraded its investment grade rating to Baa2 during the year while Fitch credit rating agency re-affirmed its investment grade credit rating at BBB-/stable.

The Group's key accounting debt ratios at 31 December 2018 were as follows:

- Our bank covenant for gearing is not to exceed 3.5 times net debt to EBITDA – in 2018 the gearing ratio was 2.3 times EBITDA (31 Dec 2017: 2.3x);
- Our bank covenant for the interest cover ratio is EBITDA not to be less than 3.5 times interest – in 2018 the interest cover ratio was 10.5 times interest (31 Dec 2017: 10.2x).

The Group has a strong funding platform that underpins the delivery of its strategy. Core funding is provided from non-bank sources to provide improved certainty and maturity of funding. In April 2018, the Group extended its £527 million committed bank facilities to mature in April 2023 (with two one year extension options). In January 2019, the Group entered into a new £500 million bridge-to-bond facility in anticipation of the refinancing of the Group's £250 million floating rate note maturing in May 2020 and £225 million bond maturing in June 2020. The facility is for an initial period of 18 months and includes committed options to extend the maturity date until January 2022. This facility gives the Group significant flexibility, enabling us to choose the optimum moment to refinance, taking into account the prevailing low interest rate environment and potential future rate developments, without incurring punitive refinancing charges.

At 31 December 2018, the Group had £1.6 billion of debt capital and committed facilities, comprised the £225 million Sterling bond and €250 million Floating Rate Note both maturing in 2020; a private placement of €78 million maturing in 2021; the £527 million of Revolving Credit Facility ('RCF') maturing in 2023; a £400 million Sterling bond maturing in 2023 and £143 million of finance leases. At 31 December 2018, the Group's RCF was undrawn with £644 million in cash and undrawn committed facilities available.

At 31 December 2018, 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. The net effect of these transactions was that, at 31 December 2018, the proportion of Group debt at floating rates was 37% (2017: 43%).

Working capital management

For a number of years, the Group has used various facilities to manage both payables and receivables. We use non-recourse factoring arrangements across the Group on receivables and advance payments. The total draw down in 2018 was £88.7m. In respect of fleet purchases, we have extended payment terms facilities in place with our major vehicle suppliers. The amount payable as at the balance sheet date was £160.3 million.

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 recent UK tax law.

Pensions

The Group's principal defined benefit pension schemes are all in the UK. The combined deficit under IAS 19 at 31 December 2018 was £116.8 million (Dec 2017: £94.5m).

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 scheme executed an insurance "buy-in" with Rothsay Life for 100% of the future obligations of the funds of the UK Group scheme. Whilst this results in a reduction to the actuarial surplus, this materially derisked the Group's balance sheet, as any change in future liabilities will be met by the insurance company.

The IAS 19 valuations for the principal schemes at 31 December 2018 were as follows:

- WM Bus: £127.3 million deficit (2017: £133.8m deficit)
- UK Group scheme: £14.9 million surplus (2017: £43.2m surplus)

Fuel costs

The Group consumes approximately 230 million litres of fuel each 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 2018 of £160 million (approximately 7% of related revenue), at an average fuel component cost (ie. excluding delivery and taxes) of 34.9 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 2019 at an average price of 37.4 pence per litre, 71% fixed for 2020 at an average price of 35.7 pence and 29% fixed for 2021 at 37.6 pence. Based on this, year-on-year fuel costs for the same mileage will be around £6 million more in 2019.

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

Two new accounting standards came into effect on 1 January 2018 (IFRS 9 and IFRS 15), with a third, IFRS 16, coming into effect on 1 January 2019.

IFRS 9 'Financial Instruments' addresses accounting for financial assets and financial liabilities including new rules for hedge accounting and a new impairment model for financial assets. The Group has reviewed its existing financial assets and liabilities accounting and has made a number of transitional adjustments, including an increase in the impairment provision for trade and other receivables. The net impact of these adjustments is a reduction in net assets of £13.5 million, with full details in note 2 in the financial statements.

IFRS 15 'Revenue from Contracts with Customers' is based on the principle that revenue is recognised when control of a good or service transfers to a customer. On transition, this has resulted in a net reduction in net assets of £17.7 million, with full details in note 2 in the financial statements.

IFRS 16 'Leases' will primarily affect the accounting for the Group's operating leases and will result in an increase in the number of leases being recognised on the balance sheet as the distinction between operating and finance leases is removed. The new standard came into effect on 1 January 2019. As a result we expect to recognise right-of-use assets and lease liabilities of around £190-210 million. The impact on EBITDA is expected to be an increase of around £60 million and hence an increase in gearing of less than 0.2 times. Further details are provided in note 2 in the financial statements.

Brexit

The Directors have determined that the level of uncertainty surrounding Brexit requires the Group to highlight it as a specific principal risk. Whilst, at the time of writing, the likelihood of a disorderly Brexit appears to be increasing, 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. Our Spanish business carries very few UK nationals, making up only around 0.1% of total passenger revenue. 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 2018, 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
28 February 2019

ALSA



Francisco Iglesias
Chief Executive, ALSA

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

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

REVENUE

£745.1m

2017: £663.5m

NORMALISED OPERATING PROFIT

£105.3m

2017: £94.9m

Market overview

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

Growth drivers

- 175 concessions: 121 intercity coach concessions, 38 urban bus contracts, 16 others
- Concessional renewal process restarting
- New contract wins in Spain
- Revenue management generating passenger and revenue growth in Spain
- Continuing urbanisation of the Moroccan economy with rapid migration to the major cities
- Building scale and services in Switzerland
- Further bolt-on acquisition opportunities

MARKET SIZE

€4.0bn

CONCESSIONS

175

Year ended 31 December	2018 £m	2017 £m
Revenue	£745.1	£663.5
Normalised operating profit	£105.3	£94.9

Revenue	€842.3	€757.4
Normalised operating profit	€119.1	€108.3
Operating margin	14.1%	14.3%

Overview

ALSA had a very strong year, breaking records for revenue, profit and passengers carried. The business delivered organic growth and augmented this with the contribution of three acquisitions which are all performing ahead of expectations.

Long haul concession renewal has still not resumed, and with a General Election called for 28 April, we do not now expect any material impact on earnings before 2021. As the industry leader, ALSA remains well placed to emerge stronger from the renewals programme. The rest of our Spanish portfolio contains multi-year contracts: many regional contracts have at least five years to run; and, most urban contracts only expire around 2030. During 2018, ALSA has been continuing its market diversification strategy, with acquisitions and contract wins helping to develop new sources of growth. This business remains a prime asset in a strong market.

	€m
2017 normalised operating profit	108
Growth in the continuing business	12
2018 acquisitions	7
Net cost inflation	(9)
Other	1
2018 normalised operating profit	119





During 2018, ALSA has been continuing its market diversification strategy, with acquisitions and contract wins helping to develop new sources of growth.

Operational excellence: driving organic growth

ALSA has delivered another year of record performances. Revenue has increased by 11.2% in constant currency to €842.3 million; normalised operating profit grew to €119.1 million (up 9.9% in constant currency); and, passengers carried was up 3.9% to over 326 million. These record figures were delivered through all sectors of the business growing, including the long haul segment which reported a slight year-on-year decline at the half year. Across the full year, the long haul segment grew.

This growth in long haul was achieved with our increasingly sophisticated RMS again helping to drive increased revenue, passengers and yield. RMS has been both extended (to 304 routes) and developed with the application of machine learning and artificial intelligence. Machine learning is being used to improve our demand prediction models and also extend the time the market is closely monitored in an efficient manner. These system enhancements will be extended this year, as an 'always on' (365 days a year) RMS combining machine learning and our analysts, is implemented.

Indeed, the average occupancy of vehicles on routes with RMS has again increased this year, by 1.5% to nearly 51%. Our focus on service excellence is being complemented by the sophisticated RMS and good marketing, driving passenger growth in an efficient manner. ALSA has achieved its highest ever customer satisfaction score of 76%, up 3.5%, demonstrating that it is not only an industry-leading choice, but also managing growth in a positive way.

Our Moroccan business also enjoyed a record year, with revenue up 5.9% in constant currency and passenger growth of 2.1%. It also achieved an increase in the average ticket price of 2.9%. New regional and sightseeing services were launched in Tangier and Marrakech, respectively.

Equally, we have seen our AlpyBus business in Geneva grow strongly in the year: revenue was up 29% in constant currency and passenger numbers grew by 13.6%. We have further consolidated our position in Geneva, with additional acquisitions and new contract wins so that we now operate a number of services across many segments. We have grown this business from a small international service depot with an initial entry into the local ski transfer market through acquisition, to now also incorporating services in many segments: urban bus, sightseeing and city tour, tourist, charter and discretionary services including for local schools and companies. This business has also recently added some international services from Geneva as part of a partnership with OuiBus, and also operates a travel agency.

Technology investment to underpin excellence, efficiency and innovation

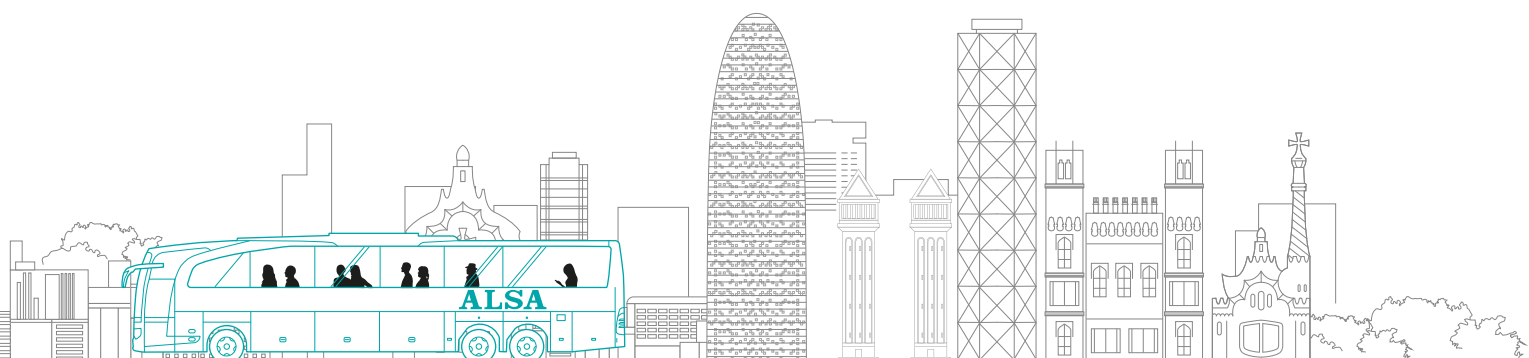
As the example of RMS demonstrates above, investment in technology is at the heart of our strategy. During 2018 ALSA also invested heavily in DriveCam smart safety camera technology, with now nearly 1,000 vehicles fitted across the fleet. This industry-leading safety technology is being combined with enhanced speed monitoring equipment and tailored driver training to continually improve standards. During 2019 every ALSA driver will receive a personalised summary of their driving performance at the end of their shift.

This information will also be used by managers to discuss improvements.

Across the Group as a whole, we are increasingly using detailed data and analytics to drive improvement in operational performance. This drives both an improved service to customers and cost savings through more efficient operations. As well as its application to safety and revenue management, the benefits of improved fuel consumption (down nearly 1% year-on-year, per kilometre driven) and a reduction in vehicle breakdown frequency during 2018 are other examples of the successful use of this data and analytically-led approach.

Again in line with the trends across the Group, the proportion of digital sales made in ALSA grew during 2018, up 4.2% to over 42% of all revenue. A new Moroccan website and an improved Spanish website and app have all helped drive this continued shift towards digital channels. Improved download times and payment engines, alongside more targeted marketing, have helped drive greater customer visits to our digital channels (up 2.2% year on year) as well as driven the growth in revenue secured.

Within this figure, we are also seeing interesting growth segments enabled by the more sophisticated digital booking process. For example, customers are now offered on-board entertainment and the option to choose their seat on some services. These ancillary revenues have grown 15% during the year. A digitised booking process also enables the inclusion of third party agents' sales channels much more easily, broadening the reach to new customers and driving growth. This area saw growth of 11% during 2018.



As part of the Group-wide National Express Innovation and Science ('NXIS') programme, ALSA has created an investment fund to support entrepreneurial start-up companies as well as staff within the company to identify new approaches that will address business challenges or create new growth opportunities. ALSA expects the first outputs from this new fund to be realised this year, demonstrating our determination to continue learning and innovating to drive growth and efficiency.

Targeted growth through strategic acquisition and market diversification

During 2018, ALSA consolidated its position in leading markets through acquisition and new market wins, and expanded into interesting new growth markets. This will help drive organic growth in the coming year, as ALSA is opening new market growth in an efficient manner.

For example, in securing a nearly 500 vehicle Rabat urban bus contract, where we will be the majority partner in a joint venture, ALSA has become the largest private operator of public transport in Morocco. This contract will start later this

year. In 2019 ALSA hopes to build upon this strong platform in five Moroccan cities and enter the inter-city market.

A similar strategic rationale underpinned our ArgaBus and Cal Pita acquisitions in 2018. In acquiring ArgaBus, a 77 bus operator of commuter and school services, ALSA became the second largest operator within the Madrid Consortium, consolidating our position within this large, wealthy city. The acquisition of Cal Pita, a Galician regional and urban bus operator, opened a new region of Spain to ALSA, positioning the business for an upcoming round of concession renewals.

ALSA also made an acquisition – BC Tours – to open a new market to the business, as part of our strategic diversification. BC Tours is Spain's largest operator of transport and logistics in the cruise industry. As well as providing market entry in to a growing sector, there are synergy benefits through the use of existing ALSA vehicles for tourist services. After successfully integrating the new company during the second half of 2018, ALSA is

exploring expansion opportunities, including at large ports outside of Spain.

ALSA has also diversified into an expanded mini cab business, linking up with local taxi companies mainly in Madrid to operate Uber and Cabify concessions. This is an interesting new source of revenue diversification – and one that other cities in Spain may also open up in the near future. But it is also a new strand of ALSA's strategy to offer door-to-door journeys in major Spanish cities, as these services can also be bought alongside bus and coach tickets in the booking process. With the increasingly sophisticated digital sales channels outlined above, this is a very interesting area of future growth and one that ALSA is looking to develop further.



Cruise market offers opportunity

ALSA entered a new area of business during the year through an alliance with BC Tours, an established Spanish provider of tourist services. BC Tours has particular strengths in serving the cruise ship market.

With bases in Barcelona, Cádiz and Palma de Mallorca, BC Tours provides excursions for cruise passengers as well as transfers to ships. It also provides ground services for cruise operators and arranges the provisioning of ships.

The alliance with BC Tours opens up opportunities to increase tourism work and provides synergies with ALSA's existing presence in the Balearic and Canary Islands.



Matt Ashley
Chief Executive, North America

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

We operate in 35 US states and three Canadian provinces.

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

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

REVENUE

£1,060.8m

2017: £1,017.2m

NORMALISED OPERATING PROFIT

£96.9m

2017: £94.3m

Market overview

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

National Express also operates in the North American public transit market and is the fourth largest player with around 5% market share. One third of the transit market is outsourced and there is an increasing demand for accessible public transportation services, for fixed route, paratransit and employee shuttle services.

Growth drivers

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

SCHOOL BUS

21,500

Vehicles

\$24bn

Market size

TRANSIT

3,250

Vehicles

\$25bn

Market size

Year ended 31 December	2018 £m	2017 £m
Revenue	£1,060.8	£1,017.2
Normalised operating profit	£96.9	£94.3

	US\$1,416.1	US\$1,311.2*
Revenue	US\$1,416.1	US\$1,311.2*
Normalised operating profit	US\$129.4	US\$121.6*
Operating margin	9.1%	9.3%

* 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, as the combination of organic growth and strategic acquisitions continues to deliver real benefits. Our transit business continues to grow strongly through a combination of acquisition and new contract wins. The benefits of our investment in technology are being seen in improved operational and service control, with our safety performance particularly noteworthy.

In a disciplined bid season we prioritised protecting returns above retention. We sought sufficient rate increases to mitigate driver wage inflation. This discipline saw us retain fewer contracts than in recent years but our remaining business is stronger. With our increasingly granular focus on driver wages we are targeting a modest reduction in inflation this year.

	\$m
2017 normalised operating profit	122
Exchange movement (CAD to USD)	–
Operating profit at constant currency	122
Growth from continuing business	14
2018 acquisitions	13
Fuel	9
Drivers wages	(15)
Maintenance/safety investment	(16)
Other	2
2018 normalised operating profit	129



Operational excellence: driving organic growth

The benefits of our approach are reflected in another record year of normalised operating profit (up 6.4% to \$129.4 million) and a revenue increase of 8.0% to \$1.42 billion (both in constant currency). This is despite driver wage inflation coming in slightly higher than we projected, at 3.5%, as the tight North American labour market continued. We are currently projecting that school bus driver wage inflation will moderate, but only slightly, during 2019.

During a disciplined bid season in the context of near full employment in North America, we applied our 'up or out' strategy to all contracts up for renewal to protect returns. This approach led to significant rate increases of 6.5% on those contracts up for bid or renewal (2017: 3.7%), which translated to 3.7% on the portfolio as a whole (2017: 2.2%).

Our strategy of protecting returns inevitably led to our retention rate dropping to 90% of all contracts up for renewal. We did recover the significant majority of these lost vehicles through new business wins, acquisitions and organic growth in existing contracts, so that by the year end our net bus count was down 132. We are continuing to apply this disciplined approach to this school bid season, with the early results encouraging.

As previously guided we also increased investment on areas like maintenance, Lytx DriveCam and Domo management systems, with \$16 million extra spent in the year. This has already brought a number of vehicles back in to service that were otherwise under-utilised, reducing new bus capital expenditure and generating positive returns in future years.

It also helps improve customer service. Our detailed surveying of customers has also shown that those with the highest satisfaction score are not only likely to retain us, but also more willing to pay a premium for quality services. In the last year, for example, four customers in one state alone have renewed our contracts around a year early. A new programme to increase the proportion of our customers on the highest satisfaction score (currently around 50%) started last year and we hope to start realising the benefits of this during the year. We believe this investment will deliver sustainable margin improvement over time.

While the higher rates achieved in the bus bid season helped mitigate the impact of driver wage inflation, when combined with increased spending on maintenance, normalised operating margin fell to 9.1% (2017: 9.3%). We have taken action to address this, with \$7.5 million of annualised overhead costs removed from North America's headquarters in December 2018.

Our transit business added 650 vehicles in the year, and it now has annualised revenues of over \$350 million. We added two major new contracts won through open bids in the year: a 147 bus paratransit contract in Massachusetts; and, a 115 bus fixed route contract in California (our largest ever by revenue won in open

Peace of mind for parents

Parents of children who use our school buses in North America can now have complete visibility of when they are due home with the introduction of our new Bus Tracker.

The app, which parents can use for free, allows them to see live bus location information and an estimated arrival time. The app draws on the

vehicle location data being supplied by the on-board telematics.

Currently operational in 74 locations covering more than 19,000 routes, the app is now being used by 78,000 parents to check the location of their children. Each parent logs in using a unique student number for their child.





competition). We also recently secured a one-year extension to our single largest contract, paratransit services in Chicago as well as a two-year extension to important casino shuttle work in New York. With these contract successes and acquisitions set out below, we are also diversifying the transit business in to new segments such as employee shuttle.

Technology investment to underpin excellence, efficiency and innovation

As outlined in the previous section, North America increased its investment in key strategic projects during 2018. This investment is enabling a more granular control of the business and is identifying areas for further cost saving and operational improvement. We are absolutely determined to realise these opportunities. Our first goal will be to re-invest any efficiencies secured as this will drive customer satisfaction and more sustainable margin improvement. Nonetheless, the gap in the financial performance between our best and worst performing locations in terms of customer satisfaction reveals a significant opportunity.

Lytix DriveCam is already a clear example of the benefit of the investment. In the second half of 2018 alone, North America doubled the number of vehicles fitted with DriveCam (to 15,395). The benefits of this investment can be seen in our improved safety performance as well as the average and total cost of injury claims from collisions declining 22.4% and 17.4% respectively in 2018.

Another area of increased investment is in improved business systems and management control across this continent-wide business. Through our investment in Domo we are modernising our management systems to provide granular-level data on key metrics that can be monitored in real time. This is driving improvements in operations and crucial areas such as vehicle utilisation rates, where we have an enhanced central system to identify the opportunity for real-time cascading of under-utilised vehicles to high demand areas. It is also enabling a more forensic approach to both our wage and hour rates and the tracking of customer billing. Equally, in using these data and systems to compare locational performance, local cost inefficiencies are exposed and efficiencies secured as good practices are spread more quickly across the business. This area of investment is a key part of our programme to improve the proportion of customers on the highest satisfaction score.

Beyond these internal systems, we are also actively looking to use new technologies to improve our customer experience. Pleasingly, we are leading the industry through our investment in Bus Tracker. This app allows parents to track their children's vehicle. The app currently covers 19,000 routes, with 486,000 students assigned to vehicles operating these services. We have started already rolling out this app to our transit customers.

We are leading the industry as the only private operator currently running fully electric school buses, with our pilot in New York. We are also operating electric buses in two transit contracts. With air quality a global issue, particularly in large urban areas, we are pleased to be playing a role in this important area.

Targeted growth through strategic acquisition and market diversification

North America remains a very attractive market for further acquisitions. The market remains very fragmented – with over 1,000 private school bus businesses in the USA alone – and we have a strong pipeline of opportunities. There are very few active buyers in the market and we continue to avoid becoming involved in an auction for any business. We continue to target returns of 15% on acquisitions.

We made seven acquisitions in the year, all of which either consolidated our positions in local markets or helped us enter new strategic segments. In line with our Group strategy, we are building multi-modal hubs in large, rich cities. In New York and Chicago, we have made acquisitions and won contracts to both open new markets and develop a presence that allows the efficient use of vehicles in a number of segments. In the year we won 20 small 'tuck in' contracts, within our transit business to develop this presence efficiently. An acquisition in Nashville, also provides the opportunity to develop a charter network between Tennessee and our hubs further north.

Charter and Charter Schools both remain areas of growth and interest for further expansion in the coming years. Indeed, a number of the acquisitions made in the year have helped grow our presence in these markets. These again fit with this strategic approach: we are often able to use existing vehicles when they would otherwise be sitting empty and they build our presence in local markets, providing a scale that means we are able to secure further work at competitive rates.

UK



Tom Stables
Managing Director, UK
and Germany

National Express operates both bus and coach services in the UK. In Bus, National Express is the market leader in the West Midlands – the largest urban bus market outside of London. We also run urban bus services in the cities of Coventry and Dundee. In Coach, we are the largest operator of scheduled coach services in the UK, operating high frequency services linking more than 900 destinations across the country. The Kings Ferry group of companies are long established providers of private hire, B2B and commuter coach services.

REVENUE

£577.0m

2017 : £561.5m

NORMALISED OPERATING PROFIT

£79.9m

2017 : £70.9m

MARKET OVERVIEW

Bus

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

Growth driver

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

Coach

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

Growth driver

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

BUS MARKET SIZE

£4.8bn

Operates 1,655 buses, focused in the West Midlands and Dundee

COACH MARKET SIZE

£350m

Year ended	2018	2017
31 December	£m	£m
Revenue	577.0	561.5
Normalised operating profit	79.9	70.9
Operating margin	13.8%	12.6%

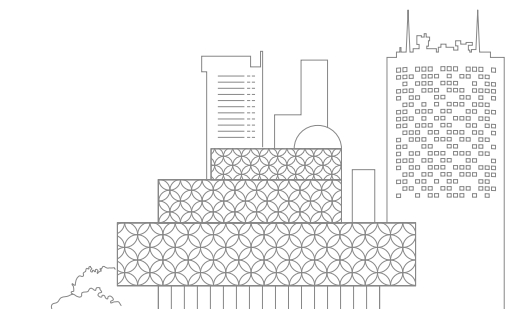
Overview

Our UK businesses had a very strong year, with accelerating revenue growth in the second half of the year underpinned by strong commercial passenger growth. Our coach business set new annual revenue and passenger records. UK bus is bucking national trends by improving average journey times and growing commercial patronage.

Overall, UK revenue increased by 2.8% to £577 million, with the annual growth rate impacted by the exit from Eurolines and our Hotel Hoppa services towards the end of 2017. Passenger growth has driven these revenue increases: core coach set a new record of 20.7 million passengers (up 5.2%); commercial West Midlands bus passenger growth was 1.1%. Alongside good cost control and the benefit of an incremental £5 million received from the sale and leaseback of four depots, our UK division delivered normalised operating profit growth of 12.6% to £79.9 million (2017: £70.9m) and increased its margin by 120 basis points to 13.8% (2017: 12.6%). Removing the profit from the property sales, underlying profit growth was up 5.4%.

	£m
2017 normalised operating profit	71
Growth in the continuing business	8
Net cost inflation	(3)
Other*	4
2018 normalised operating profit	80

* This includes incremental £5m from the sale and leaseback of four depots



Operational excellence: driving organic growth

Both of our UK businesses have driven organic growth by focusing on improving their core customer service proposition during the year. Both businesses have enhanced their websites and apps, improved network efficiency and applied sophisticated pricing. This has led both businesses to improve their revenue per mile: bus up 4%; coach up 11.5%. Early indications from trading in 2019 suggest further improvements are likely in the year.

We have now seen 18 months of commercial bus passenger growth in the West Midlands, as our increasingly targeted, contactless and digital ticketing is proving very popular. Against national trends, last year our West Midlands bus business both saw the first improvement in average journey times in 10 years and increased commercial patronage by 1.1%. Digital ticketing, including contactless with a daily price cap, is proving very popular with customers. Further, our Dundee bus operations also reported over 2% growth in passengers during 2018 with contactless ticketing to be introduced soon.

UK coach has invested significantly in its website and app, so that customers are now offered a sophisticated, industry-leading portal. This has helped attract a record number of core coach passengers to our services, with the further expansion of our commercial partnerships enabled by our upgraded digital 'back office'. The real-time pricing capability of our RMS allows targeted offers to encourage travel, or more appropriate pricing during peaks. With its successful implementation, our coach business had record Christmas, Easter and bank holiday periods, carried 10% more passengers in the summer of 2018 than 2017 and had its largest ever revenue day on Boxing Day. The plans to develop the sophistication of RMS further are set out below.

Both the bus and coach businesses have maintained their focus on network efficiency. The West Midlands bus business

concluded two significant network reviews, both resulting in faster routes and more passengers. Indeed, the West Midlands bus business achieved its best ever satisfaction score (88%) in the independent Transport Focus passenger survey; this included increases of 8% and 4% in satisfaction with value for money and punctuality respectively. Our coach business continued to refine its network, removing lower-yielding mileage and reallocating it to more popular routes.

Our coach business also saw significant growth in ancillary income, such as insurance products, a seat reservation option and extra leg room. These have proved very popular with passengers, leading to a 12% increase in ancillary revenue. This is an area for further growth as our digital channels become ever more sophisticated. Our bus business is also actively considering how it might extend similar opportunities to its systems.

Our UK businesses have also won a number of awards during the year. Both our bus and coach businesses have retained their prestigious Sword of Honour from the British Safety Council ('BSC') – coach for a fourth consecutive time and bus for a third. Both businesses also hold BSC five-star audits (coach for the fifth consecutive year), and coach again secured a RoSPA Gold Award (for the fourth year running). Both businesses hold five-star European Foundation for Quality Management scores, with coach securing 'Enhanced Recognition for Excellence' during the year. Our innovative employee Health Bus won a British Quality Foundation Excellence Award. At the UK Coach Awards, National Express won Operator of the Year, Large Operator of the Year and Making Coach a Better Choice; while UK bus won the Route One Best Use of Technology Award for DriveCam.

We continue to work closely with Transport for West Midlands ('TfWM') and the West Midlands Mayor to improve services for passengers. With a strong and positive relationship we believe we will continue

to prepare for the significant medium-term opportunities (such as the January 2020 introduction of the Birmingham Clean Air Zone and the 2022 Commonwealth Games) in partnership, rather than be distracted by the threat of regulation. Indeed, working with local councils and TfWM, we have secured funding to buy 29 electric buses, which will be introduced by the middle of next year.

Our pioneering Bus Alliance is delivering results, such as helping stop the many years of declining average bus speeds, again leading the way on a national problem. Two examples stand out. First, the investment in contactless and mobile ticketing is speeding up boarding times. Second, working in partnership we developed a plan to upgrade the major corridor between Harborne and Birmingham. Over 50% of the commuters on this route use bus. To increase this number further we agreed a package of measures including a significant new bus lane, priority measures at junctions and traffic lights, and parking restrictions. We supplemented this with new express services and brand new 'smart hybrid' luxury Platinum buses. Since launching this upgrade in November, over 4,000 extra passengers a week are using our buses.

Technology investment to underpin excellence, efficiency and innovation

We continue to invest in digital technologies to improve customer services and operational excellence. Both of our UK businesses saw revenue secured through digital channels grow and extended the application of technology to safety management.

From an already very high base, 70% of core coach's revenue is now secured through digital channels (up 3%). Alongside this, RMS is becoming ever more sophisticated, generating passenger and yield growth in the year. This digital focus also allows us to forge more partnerships with third parties, who can be more easily linked into our booking processes, with a near doubling in this



income during the year. Together, the improved ease of booking, sophisticated pricing through RMS and new sources of growth through partnership is helping drive seat utilisation rates up impressively, from 54% in 2016, to nearly 60% in 2018.

Extending and refining these technologies and partnerships will continue in 2019. For example, 2018 saw the start of a new modernisation phase for our coach RMS, with the testing of Artificial Intelligence ('AI') and machine learning to complement our team of analysts starting soon. The early results are positive as the technology is allowing us to extend the scope of our market analysis to all day, every day in a cost effective manner and generating extra sales and revenue.

Our bus services now have the largest contactless payment system outside of London and the first to offer daily capping. This is helping to drive up digital ticket use (whether mobile, smartcards or contactless). This has increased from 40% of journeys at the beginning of 2018 to 60% at the year end. The bus business has a target of 80% of journeys on digital ticketing by the end of 2019. These digital channels are allowing us to be more innovative in our pricing, with more targeted products (such as for students and apprentices) already proving popular and further innovations (such as flexi-seasons for part time workers) launching soon. Digital ticketing also allows more targeted marketing and provides granular travel pattern data that informs network planning.

All of our 2,450 UK vehicles have DriveCam smart safety cameras installed, except our recent acquisition, Stewarts Coaches, where they will be installed by the end of March. This has been combined with personalised training and enhanced driver oversight programmes to help deliver an improvement in our Fatalities and Weighted Injuries Index score within the UK. Like other divisions, as well as delivering service improvement, these programmes are helping to reduce the cost of accidents. In UK bus, the total cost of accidents was down 7% in 2018; while our owned operations in coach secured an even greater saving of 25%.

As well as the areas for further development outlined above, we have also partnered with an innovation hub on the Aston University campus, creating the NXIS technology incubator. Through this we have identified areas where we are looking for revenue, service and operational innovation. Entrepreneurs and experts in these areas develop potential solutions to pitch to us for adoption. We have selected nine projects in the first wave, with the small businesses now developing their proposals in more detail, including through pilots. Active pilots include: enhanced data analytics to improve running times and timetabling; a battery that can be installed to older buses, reducing fuel consumption; and, a social media AI application that allows more targeted marketing offers.

Targeted growth through strategic acquisition and market diversification

We anticipate further organic revenue growth in 2019 from the continued investment in digital platforms and sophisticated pricing set out above. Both of our UK businesses have started 2019 well and are pursuing a range of commercial initiatives to further grow passengers and revenue. We will continue to augment this with targeted expansion in complementary markets where we can build on our existing strengths to drive growth in an efficient manner.

Our coach business made an acquisition in the period – Stewarts Coaches – that well demonstrates our approach. Stewarts provides corporate travel and private hire services from bases in Reading and Leicester. It has a number of major corporate clients and works with a number of Premiership and Championship football clubs. This acquisition not only bolsters our existing presence in the growing corporate and private hire markets, but also gives us new platforms to grow further. Indeed, during 2019 we plan to launch major new national brands in the fragmented corporate travel and private hire markets. Drawing on National Express' brand strength and reputation in these areas, we see both markets as good opportunities for further growth.

After such a successful year for growth through our third party partnerships, our coach business is targeting further growth in this area during 2019. Despite Glastonbury (the single biggest event) not being held in 2018, our coach business still carried more passengers to festivals and events than in 2017; it is looking to build on this and achieve greater success in 2019, with Glastonbury being held again this year.

From its growing commercial base in the West Midlands, our bus business launched new services to Lichfield. These have outperformed expectations and we are exploring other similar opportunities for new services. We have already won several new tendered routes in the Black Country in 2019. Both the West Midlands and Dundee businesses enjoyed successful years for new tenders in 2018 and are actively pursuing further contracts in 2019. An expanded focus on education institutions also generated extra sales during 2018 and there are plans in place to grow this further in 2019.

Germany

On an underlying basis, German Rail revenue grew by 5.4% in the year. Reported profit and revenue were down in the period – (15.1%) and (43.4%) – respectively, driven by prior year catch-up revenue recognised in 2017 along with change in presentation in the current year. During 2018 our rail services carried 2.3% more passengers.

The mobilisation for our three Rhine-Ruhr Express contracts is progressing well, with the first services due to start in June this year. When combined with our existing two Rhine-Münster Express services, these contracts will help deepen our presence in the Nord-Rhine Westphalia region. This remains an attractive market and we will continue to bid in a disciplined manner for contracts that match our strategic objectives within Germany.

An active, trusted partner

We are proud to be a public transport company.

Public transport is a lifeline to many and the backbone of the economy. Without an efficient, comprehensive and good value transport system, the economy would be smaller and people's lives would be poorer.

How public transport is operated, therefore, matters. It is central to many of the economic, environmental and social policy challenges we face: how do we improve air quality in our towns and cities; how do we meet our climate change targets; how do we promote access to employment and opportunity for all; how do we make our growing towns less congested and more liveable; how do we make our workplaces as inclusive as possible and representative of the communities we serve?

NON-FINANCIAL INFORMATION STATEMENT

The new non-financial reporting requirements contained in sections 414CA and 414CB of the Companies Act 2006 require us to provide information to help stakeholders understand our position on non-financial matters. The table below sets out where you can find this information.

Requirement	Policies which govern our approach	Further information
Environment	<ul style="list-style-type: none"> – Group Environmental Policy – Health & Safety Policy 	<ul style="list-style-type: none">  <i>Responsible business page 31</i>  <i>Safety & Environment Committee Report page 70</i>  <i>Environmental performance page 200</i>
Employees	<ul style="list-style-type: none"> – Equal Opportunities & Diversity Policy – Workplace Rights Policy 	<ul style="list-style-type: none">  <i>Responsible business page 34</i>
Human rights	<ul style="list-style-type: none"> – Human Rights Policy – Modern Slavery Policy – Whistleblowing Policy – Privacy Policy 	<ul style="list-style-type: none">  <i>Responsible business pages 34 – 38</i>  <i>Audit Committee Report pages 62 – 69</i>
Social matters	<ul style="list-style-type: none"> – Rather than a specific policy, our approach to social matters is framed by our Community Value 	<ul style="list-style-type: none">  <i>Responsible business page 36</i>
Anti-corruption and anti-bribery	<ul style="list-style-type: none"> – Anti-bribery and Corruption Policy – Purchasing Policy 	<ul style="list-style-type: none">  <i>Responsible business page 38</i>  <i>Audit Committee Report pages 62 – 69</i>
Policy implementation, due diligence and outcomes		<ul style="list-style-type: none">  <i>Corporate Governance, pages 46 – 51 (including Board activity, page 51 during the year and Audit Committee Report, pages 62 – 69)</i>
Principal risks and impact on business activity		<ul style="list-style-type: none">  <i>Risk Management pages 39 – 44</i>  <i>Audit Committee Report page 68</i>
Description of business model		<ul style="list-style-type: none">  <i>Generating stakeholder value page 2</i>  <i>Our business model pages 4 – 7</i>  <i>Our strategy and priorities pages 10 – 11</i>
Non-financial key performance indicators		<ul style="list-style-type: none">  <i>Key performance indicators page 13</i>  <i>Environmental performance page 200</i>

Our group policies are published on our www.nationalexpressgroup.com website

We firmly believe that well run public transport is central to answering these challenges; good public transport is crucial to a successful country and society.

It is for these reasons that we take our responsibilities so seriously. Customers, governments and regulators increasingly demand that public transport operators address these issues. But, more than this, National Express as a company wants to be a trusted partner delivering solutions to these challenges.

From the boardroom to the driver's cab or engineering pit, we want to serve the communities we operate in well and we want to be a progressive force for future prosperity. We want to be a trusted partner in the communities and countries we operate in to provide safe, reliable services that help improve the environment, reduce congestion and increase opportunity. As a large employer we want to be recognised as performing a broader social role.

This is why we have long-established Vision and Values that guide how we operate as a company.

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

This Vision is underpinned by five Values: excellence, customers, people, community and, our priority, safety.

Our Vision and Values should be considered together. We fundamentally believe that attracting more customers to passenger transport is necessarily a good thing. However, it is not a sufficient outcome on its own. We want to carry more and more passengers on vehicles that minimise transport's environmental impact, are operated to the highest standards of safety and excellence and are driven by people who feel valued and receive a fair wage.

It is pleasing, therefore, that in 2018 every division of our business carried more passengers than it did the year before. Across the Group we carried over 15 million more passengers in 2018 compared with 2017. Indeed, UK coach and our Spanish and Moroccan businesses all achieved record passenger numbers. Our UK bus business is bucking the national trend and growing commercial patronage.

This is important. The average car carries just 1.2 passengers, whereas a typical double-deck bus seats 74 and can safely carry more. A full bus therefore removes more than 60 cars off – often congested, city centre – roads. A coach takes, on average, the equivalent of a mile's worth of vehicles off a motorway. In growing our patronage across all of our businesses, we are removing cars from city centres and reducing congestion from the motorway.

And with our investment in the latest vehicles, we are also reducing the environmental impact of our services. Our investment in this area is set out below.

If just 20% of car commuters in Birmingham travelled by passenger carrying vehicle instead, NOx emissions from traffic across the region would instantly be cut by 15%.

But, as outlined above, this is not enough on its own. The way we go about this matters. This is why our Values as a company recognise how important it is that we are more than simply a good transport operator. We want to be a trusted partner and force for good in the communities we serve.



Our priority: safety, being a trusted operator

Our priority as a business is safety: it is the first agenda item for the PLC Board, all executive boards and weekly executive team calls. The executive team's bonus also includes safety performance measures for more detail see page 86.

Our Safety Value is to 'only do what is safe and stop any unsafe behaviour'. This is because, more than anything else, we value the safety of our customers, employees and the public generally. It is, of course, morally right and all National Express employees want to work for a safe company. But, equally, to be a trusted operator to our customers and partners, a determination to be as safe as we possible is a necessity.

Overall Group responsibility for safety sits with Dean Finch, Group Chief Executive, and our Divisional Managing Directors who



Target Zero

During 2018, we launched an internal campaign, Target Zero, to provide a fresh focus on safety issues across the Group.



set our annual plans and priorities for improved performance. We have 12 Global Safety Standards setting out the clear behaviours and minimum standards which we expect all our staff to demonstrate consistently.

These standards are complemented by five Global Safety Policies covering: speed management; driving evaluation; competency of driving evaluators; driver monitoring; and driver performance management. The divisions have until 2020 to devise comprehensive plans to deliver against the Global Safety Policies in full, and are already making good progress. Performance and implementation are reviewed in a quarterly meeting of Managing Directors chaired by Dean Finch. As well as Dean updating the PLC Board on performance at every meeting, our Group Safety Director (Alison Forster) also reports to the Safety & Environment Committee. This Committee met three times in 2018 and Chris Muntwyler, its Chair, meets Alison regularly to review performance.

Safety performance

To measure our performance we adopted and adapted the railway industry’s Fatalities and Weighted Injuries (‘FWI’) Index. We did this as it is widely regarded as the most effective measure of safety performance.

During 2018 there was a slight increase in the Group’s FWI score, up 0.717 to 9.291. However, on a per million miles operated basis, the Group FWI was flat year-on-year. As the chart shows, since the introduction of our Driving Out Harm safety programme in 2011, the trend in safety performance is one of improvement.

During 2018 we invested further in Lytx DriveCam, with nearly 19,000 vehicles across the Group now carrying these smart safety cameras. We use the videos and performance information generated by this technology to inform performance meetings with drivers, with managers discussing how similar incidents could be avoided in the future. Our UK bus business won the Route One Best Use of Technology Award for DriveCam during the year.

We are very pleased that both our UK bus and coach businesses have repeatedly retained RoSPA Gold Awards for safety, including winning their highest accolade, the Sword of Honour. In response to a fatal accident in Spain, a senior Spanish transport ministry official said: “ALSA has always been a benchmark in road safety.”

 [Safety & Environment Committee Report p70](#)

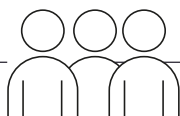


ALSA has always been a benchmark in road safety.

LYTX DRIVECAM

19,000

Vehicle installations



Being a trusted employer

Our People Value is to ‘develop the talents, reward the exceptional performance and respect the rights of all our employees’. We firmly believe that delivering on our Vision is only possible if National Express is a good place to work. National Express recognises that our workforce is our greatest asset and we want each of our 49,000 employees to reach their full potential and to give their best.

Staff across our businesses are regularly surveyed. A bi-annual survey in ALSA is currently being conducted, but 2018’s results in our other businesses demonstrated encouraging results on key questions.

Question / Division	Corporate	UK bus	UK coach	North America	Bahrain
Safety is taken seriously in my business	95%	85%	93%	90%	85%
I enjoy working for my business	94%	77%	85%	90%	87%

Our surveys are used to develop targeted staff engagement programmes and business initiatives to respond to issues raised and drive continued improvement.

Workplace rights

Fundamentally, we respect the rights of our employees. Our Workplace Rights Policy and Human Rights Policy have been in place for a number of years and are published on our Group website. Wherever our employees choose to be represented by unions, we actively seek to maintain relationships based on mutual respect and transparency.

We are also committed to promoting a safe and effective culture for employees to raise genuine concerns without fear of reprisals. A key part of this is our Whistleblowing Policy and the telephone hotline facility provided in each of our major territories of operation. This allows employees to report concerns about suspected impropriety, wrongdoing or other serious matters on a confidential basis, and anonymously if they want to and are legally permitted to. Reported incidents are investigated locally in the first instance with monthly reports reviewed by the Group Executive Committee (in case a higher level of investigation is required) and a summary report presented to the main Board at each meeting.

Develop the talent and recognise the exceptional performance

We want our employees to feel valued and trust us to develop them and their careers. We want working for National Express to be seen as a symbol of excellence.

This is why we launched our Master Driver programme. This scheme, which has both Advanced and Master Driver levels, recognises all those drivers who achieve three years or more of excellent service and who have had no preventable accidents and no proven customer complaints. Their driving ability will also have been evaluated, with Master Drivers taking part in an on-road evaluation that will give them an Institute for Advanced Motoring (or national equivalent) RoadSmart driving accreditation.

All drivers who achieve Advanced and Master Driver status will receive a framed certificate along with a special badge, tie and high-vis jacket at a presentation event.



NX Network

The NX Network annual meeting in November 2018 brought together employees from five countries to develop their professional skills.



In the UK, 808 drivers have already achieved recognition with 276 Advanced and 532 Master Drivers. Across the Group as a whole there are 940 Master Drivers and 943 Advanced Drivers.

The popularity amongst staff, who value their commitment to excellence being recognised, is well summed up by Master Driver Diane Reid: “Both myself and my fiancé have now qualified as Master Drivers. We are very proud of our achievements.”

Our commitment to our drivers’ excellence has also been recognised by key stakeholders. West Midlands Traffic Commissioner Nick Denton attended and spoke at one of the recent presentation events and said: “It is great to see that National Express has developed such a positive training programme for all of its drivers. Master Driver both recognises and rewards their professional skills.”

We also founded the NX Network in 2015, an international network of management trainees and emerging leaders across our business. These are our future leaders and we are investing significantly in them; for example, some are currently undertaking either an MBA or a management diploma.

The NX Network holds an annual conference where cross-divisional groups work through business challenges to develop their experience and share best practice. Senior members of the Group also talk to members about their areas of the business, again to share understanding and expertise, but also to outline the opportunities across the Group. Many members of the network also go on secondment across the divisions to develop their experience.



[Nomination Committee Report p70](#)

Diversity, inclusion and gender

A key business objective for all operations is to improve workforce diversity, with a particular focus on improving our female representation across our businesses. Gender representation is reported to the PLC Board on a quarterly basis.

All Group businesses have gender targets and, pleasingly, female representation has increased in all businesses compared with last year. Each business is now setting more ambitious targets to improve further.

Improving our gender balance will take time, especially at senior levels. As the gender table shows, women are under-represented at senior levels across the Group:

While there are important exceptions, such as the retiring female Managing Director of our Dundee bus business, Elsie Turbyne, who was replaced by Christine McGlasson last year, we have further to go.

As a good employer, we are seeking to improve our practices. We have reviewed and enhanced our maternity policy and pay across the Group. Equally, we seek to support all working parents with managing the often difficult work and home balance. We continue to promote our flexible working policy and actively encourage managers to accommodate all reasonable requests and explore new ways of working.

Health and wellbeing

We continue to run initiatives which support the health and wellbeing of our employees.

Our UK Health Bus won its fourth national award, winning the British Quality Foundation's award for 'Innovation in Employee Engagement'. The health checks provided on the bus at our UK bus locations have been extended to our UK coach locations. A mobile health adviser offers the service at smaller sites complementing what is provided by the Health Bus at larger garages and offices.

In 2018, we continued to develop and implement our North American health and wellbeing strategy. This included both communication and wellness events/support at key locations, including free flu vaccination. As a result of our initiatives, we have increased the percentage of our medically enrolled employees who have had an annual wellness check-up from 27% in 2017 to 76% in 2018.

Employee, senior management and Director numbers by gender at end of 2018



Living Wage

We have a long-standing commitment to pay the higher Living Wage Foundation Living Wage. During 2018, we were pleased that our entire UK business became accredited as a Living Wage employer. This benefits not only our directly employed staff, but also those working for our contractors who are engaged in National Express duties.

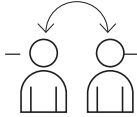
Our policy remains the same across the Group as a whole: where widely recognised and understood national Living Wages are not in place, we commit to pay at least 10% above the prevailing national minimum wage.



Without being on the real Living Wage, my partner and I could have really struggled with getting our mortgage, buying a house and being able to start a family. It's refreshing to have an employer who gives me the feeling they want to invest in me, my health, my wellbeing and my future – and not just get labour for the cheapest outlay in the short term.

Philip Walchester,
Administrator,
National Express West Midlands





Being a trusted partner

In all of our operations, we seek to be a trusted partner. This is the right thing to do and also makes good business sense. To achieve the levels of service we aspire to and our customers demand, we must work closely with local authorities and industry partners. We monitor our active compliance with important legal regulations as an international transport operator. And, in line with our Community Value, we are active in the communities we serve.

A trusted partner of local authorities

Across all of our operations, we seek to work closely and in partnership with local authorities. In Spain, North America and the UK, for example, we are working with national transport authorities and local police forces to promote safe driving campaigns, recognising our leadership.

In the West Midlands, we have pioneered a Bus Alliance with the local transport authority, Transport for West Midlands ('TfWM'). This advanced partnership model has won a number of awards and has formed a blueprint for other areas to follow. The alliance is also making a real difference to customers' journeys. Together, we have jointly funded with TfWM a manager whose job is to develop plans that address congestion hotspots.

In the last year alone TfWM has spent £11 million on bus priority measures across the region, including on an upgrade to the major corridor between Harborne and Birmingham. Over 50% of the commuters



on this route use bus. To increase this number further we agreed a package of measures including a significant new bus lane, priority measures at junctions and traffic lights, and parking restrictions. National Express supplemented this with new express services and brand new 'smart hybrid' luxury Platinum buses. Since launching this upgrade in November, over 4,000 extra passengers a week are using our buses.

A trusted company, active in the communities we serve

As both the proud operator of important services and a major employer in the communities we serve, we seek to be more than just a transport company. We want to be an active and trusted force for good. This is why we have established, for example, strong links with the UK Department for Work and Pensions on employment initiatives, and were the first company to sign up to the Government's Corporate Covenant.



Armed Forces

During 2018, we re-signed the Corporate Covenant which sets out support for the Armed Forces.

We were very happy to re-sign our Corporate Covenant during 2018, at an event on Horse Guards Parade. Our commitment recognised our role: as an employer of current military personnel, by providing extra paid leave for reservists; as a potential employer by guaranteeing interviews for those leaving the Armed Forces; and as the operator of a crucial nationwide transport service to many service personnel and their families, by offering significant discounts on travel, including free bus travel for those visiting relatives at the Queen Elizabeth military hospital in Birmingham.





Since its launch in 2012, the Foundation has impacted the lives of more than 17,500 young people.

NATIONAL EXPRESS FOUNDATION

£1.5m

donated since 2012

Foundation

National Express created a charitable foundation in 2012, in response to the significant disturbances in UK cities the previous year. Since that time, National Express Group has donated £1.5 million to the Foundation, as well as significant staff time.

The National Express Foundation provides grants in two areas: first, to further and higher education institutions to help those who would otherwise be able to continue their studies to do so; second, to community groups that provide activities for young people. The foundation concentrates its support in the West Midlands and the area of Kent served by The Kings Ferry coaches.

Since its launch in 2012, the Foundation has impacted the lives of more than 17,500 young people. In 2018, we doubled the number of funding rounds to two and enabled community groups to apply for larger grants. This has facilitated the delivery of community programmes over longer periods of time.

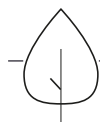
Partnerships

Each division also works with local community organisations to support their important work. In the UK we entered into a new partnership with CHICKS – a charity providing respite breaks for children from deprived background. Our support enables the children to travel to breaks for free.

Also in the UK, we have a well established partnership with The Prince's Trust to deliver work experience opportunities and training for young people looking to build their skills. This programme has proved so successful we have taken a number of participants on to permanent roles.

In Spain, through its Muevete programme, ALSA continues to provide work placement opportunities for young people, including those with special needs, in partnership with the Integra Foundation.

In North America, we often offer our vehicles to support the local community. For example, during recent significant flooding and fire incidents in California and Ohio respectively, we offered our vehicles to transport affected residents and provided respite shelters for emergency responders.



A trusted solution to environmental challenges

As a responsible operator, we want to be seen as a trusted partner to deliver on two of the great environmental challenges of our time: climate change and local air quality. As outlined above, growing public transport usage is a crucial element of reducing mobility's environmental impact. But it is not enough in itself.

This is why we have sought to reduce our carbon emissions and serve as part of the solution to the air quality challenge. While a more detailed explanation of our policies in this area is available in the Safety & Environment Committee report on pages 70 – 73 and our environmental

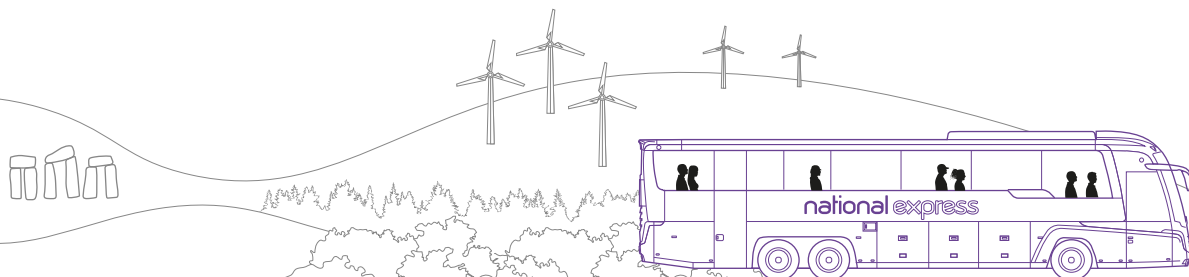
performance data is published on our Group website, we will set out some headline achievements below.

Making public transport part of the solution

Across our Group operations, National Express has delivered a significant reduction in the carbon intensity of our operations. In the five years to the end of 2018, Group-wide emissions of CO₂e per million passenger km declined by 13% while the number of passengers we carried increased by nearly 20%. You can see our full Greenhouse Gas Emissions data in our Environmental data appendix on page 200.

We are also investing significantly in new vehicles that meet the most stringent air quality standards. Euro 6 engines are a step-change improvement in public transport's relative contribution to air quality; indeed, a Euro 6 diesel car emits ten times the per passenger NO_x of a Euro 6 diesel bus. A significant part of our fleet is already this highest standard: ALSA has 900 Euro 6 vehicles; UK bus has 532 vehicles at the Euro 6 standard; and 371 (or 70%) of our UK coach fleet is already Euro 6.

By the end of 2019 we plan to have 80% of our UK bus fleet at a Euro 6 standard. In the first half of 2020 all of our UK coach fleet will be Euro 6.



We are also demonstrating leadership on the next generation of vehicles – zero local emission electric buses. In North America we are the only private school bus operator to be piloting these vehicles. In Spain and Morocco, we are currently running 10; in the UK we currently plan to be operating 29 by the middle of 2020.

Beyond this investment, we continue to encourage more people to consider the environmental benefits of using public transport. For example, as part of the West Midlands Bus Alliance we work very closely with TfWM and local councils to improve air quality and reduce harmful emissions in the communities we serve. To mark Clean Air Day in 2018, we offered free day saver tickets to the public. We were pleased to see 16,000 people sign up for the offer, and 67% of them continued to buy further products and keep travelling by bus.



Clean air day

16,000 people signed up on Clean Air Day to try bus travel in the West Midlands as an alternative to cars



Customer privacy and data security

We recognise the rights to privacy of our customers and other parties we engage with. Across National Express Group, we have a number of privacy policies which set how we collect and use personal data. The relevant policies are published on our customer and Group websites.

During 2018, our ALSA and UK businesses took the necessary actions to comply with the EU General Data Protection Regulation ('GDPR'). The actions followed a thorough review of business processes and systems, and dialogue with suppliers to ensure compliance.

Alongside the privacy activity, a Group-wide data security awareness programme was launched during the year. This increased employee awareness of the risk of cyber attacks, and was accompanied by a number of new IT security policies.

Anti-corruption and bribery

Our policy is to conduct all of our business in an honest and ethical manner. As a Group we do not tolerate bribery and corruption and are committed to acting professionally, fairly and with integrity in all our business dealings and relationships wherever we operate, and to implementing and enforcing effective systems to counter bribery and corruption. We have an anti-bribery policy which is available on our Group website.

Modern slavery

The Group has a zero tolerance approach to modern slavery and human trafficking and continues to remain committed to reviewing and updating our practices to uphold that approach. We are committed to acting ethically and with integrity, and to implementing and enforcing effective systems and controls which ensure slavery and human trafficking are not taking place in our business or supply chains.

Our Modern Slavery Policy is published on our Group website, and we produce a Modern Slavery Statement each year, which set out all steps taken by the Group to ensure that there is no slavery or human trafficking in our business or supply chains. The second annual statement was published during the course of the year and is available on our Group website. We review the effectiveness of the steps we have taken each year and will report on these in subsequent statements. Our third annual statement will be published on our website during 2019.

Supplier relationships

We continually work with our suppliers to review their performance and mitigate risks in our supply chain. Our Group Procurement team works within a clear purchasing framework ensuring regulatory compliance and contract performance.

Committed to managing risk effectively

The Board recognises that the appropriate management of risk is key to the delivery of the Group’s strategic objectives and the continued delivery of superior returns for all of our stakeholders. As set out on pages 8 and 9, we actively capitalise on the opportunities impacting our industry to ensure that the Group remains well positioned to deliver on the evolving needs of our customers. Our diversified business model means that we have low operational leverage with no single contract material to the Group. This enables us to take on a level of financial leverage in expanding the business. As a leading international transport company, however, the Group is exposed to an evolving landscape of risks, whether industry-wide or more specific to the Group, which could potentially impact performance or reputation negatively as well as positively.

RISK MANAGEMENT FRAMEWORK

The effective management of risk is a core component of the Group’s day-to-day management activities, for example the usage of very granular, detailed KPI tracking in monthly divisional reports, or robust due diligence on acquisitions. This is only the ‘first line’ of the Group’s risk management structure where internal control and risk management processes are based on the accepted ‘three lines of defence’ model. The Group Executive Committee as well as specialist functional teams provide a second level of defence, supporting front-line teams and building organisational capability. The Audit Committee provides additional assurance with ‘deep-dive’ reviews into specific areas of risk, for example cyber assurance. Ultimate oversight of the Group’s risk appetite and processes is provided by the Board.

Defence	Responsibility	Actions
Oversight	Board	<ul style="list-style-type: none"> – Sets strategic objectives – Determines overall risk culture and appetite – Establishes organisational structure with defined lines of responsibility, delegated authorities and clear operating processes
Third line	Audit Committee/ Group Audit	<ul style="list-style-type: none"> – Provides reasonable assurance that systems of risk management, internal control and governance are effective
Second line	Group Executive Committee Group functions including Risk	<ul style="list-style-type: none"> – Supports divisions with ‘first line’ responsibilities Coordinate and report on Group-level risks – Builds risk capability and understanding
First line	Divisional Executive Committees Divisional management	<ul style="list-style-type: none"> – Identify, assess and report key risks – Regularly review and update divisional risk registers – Implement risk mitigation plans

Risk Appetite

The Board recognises that continuing to deliver superior returns for shareholders and other stakeholders is dependent upon accepting a level of risk. Our risk appetite sets out how we balance risk and opportunity in pursuit of our strategic objectives:

Zero Tolerance

The Group has zero tolerance for risk which may impact:

- The safety of our employees, customers or the general public
- Our reputation and brand
- Our legal and regulatory compliance



Core Business/ Operational Excellence

The Group has low tolerance for risk in its core operations.



Technology

The Group accepts a moderate levels of risk in investing in and adopting technologies that will enhance customer service or improve operational and safety performance.



Strategic growth/M&A

The Group accepts a moderate level of risk in pursuing new opportunities, including potential new markets.

Prioritising and reporting risks

The management of risk is embedded in the day-to-day operations of divisional management teams. A key element of this is the regular review and update of detailed ‘risk registers’ in each division, in which risks are identified and assessed in terms of both the probability of the risk occurring, and its potential impact.

Group-level risks are either derived from a ‘top down’ review, or from the divisional

risk registers, either because the risk affects multiple divisions, or is of a materiality in itself that is considered of Group significance.

Each of these Group-level risks is then assessed by the Board in terms of its potential impact on the Group and its key stakeholders. The Group prioritises risk mitigation actions by considering risk likelihood and potential severity, coupled with our ability to effectively intervene to


reduce the risk profile – for example, reducing the risk of a safety failure through the implementation of technology and new Group safety standards.

In 2018, in addition to considering current principal risks, the Board has established a process to identify and monitor emerging risks. This has led to the development of an emerging risk register which will be reviewed regularly by the Board.



Principal risks and uncertainties

Key


 Core Business/Operational Excellence

 Technology

 Increase in risk during the year

 Reduction in risk during the year

 Strategic Growth/M&A

 New risk in the year

Macro/external risks

<p>1</p> <p>ECONOMIC CONDITIONS</p> <p></p>	<p>2</p> <p>POLITICAL/GEOPOLITICAL/REGULATORY LANDSCAPE</p> <p></p>	<p>3</p> <p>BREXIT</p> <p></p>
<p>Potential impact</p> <ul style="list-style-type: none"> - Declining economic conditions potentially impact demand for discretionary travel - Improving economic conditions may impact the Group's ability to recruit drivers and other staff, or cause inflationary pressure on costs 	<p>Potential impact</p> <ul style="list-style-type: none"> - Changes to government policy, funding regimes or the legal and regulatory framework may result in structural market changes or impact the Group's operations in terms of reduced profitability, increased costs and/or a reduction in operational flexibility or efficiency - Franchise renewal risk in Spain - UK bus franchising or alternative models - Financial or reputational cost of failure - To comply with changing regulations or legislation 	<p>Potential impact</p> <ul style="list-style-type: none"> - Continued uncertainty around the terms of the UK's exit from the EU creates general and specific risks in our markets in the UK, Spain and Germany - An economic downturn in the UK could adversely impact demand for our services - Reduced travel volumes to/from UK airports could affect demand for our UK coach services
<p>Management/mitigation</p> <ul style="list-style-type: none"> - Geographical diversification of the Group provides a natural hedge to some economic risk - Strategic plans are stress-tested for differing economic scenarios - Exit from the UK rail market and focus on international opportunities - Strong strategic focus on people/talent management and recruitment/retention. - Delivery of excellence in service and operations 	<p>Management/mitigation</p> <ul style="list-style-type: none"> - Constant monitoring of the political landscape and focus on effective stakeholder management - Political risk is specifically considered when considering bids or new market entry - Strategic alliances and partnerships are used where appropriate to mitigate risk - The Group carries out appropriate lobbying and communication, highlighting especially the importance of public transport to central and local government - Focus on operational excellence and delivering value in our franchises and contracts, and to our fare paying customers 	<p>Management/mitigation</p> <ul style="list-style-type: none"> - Ongoing close monitoring of specific Brexit-related risk issues - Geographical diversification reduces Group-level risk; exposure to UK market is circa 25% of total revenue - Restructured our small UK to Europe coach partnership
<p>Opportunity</p> <ul style="list-style-type: none"> - GDP growth in our major markets is forecast at 1.5%-2% per annum to 2023 	<p>Opportunity</p> <ul style="list-style-type: none"> - Increasing city regulation and investment in bus and Bus Rapid Transit ('BRT') schemes - Continued liberalisation of markets in many territories - Political pressure on congestion and clean air favours public transportation. 	<p>Opportunity</p> <ul style="list-style-type: none"> - Translated profits from our international operations will increase in the event of a weakening GBP
<p>Change in risk in the year</p> <ul style="list-style-type: none"> - Economies in our core markets have generally shown good growth - Unemployment rates continue to fall in key markets, causing ongoing pressure on staff costs and turnover 	<p>Change in risk in the year</p> <ul style="list-style-type: none"> - Continued delays in Spanish franchise renewals - Continued strengthening of our relationships with key political stakeholders and our reputation as a high quality, innovative partner 	<p>Change in risk in the year</p> <ul style="list-style-type: none"> - Increased possibility of a 'no-deal' exit adds to uncertainty

Strategic risks

<p>4</p> <p>CHANGING CUSTOMER EXPECTATIONS IN A DIGITAL WORLD</p> 	<p>5 ✱</p> <p>ALTERNATIVE FUEL VEHICLES ('AFVs')</p> 	<p>6 ^</p> <p>COMPETITION AND MARKET DYNAMICS</p> 
<p>Potential impact</p> <ul style="list-style-type: none"> – Increasing expectations of customers to be able to buy tickets and manage their travel plans through a variety of digital platforms – Failure to develop applications and digital channels that meet these increasing expectations could affect profitability, customer satisfaction and the business' ability to capitalise on valuable customer data to enable commercial initiatives 	<p>Potential impact</p> <ul style="list-style-type: none"> – Increasing popular, political and customer demand for alternative fuel (electric, hydrogen etc.) vehicles – Transition involves potentially material changes in financing, maintaining and operating the assets, creating execution risk – Requires significant change to infrastructure 	<p>Potential impact</p> <ul style="list-style-type: none"> – Competition arises from direct price competition; inter-modal (eg coach vs rail); and, more recently, emerging threats such as new market entrants or disruptive technologies – Changes in customer demographics impact demand and the nature of services required – Potential 'disintermediation' risk created by aggregators seeking to 'own' the customer relationship
<p>Management/mitigation</p> <ul style="list-style-type: none"> – Comprehensive digital strategies developed in each division – Divisional 'digital scorecards' are reviewed monthly by the Executive Committee to monitor the effectiveness of various digital channels – Developing strategies for demand responsive services 	<p>Management/mitigation</p> <ul style="list-style-type: none"> – Cross-division executive leadership of AFV strategy – Close engagement with new and existing original equipment manufacturers ('OEMs') – Pilot testing underway in a number of areas 	<p>Management/mitigation</p> <ul style="list-style-type: none"> – Commitment to service excellence, providing the best solutions to our customers – Price leadership and value for money – Revenue trends are closely monitored and RMS deployed – Investment in technology – Focus on operational excellence – even with an aggregator model, service delivery is critical – Targeted acquisitions and growth in the most attractive markets
<p>Opportunity</p> <ul style="list-style-type: none"> – Leadership in adopting new technologies will enhance our service to existing customers and attract new ones – Millennials are an increasingly important target market and more inclined to use public transportation if the service is right 	<p>Opportunity</p> <ul style="list-style-type: none"> – AFVs present potential opportunities to reduce the cost base of the business, while helping cities solve the challenges of the drive for a cleaner air environment 	<p>Opportunity</p> <ul style="list-style-type: none"> – Ageing population in major markets creates additional paratransit opportunities – Continuing urbanisation drives cities to partner with high quality transportation operators
<p>Change in risk in the year</p> <ul style="list-style-type: none"> – Appointment of Chief Digital Officer – Continued increases in bookings through online and digital mobile platforms – Continued roll-out of ticketless operations 	<p>Change in risk in the year</p> <ul style="list-style-type: none"> – New risk – elevated from emerging risk status – All major OEMs continue to invest heavily in developing products for the mass market 	<p>Change in risk in the year</p> <ul style="list-style-type: none"> – Disruptors such as Uber, Lyft and others continue to grow and expand their role in Mobility as a Service ('MaaS')

Key



Core Business/Operational Excellence



Technology



Increase in risk during the year



Reduction in risk during the year



Strategic Growth/M&A

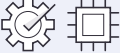




New risk in the year

Operational risks

<p>7</p> <p>ATTRACTION/RETENTION OF TALENT/HR/LABOUR RELATIONS</p> <p>Potential impact</p> <ul style="list-style-type: none"> - Lack of available management talent/ leadership skills can inhibit growth - Shortages in drivers and other key staff can disrupt operations and lead to wage and benefits cost inflation - Increased unionisation and/or poor labour relation presents increased risk of strike or operational disruption 	<p>8 </p> <p>CYBER/IT FAILURE/GENERAL DATA PROTECTION REGULATIONS ('GDPR')</p> <p>Potential impact</p> <ul style="list-style-type: none"> - Major IT failure could disrupt operations and lead to loss of revenue, especially in the Coach businesses - Data breach involving a loss of customer data could result in reputational damage and significant remedial costs - Breach of the EU Regulation ('GDPR') could result in reputational damage and additional costs 	<p>9</p> <p>TERRORISM</p> <p>Potential impact</p> <ul style="list-style-type: none"> - Direct impact through asset damage, disruption to operations and revenue loss - Potential indirect impact from a general reduction in the public's appetite to travel reducing demand and revenue
<p>Management/mitigation</p> <ul style="list-style-type: none"> - The Group is committed to employee engagement and invests in a number of retention programmes - Appropriate training is provided for managers and supervisors - Reward and recognition programmes are established to further enhance employee engagement - Focus on the effective management of stakeholder and union relationships, and the advice of specialist outside counsel is sought where necessary 	<p>Management/mitigation</p> <ul style="list-style-type: none"> - Comprehensive back-up procedures and disaster recovery plans are established - Dedicated Cyber Risk Security Committee - Extensive independent expert testing has been carried out for cyber risk and recommendations implemented - GDPR compliance plans in place, tailored to each division's exposure 	<p>Management/mitigation</p> <ul style="list-style-type: none"> - Close liaison with government agencies and industry partners - Major incident/emergency plans are developed in all divisions - Insurance coverage is available and in place for some terrorism-related risks - Risk assessment of any new business growth opportunity
<p>Opportunity</p> <ul style="list-style-type: none"> - Ensuring we have an agile, skilled workforce will enable us to adapt to emerging challenges and opportunities 	<p>Opportunity</p> <ul style="list-style-type: none"> - Strengthened resilience against cyber threats and IT outages increases awareness and expertise across the Group and facilitates greater leverage of technology 	<p>Opportunity</p> <ul style="list-style-type: none"> - n/a
<p>Change in risk in the year</p> <ul style="list-style-type: none"> - Low levels of unemployment in key markets have led to recruitment and retention challenges and cost inflation - Appointment of Group Talent Director 	<p>Change in risk in the year</p> <ul style="list-style-type: none"> - Cyber threat environment continues to be challenging, as demonstrated by high profile data breaches in other companies - Significant improvements in our resilience, supported by an ongoing maturity programme 	<p>Change in risk in the year</p> <ul style="list-style-type: none"> - Although we have not seen the same level of attacks in the UK as we saw in 2017, the Government threat level remains unchanged at 'Severe'

Operational risks continued

<p>10</p> <p>SAFETY, LITIGATION AND CLAIMS</p>  <p>Potential impact</p> <ul style="list-style-type: none"> – Major safety-related incident could impact the Group both financially and reputationally – Higher than planned claims or cash settlements could adversely affect profit and cash outflow – Non-compliance with regulations can create legal and financial risk 	<p>11</p> <p>NATURAL CATASTROPHE/EXTREME WEATHER/LOSS OF KEY FACILITY</p>  <p>Potential impact</p> <ul style="list-style-type: none"> – Loss of a key location to either a man-made hazard such as fire, or natural catastrophe such as a hurricane, can result in asset loss and lost revenue – Widespread events such as extreme weather can also interrupt operations and cause revenue loss even if the Group's assets are undamaged 	<p>12</p> <p>CREDIT/FINANCING RISK</p>  <p>Potential impact</p> <ul style="list-style-type: none"> – Contract-based operations such as North America and Spanish urban are exposed to late or non-payment risk from customers, impacting Group liquidity – A material increase in interest rates would increase the Group's cost of borrowing – Material tightening in investment-grade credit markets could impact the Group's liquidity
<p>Management/mitigation</p> <ul style="list-style-type: none"> – Very strong safety culture driven from the Group Chief Executive – Dedication to leading edge safety technology – Appropriate insurance coverage for accident-related claims to employees and third parties – Experienced claims management and legal teams in each division – All divisions have established safety audit programs, supported by Group Internal Audit 	<p>Management/mitigation</p> <ul style="list-style-type: none"> – Geographical diversification of the Group provides a natural hedge to this risk. – Established emergency and continuity plans in each division – Insurance coverage is available and in place for some hazard-related risks 	<p>Management/mitigation</p> <ul style="list-style-type: none"> – Close monitoring of receivables and appropriate provisions made for possible non-collection – Strong relationships with a number of banks – Appropriate liquidity maintained through committed bank facilities, finance lease programme, and debt capital market issuances
<p>Opportunity</p> <ul style="list-style-type: none"> – Continued relentless focus on safety and investment in technology should facilitate risk and cost reductions and enable differentiation in our customer offering 	<p>Opportunity</p> <ul style="list-style-type: none"> – n/a 	<p>Opportunity</p> <ul style="list-style-type: none"> – Investment grade rating and proven track record give efficient access to credit markets enabling investment in growth
<p>Change in risk in the year</p> <ul style="list-style-type: none"> – Reduced incident severity in most divisions as safety improvements continue to gain traction 	<p>Change in risk in the year</p> <ul style="list-style-type: none"> – n/a 	<p>Change in risk in the year</p> <ul style="list-style-type: none"> – Increase in USD interest rates – Amended and extended RCF for further 2+2 years – Bridging finance in place to next bond maturity

Viability Statement and going concern

Assessment of prospects

The Board continues to believe that the Group's prospects are positive in the medium to long term.

- We are diversified:
 - No one contract contributes more than 2% to revenue;
 - No one geography contributes more than 40% to normalised operating profit
 - The Group receives only 3% of its revenue in the form of grants and subsidies
- We are positioned to benefit from the future trends in transportation:
 - Transport demand continues to grow whilst private car ownership is beginning to decline; the gap is likely to be filled by public transport
 - Public transport helps deliver against the pressing urban challenges of congestion and poor air quality
- We invest in the business to secure its future:
 - Over the last five years, 64% of free cash flow has been re-invested into the business whilst gearing has remained flat and dividends have grown by 44%
 - The Group owns and continually invests in market-leading consumer brands in each of our main consumer markets
 - We invest in technology to allow customers to access our products at competitive prices and to deliver our services safely and efficiently

The Group's strong financial position is characterised by operating cash conversion of 98% and free cash generation of £198.6m underpinned by 6% revenue growth. The Group's credit rating is investment grade with committed facilities of £1.6 billion at 31 December 2018.

Principal risks and assessment period

The Board reviewed the Group's principal risks (page 40), looking at each risk's impact, likelihood and the timeframe over which the risk was likely to reduce Group cash flows. On this basis, the highest impact and highest likelihood risks were considered in modelling a severe but plausible downside to assess the Group's future viability.

The Board concluded that three years would continue to be an appropriate timeframe over which to assess the Group's ongoing viability, as within that timeline a number of risks' impact/likelihood was expected to reduce:

- Regulatory: the majority of the major Spanish concession renewals are expected to complete
- Brexit: the immediate impact of Brexit will be felt
- Credit/financing: €250m of the Group's bonds will expire and a £225m refinancing is necessary in 2020

Assessment of viability

The Group's viability assessment is an output of the annual strategic planning process. To assess viability, multiple, material risks are selected by the Board (above) and are assumed to crystallise in parallel during the assessment period, putting the financial and operational performance of the business under plausible, but unlikely, stresses as outlined below.

Risk stress tests

Brexit: no-deal Brexit assumed, with material Europe-wide economic downturn and disruption to travel between the EU and the UK.

Economic environment: driver wage inflation continues in North America; and high speed rail aggressively undermines profitability in Spanish long haul coach travel.

Regulatory landscape: material margin loss in ALSA following resolution of long haul franchise renewal process.

Terrorism: terrorism event hits both UK and Spanish consumer confidence, resulting in lower levels of discretionary travel.

Cyber: IT system failure and data loss following cyber attack in UK and Spain causes significant revenue loss and financial penalties.

Credit/Financing risk: material increase in the cost of borrowing and reduction in liquidity following period of reduced cash generation and profitability.

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

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

Viability Statement

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

Going concern

The financial position of the Group, its cash flows, liquidity position and borrowing facilities are set out in the Group Finance Director's review on pages 17 – 21, and the Group's business activities, together with the factors likely to affect its future development performance and position, are set out in the Strategic Report (pages 1-45). Note 30 to the Financial Statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposure to credit risk and liquidity risk.

The Board has reviewed assumptions about current trading performance, and has taken account of reasonably possible adverse changes to performance impacting availability of resources to June 2020. The Board confirms that it has a reasonable expectation that the Group has adequate resources to continue in operation for the period reviewed, and accordingly the Board continues to adopt the going concern basis of accounting in preparing the financial statements for the year ended 31 December 2018.

Our 2018 Strategic Report, from page 1 to page 45, has been reviewed and approved by the Board.



Dean Finch

Group Chief Executive
28 February 2019

Chairman's introduction to Corporate Governance



Sir John Armitt CBE
Chairman

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

Leadership



Read more p48

How the Board and its Committees operate within a well established governance structure and lead from the front, and the key activities of the Board during the year.

Effectiveness



Read more p52

How the governance framework operates and the Directors perform their duties, and the outcome from this year's internal Board and Committee evaluation.

Accountability



Read more p62

How the Board maintains effective systems of internal control and risk management and manages safety and environment matters, and the outcome from our succession planning review.

Remuneration



Read more p74

How we align Executive Directors' pay with our performance, the interests of shareholders and the long-term success of the Company, and the implementation of our Directors' Remuneration Policy.

Relations with Shareholders



Read more p100

How we maintain and manage our relationships with equity institutional and debt investors and individual shareholders, and our investor relations programme.

Dear fellow Shareholder

I am pleased to present the Corporate Governance report for the year under review.

The existence of strong governance, both inside and outside the boardroom, and strong culture throughout the organisation, remain a key commitment and high priority of the Board. At the same time, we encourage the Executive Directors and management to take a long-term view and invest in the future of the business. I believe we are making good progress along this balanced path as can be seen from this report and the Group's excellent results for the year which clearly demonstrate that our business continues to grow. The recent recognition of National Express as Britain's Most Admired Transport Company in the 2018 Management Today Awards – as voted on by our peers, analysts and commentators – is testament to the reputation we have established and the progress we have made under the leadership of Dean Finch, and the hard work of all our employees.

Board

There were no changes in Board membership in 2018. However, the two Executive changes we made last year have bedded in well with both Chris Davies (Group Finance Director) and Matt Ashley (President and CEO, North America) making solid contributions in the first full year of their new roles.

Collectively, the Board and its Committees remain well-structured and balanced and continue to operate effectively, as confirmed in the results from this year's internal evaluation of their performance. Nevertheless, recognising the benefits that a regular refresh can bring and the fact that three of our Non-Executive Directors are approaching their nine-year tenure on the Board, we have reflected on our succession plans, including skill set requirements and timings, in relation to certain Non-Executive changes. I expect these will be carried out over the next two to three years.

Details of this year's internal Board and Committee evaluation can be found in the Effectiveness section on pages 52 – 55.



The existence of strong governance, both inside and outside the boardroom, and strong culture throughout the organisation, remain a key commitment and high priority of the Board.

Culture

A strong culture is crucially important to the performance and long-term success of any business. While the tone of our culture is set from the top down, its strength lies from the bottom up in the heart of our business. During the year, I have spent time with our employees from across the Group, which included visits to various UK locations on my own and to Boston in September with my Board colleagues. These visits provide the Directors with a valuable opportunity to engage with staff and gauge an insight into their views on the business, our leadership, our strategy and its implementation.

Our impression is that staff are proud to work for National Express in their locations, believe in our Values and what they stand for, have respect for our leaders, understand the strategy and are committed to achieving it. This openness fosters a willingness to work hard, share ideas and best practice across the Group and engage in operational changes aimed at improving efficiency and effectiveness. Staff are enthusiastic about the changing technological and digital landscape and excited about the opportunities it presents to enhance our service to customers. As a Board, this tells us that if we want to continue growing, we must continue to encourage this openness and engagement amongst the workforce and ensure that our culture has customers at the forefront of our business, an area which is of increasing focus for the Executive.

Diversity

We take the issue of diversity in the boardroom and senior management very seriously as it improves effectiveness, encourages constructive debate, delivers strong performance and enhances the success of the business. Accordingly, we remain committed to the objective of increasing the Board's female representation from its current 17% status to 33% by 2020, in line with the Hampton-Alexander recommendations, and we believe the phased Non-Executive Director rotation identified above represents a natural opportunity to consider and influence our Board diversity, in its widest sense, including gender and ethnicity. In the Group Executive Committee ('GEC') membership and their direct reports, the female representation has much improved over the past few years as they both now stand at 29%.

In the business, we continue to make good progress in embracing the benefits of an inclusive and diverse culture and during the year, under the increased impetus of the executive team, a wealth of new activities were undertaken and initiatives launched in all divisions as we seek to drive lasting change over time in this important area.

Further details on Board diversity and what is happening in the business can be found in the Nominations Committee Report on pages 58 – 61.

Governance

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

A new Directors' Remuneration Policy ('Policy'), which we consulted on in draft form with many shareholders and advisory bodies, was overwhelmingly approved at last year's AGM and the Remuneration Committee has applied and operated within it since then. A summary of the Policy can be found in the Directors' Remuneration Report on pages 80 and 81 and it appears in full on the Company's website at www.nationalexpressgroup.com/about-us/corporate-governance/remuneration.

The Board is aware of the continued focus by the Government and regulators on the need to strengthen corporate governance and requiring companies to demonstrate higher standards of corporate behaviour, and to fully recognise their obligations to all stakeholders. As per my introduction, good governance is an integral part of our corporate culture and our business principles, commitments and long-term decisions are based on a responsibility to treat the views and interests of our colleagues, customers, suppliers and

communities, as stakeholders in our business, with respect. This is a key factor in seeking to protect and deliver sustainable value for our shareholders. With that in mind, the Board welcomes the new Code, issued by the Financial Reporting Council ('FRC') in July last year, which applies to the Company from 2019.

Over the past few months, the Board and its Committees have been reviewing activities and working with management to assess our approach to the changes and increased emphasis introduced under the new Code, in particular on how best to formalise and strengthen the taking into account of stakeholder views more generally in our decision-making process and address the workforce voice and engagement requirements. Our review has highlighted that we are already compliant with a number of the new Code principles and provisions; for example, our Policy has a strong link to Group strategy and long-term success and the Directors actively engage with local management and employees when the Board visit operations each year. Additionally, we have already taken some steps to meet compliance; for example, we have established an emerging risk register (to supplement the significant risk one) at both Group and divisional level.

We will continue our assessment work during 2019, for what will undoubtedly be a journey of transition over the coming years, and report on progress and our compliance against the new Code in next year's Corporate Governance report.

Annual General Meeting

At this year's AGM, to be held at 2.00pm on Thursday, 9 May 2019 in the Horton Suite of the Burlington Hotel, 126 New Street, Birmingham, B2 4JQ, all Directors will be seeking re-election to office. As the AGM provides an opportunity for you to meet with and ask questions of your Directors regarding the business, this Annual Report and the matters before the meeting, I would encourage you to attend and look forward to meeting you.

Sir John Armit CBE

Chairman

28 February 2019

Leadership

Board and Committee structure

The diagram below sets out the Company's governance framework and provides an overview of the roles, responsibilities and reporting lines of the Board and its Committees. Details of membership and meetings held, including attendance, during the year to 31 December 2018 are set out in the table opposite.

Governance framework

Shareholders

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



Chairman

Responsible for the overall leadership and governance of the Board and ensuring that it operates effectively through productive challenge and debate.



Board

Collectively responsible to the Company's shareholders for the long-term success of the Group. It provides effective leadership and direction and sets strategic objectives and oversees their delivery, taking into account the interests of a diverse range of stakeholders, within effective systems of risk management and internal control. It also sets the culture, values and standards for the whole organisation and ensures that the necessary governance, structure, financial management and resources (including succession planning) are in place.

Board Committees

These Committees operate under the delegated authority of the Board and within formal terms of reference. Their key responsibilities include:



Nominations Committee

Monitors the structure, size and composition of the Board and its Committees. It oversees succession planning for Directors and senior management, and leads the search and nomination process for the appointment of new Directors.



[Read more p58](#)



Audit Committee

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



[Read more p62](#)



Safety & Environment Committee

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



[Read more p70](#)



Remuneration Committee

Reviews and recommends to the Board the framework and policy for remuneration of the Chairman, the Executive Directors and other members of the Group Executive Committee, and for implementing the policy.



[Read more p74](#)



Group Chief Executive

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



Executive Committee

An advisory and reporting body to the Group Chief Executive. It acts to review and oversee the safety, operational and financial performance of the Group, assess the ongoing impact of material risks, approve expenditure and other financial commitments within delegated authority levels and discuss, formulate and approve proposals for onward consideration by the Board. It also addresses other key business and corporate-related matters.

Setting the agenda

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

The key subjects and matters considered by the Board during the year are shown on page 51. Reports for each of the Committees, including details of their responsibilities and activities during the year, appear later in this report.

Board decision-making

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

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

Section 172 of the Companies Act

With reference to the duties placed on Directors by Section 172 of the Companies Act 2006 (as supplemented by the new Code), the Board believes that it does take into account the stakeholder consideration factors set out therein, where appropriate, when making decisions. However, as part of the Board's current broader review of stakeholder engagement and bringing the voice of the workforce into the boardroom, we will look further at opportunities to improve and formalise the process. This will likely include reminding and training senior management throughout the business of the importance of also bearing these factors in mind when making material local decisions and including details of their preliminary considerations in upward recommendations to the GEC, the Board and its Committees.

Board and Committee meetings and membership in 2018

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

The table below sets out the Board and Committee membership and attendance by members at meetings held in 2018. All Directors attended the AGM on 16 May 2018.

Membership and member attendance at meetings	Board	Nominations	Audit	Safety & Environment	Remuneration
Number of meetings in 2018	7	2	3	3	4
Executive Directors					
Dean Finch, Group Chief Executive	7	–	–	–	–
Chris Davies, Group Finance Director	7	–	–	–	–
Matt Ashley, President and CEO, North America	7	–	–	–	–
Non-Executive Directors					
Sir John Armit CBE	7*	2*	–	3	–
Joaquín Ayuso	7	2	–	3	–
Jorge Cosmen	7	2	–	3	–
Matthew Crummack	7	–	–	3	4
Jane Kingston	7	2	–	3	4*
Mike McKeon	7	–	3*	3	–
Chris Muntwyler	7	2	3	3*	–
Lee Sander ¹	6	2	2	3	2
Dr Ashley Steel ²	6	–	3	3	–

* Board Chairman or Committee Chair

¹ Lee Sander was unable to attend the Board and Remuneration Committee meetings in January due to a year-end clash with his then new employer responsibilities in the USA. He was unable to attend the Audit and Remuneration Committee meetings in November due to illness

² Ashley Steel was unable to attend the Board meeting in January due to a long-standing commitment which had been pre-agreed with the Chairman

In each of the above situations where Messrs Sander and Steel were unable to attend meetings, they still received all supporting papers in advance and discussed the business to be considered at each meeting with the relevant Chair, providing input, opinion and voting instructions as appropriate. The Company Secretary also provided direct feedback to each Director after the meetings on the key decisions taken.

Roles and responsibilities

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

Chairman Sir John Armitt CBE ¹	<ul style="list-style-type: none"> – Overall leadership, governance and effectiveness of the Board – Sets the agenda, style and tone of Board discussions, with a particular focus on strategic matters – Maintains an effective working relationship with the Group Chief Executive – Provides the Board with insight into shareholders' various views, opinions and objectives – Ensures each Non-Executive Director makes an effective contribution – Identifies, with the Company Secretary, the training and development needs of the Directors – Chairs the Nominations Committee, taking a lead role in succession planning
Deputy Chairman Jorge Cosmen ²	<ul style="list-style-type: none"> – Maintains a close dialogue with the Chairman and Group Chief Executive – Assists the Group Chief Executive in strategic and operational activities (particularly in Spain) as requested – Supports and deputises for the Chairman as required
Group Chief Executive Dean Finch ³	<ul style="list-style-type: none"> – Develops the Group's strategy for consideration and approval by the Board and provides effective leadership of the executive team in implementing the same – Manages and develops the Group's operations and business model – Leads and manages the Group's culture, values and expected levels of behaviour – Communicates, with the Group Finance Director, the Group's financial performance and strategic progress to investors and analysts, and establishes and services relationships with key stakeholders – Develops and implements policies integral to improving the business, including safety and the environment – Ensures the Board is kept fully apprised of the Group's performance, issues, events and developments
Group Finance Director Chris Davies ³	<ul style="list-style-type: none"> – Responsible for the financial stewardship of the Group's resources through compliance, good judgement and appropriate financial controls – Directs and manages the Group's Finance, Treasury, Risk Management and Insurance, IT, Investor Relations and Internal Audit functions
President and CEO, North America Matt Ashley ³	<ul style="list-style-type: none"> – Responsible for implementation and leadership of the Group's North America strategy – Provides executive-level support and contribution to the Group Chief Executive and the Board
Senior Independent Non-Executive Director Lee Sander	<ul style="list-style-type: none"> – Available to investors and shareholders to discuss any concerns that cannot be resolved through the normal Chairman or Executive Director channels – Acts as sounding Board for the Chairman (deputising in his absence) and a trusted intermediary for other Directors – Meets with the Non-Executive Directors without the Chairman present at least annually and leads the Board in the annual performance evaluation of the Chairman
Independent Non-Executive Directors Joaquín Ayuso, Matthew Crummack, Jane Kingston, Mike McKeon, Chris Muntwyler and Dr Ashley Steel	<ul style="list-style-type: none"> – Provide an external perspective, sound judgement and objectivity to the Board's deliberations and decision-making – Support and constructively challenge the Executive Directors using their broad range of experience and expertise – Monitor and scrutinise the Group's performance against agreed goals and objectives – Play a lead role in the functioning of the Board's standing Committees
Company Secretary Jennifer Myram ⁴	<ul style="list-style-type: none"> – Provides advice and support to the Board, its Committees, the Chairman and, as required, other Directors individually, primarily in relation to corporate governance practices, induction, training and development – Ensures that Board procedures are complied with, applicable rules and regulations are followed and due account is taken of relevant codes of best practice – Responsible, with the Chairman, for setting the agenda for all meetings and delivering high quality and timely information and communication between the Board and its Committees, and between senior management and Non-Executive Directors – The appointment or removal of the Company Secretary is a Board-reserved matter

¹ Non-Executive Director, independent on appointment

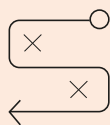
² Non-independent Non-Executive Director

³ Executive Director

⁴ From 1 January 2019 (Michael Arnaouti from 1 January – 31 December 2018)

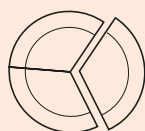
Board activity in 2018

The key subjects and matters considered by the Board during the year were as follows:



Strategy and operations

- Conducted an in-depth review and approval of the Group's 2019–2021 strategy and 2030 Vision
- Reviewed and approved material bid, contract and M&A proposals, and acquisition performance versus plan one year post completion
- Received presentations and deep-dive reviews from divisional, senior and local management in relation to business strategy, performance, and specific projects and initiatives
- Monitored competitor and market activity in the bus, coach and rail sectors
- Assessed ongoing performance within the Group's Operational Excellence programme
- Monitored the economic, legislative and geopolitical landscape, particularly as regards Brexit and its potential business impact



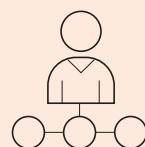
Financial performance and controls

- Approved the annual budget, business plan and KPIs, and monitored performance against them
- Reviewed and approved the Group's full and half year results, including dividends, and interim trading updates
- Approved the Company's Annual Report, including its fair, balanced and understandable nature
- Reviewed the Group's debt, capital and funding arrangements
- Approved renewal of the 12-month £1.5 billion Euro Medium Term Note programme and the introduction of a £500 million (bond refinancing) bridging facility
- Approved the Group's tax strategy, insurance programme and material capex requests, parent Company guarantees and investment proposals
- Approved an insurance buy-in arrangement for the UK Group Staff Pension Scheme (defined benefit)
- Confirmed as unchanged the Group's Delegated Authorities Framework



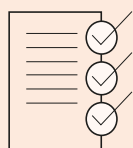
Safety, internal control and risk management

- Received and discussed regular safety performance reports and updates, including in relation to major incidents and ongoing investigations
- Reviewed the Group's risk management framework, principal risks and risk appetite, including in relation to cyber security
- Reviewed and confirmed the Group's Viability Statement and going concern status
- Reviewed and validated the effectiveness of the Group's systems of internal control and risk management



Leadership and people

- Confirmed as unchanged the composition of the Board and agreed the actions arising from this year's internal performance evaluation
- Reviewed succession plans for the Board and senior management
- Approved the annual Slavery and Human Trafficking Statement and compliance with the UK Gender Pay Gap Reporting Regulations
- Reviewed employee engagement activities and outcomes, including the results of the Group's internal staff survey and external People Value audit
- Approved a Freedom of Association Agreement with the Teamsters Union in North America
- Reviewed quarterly human capital reports and conducted deep-dives into diversity, high potential and talent development activities in the business
- Reviewed activities and approved a financial commitment increase to the Company's Charitable Foundation



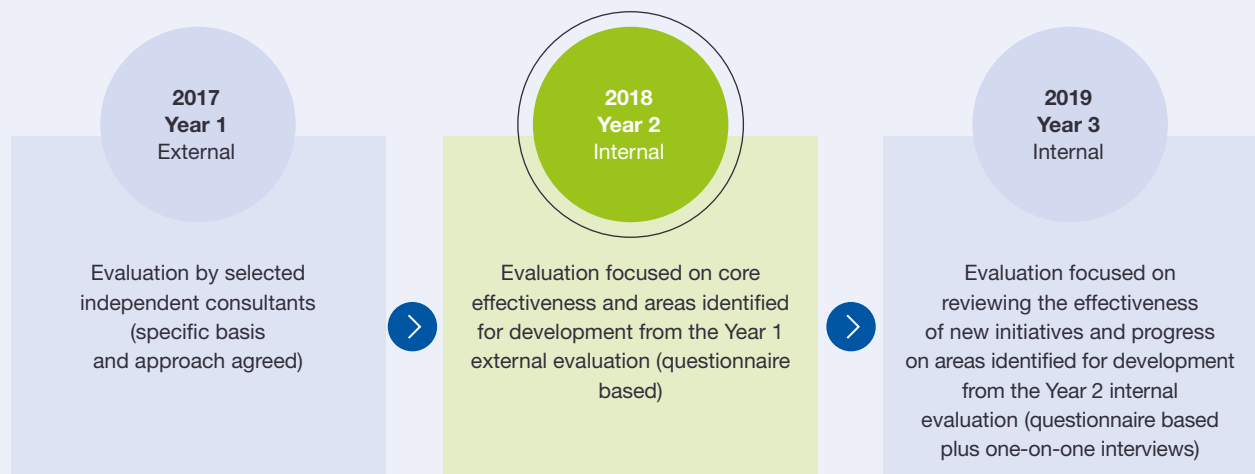
Governance and legal

- Received briefings on legal and regulatory matters and governance developments, including the General Data Protection Regulation compliance programme and the new UK Corporate Governance Code
- Approved proposed changes to the Directors' Remuneration Policy and the basis on which to consult with major shareholders
- Approved the AGM Notice
- Reviewed feedback from investors and analysts and engagement with major shareholders, institutional investors and other stakeholders
- Established a Bid Response Committee and received appropriate training from advisers
- Received activity reports from the Nominations, Audit, Safety & Environment and Remuneration Committees

Effectiveness

Board and Committee evaluation

In line with the Code, a performance evaluation of the Board and its Committees, and of the Directors, is conducted annually within a three-year cycle, with an external evaluation carried out in the first year of the cycle followed by two successive internal evaluations in years two and three. The purpose of the evaluation exercise is to identify both opportunities to build on our strengths and areas for further development, and agree the steps to be taken to improve effectiveness.



2018 internal evaluation

As illustrated by the chart above, 2018 was the second year of a three-year cycle following the external evaluation of the Board and its Committees undertaken in 2017. Accordingly, this year, we conducted an internal evaluation of the Board, its Committees and the Directors.

The evaluation took the form of an online questionnaire which was completed by all Directors. The questionnaire concentrated on key considerations such as Board and Committee composition, how well the Board and each Committee fulfils its responsibilities and takes decisions, the quality of information and support provided, the character of discussion and debate in meetings, how strategy is developed and how risk is reviewed, as well as the areas identified for development from the 2017 external evaluation.

The Directors' responses to the questionnaire were reviewed by the Company Secretary in consultation with the Chairman and respective Committee Chairs. A final outcome report was presented to, and discussed by, the Board and each Committee with due recognition being given to those areas of strong performance and those identified for focus and development in 2019.

As in previous years, the Senior Independent Director, in consultation with the other Non-Executive Directors, also conducted an annual performance evaluation of the Chairman and discussed the outcome of that directly with him. It concluded that the Chairman continues to perform well in his role, chairing Board and Nominations Committee meetings, maintaining good communications and managing relationships with Directors outside of meetings, as well as engaging with shareholders and the business as appropriate.

Conclusions from this year's review

The overall outcome of this year's internal evaluation was positive, with the Directors concluding that the Board and each of its Committees were functioning effectively and productively to achieve their purpose, and performing to a high level of integrity and probity. The Directors also agreed there was appropriately open, collaborative and challenging debate at Board and Committee meetings during which all relevant matters within their remit are covered.

A key finding from this year's evaluation was that all Directors are fully engaged with the Company's business and, through a number of initiatives launched by the

Group Chief Executive during the year, the Non-Executive Directors had become more involved in the development of the Company's strategy. As such, they had gained a deeper understanding of both its likely evolving nature over the next ten years or so as technology advances, and the principal and emerging risks that could affect its delivery.

In addition to the above, the following strengths were identified:

- the Board's and Nominations Committee's keen focus on, and attention to the development of, plans for Executive Director and senior management succession, as well as their focus on talent and initiatives to further develop talent within the business;
- the Safety & Environment Committee's unyielding concentration on the Group's Driving Out Harm programme and its review of progress on implementation of the new Global Safety Policies;
- the Audit Committee's vigilant oversight of the Company's financial and internal controls, particularly its thorough review and development of the internal audit process;



The overall outcome of this year’s internal evaluation was positive, with the Directors concluding that the Board and each of its Committees were functioning effectively and productively to achieve their purpose, and to a high level of integrity and probity.

- the Remuneration Committee’s consistent application of the Directors’ Remuneration Policy and detailed review of the Group’s workforce pay policies and practices when considering executive pay; and
- the valuable opportunities available and taken by the Board collectively and the Non-Executive Directors individually to engage directly with the business, management and the workforce through numerous visits to local operations each year.

Key areas identified for focus and development in 2019

The key areas identified from this year’s evaluation for increased focus and development in 2019 are:

- to move successfully from the planning phase to the implementation phase of the Board’s Non-Executive Director succession plans;
- to review the composition and membership of the Audit and Remuneration Committee to ensure each of them comprises the right mix of skills and support for the important and increasing amount of work they perform;

- to increase the time and attention given through the Safety & Environment Committee to the Group’s environmental objectives and its performance against them;
- to continue to consider and implement the Board’s and the Committees’ plans to address the changes introduced by the new Code, particularly those regarding more engagement with the workforce and the taking into account of stakeholder views as part of the general decision-making process; and
- to continue to bring more external viewpoints to the Board’s attention.

Progress against focus and actions arising from the 2017 external evaluation

The progress made against the three principal areas identified for increased focus and actions in 2018 arising from the 2017 external evaluation of the Board and its Committees is set out below:

Focus and actions	Progress
Increased engagement by the Board with long-term executive succession and leadership planning¹	<p>Led by the Nominations Committee, the Board has undertaken its annual review of senior management succession planning which this year included potential internal candidates for the CEO position in the longer term. The calibre and development of these candidates against targeted performance plans will be kept under review. Any process to appoint a successor CEO in due course will include consideration of these candidates as well as appropriate external candidates.</p> <p>The Board received and reviewed for the first time this year the individual development and career progression plans of the Group’s Top 20 talent register, which includes those employees identified as having the greatest aptitude to progress to senior leadership roles within the organisation. This review will be conducted at least annually going forward.</p>
Focus on Board and Committee succession planning to ensure their capability and diversity continue and are enhanced¹	<p>The Board and Nominations Committee have continued to review and develop succession plans, particularly in relation to the Chairman and those Non-Executive Directors who will reach their nine-year tenure over the next few years. As those plans are implemented, capability and diversity will be key considerations in the recruitment and appointment process.</p>
Bring more external viewpoints to the Board, including on the rapid evolution of transport sector technology	<p>The Board’s annual strategy review meeting in September, which this year included a Vision outlook to 2030 as well as the traditional three-year outlook, incorporated a wide range of external input and viewpoints on the future of the transport sector, both generally and specifically as regards technology, and most notably in relation to the advancement of electric, automated and alternative fuel vehicles. As part of that, an external presentation was made to the Board by Bank of America Merrill Lynch (‘BAML’), the Company’s joint broker.</p> <p>Other external viewpoints brought to the Board’s attention during the year included IBM’s landscape review of cyber risk, Tom Harris’ independent audit of the Group’s People Value and BAML’s review of takeover activity in the marketplace and training on unwelcome bid response preparations.</p> <p>The process of bringing external viewpoints to the Board’s attention on relevant topics will continue, as appropriate.</p>

¹ Further information is provided in the Nominations Committee Report on pages 58 – 61.

Information and support

To enable the Directors to fulfil their duties and responsibilities effectively, they are provided with and given access to all necessary information and support. This includes access to the Company Secretary (who acts as Secretary to the Board and its Committees), senior management and functional heads and the ability to obtain, at the Company's expense, independent professional advice. Further details about the role and responsibilities of the Company Secretary can be found on page 50.

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

If a Director is unable to attend a meeting due to illness or exceptional circumstances, they still receive all supporting papers in advance of the meeting and are directed to discuss with, and provide input, opinion and voting instructions to, the relevant Chair on the business to be considered at that meeting. The Company Secretary provides direct feedback to the absent Director on the key decisions taken at the meeting.

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

Induction and ongoing training and development

All new Directors receive a structured and comprehensive induction programme. It is prepared and arranged by the Chairman and Company Secretary, with Executive input as necessary, tailored to the experience and background of the individual and the requirements of the role. With no new Director appointments made in the year, no induction programmes were undertaken.

Existing Directors engage in various forms of ongoing training and development and in 2018 this included:

- the regular receipt of written and oral reports from internal experts and external advisers, including on safety, finance, legal, human resources, risk management and governance matters;
- attendance at external training sessions and briefing forums, including those provided by the Deloitte Academy and other professional advisers;
- an in-depth review of the future direction of, and risks facing, the mass land transport industry from the Company's Commercial Director, supported by the Company's joint broker, BAML, at the Board's annual strategy review meeting;
- a presentation to the Audit Committee by IBM on the fast-changing cyber security risk landscape and best practice response measures that can be taken; and
- guidance from BAML on takeover activities in the market place and associated training on unwelcome bid responses.

Additionally, to provide Directors with opportunities to meet with management, engage with employees and increase their visibility and working knowledge of the Group's operations and market dynamics, the Board aims to visit two Group locations each year. However, only one such visit took place in 2018, to Boston, which also facilitated a scheduled Board meeting and its annual strategy review. A 'Board in Action' review of the Boston trip can be found on the opposite page.

The Chairman also undertakes a busy programme of local site and management visits, which this year focused on the UK. Similar visits, both at home and overseas, are undertaken by other Non-Executive Directors in fulfilment of their roles.

Conflicts of interest and other appointments

The Board operates a policy to identify and manage situations declared by Directors (in accordance with their statutory duty to do so) in which they or their connected persons have, or may have, an actual or potential conflict of interest with the Company.

The Board considers such situations as they arise and decides whether to authorise any conflict based on the overriding principle that a Director must at all times be able to consider and exercise judgement to promote the success of the Company. The policy has been in place and operated effectively throughout the year.

No Director conflict situation currently exists save in respect of Jorge Cosmen (a non-independent Non-Executive Director) as he is a member of the Cosmen family which is a substantial shareholder in the Company and has close links with the Group's ALSA business (see page 103). This conflict has been authorised by the Board on the basis that Mr Cosmen's knowledge of the Spanish transport market and political environment brings significant value into the boardroom. During the year, the Nominations Committee considered whether Lee Sander's new appointment as President Americas of Bombardier Transportation gave rise to a potential conflict situation and concluded that it did not. This is because decisions regarding our RME trains in Germany are normally taken at local and/or divisional level, not at Board level.

A register of Directors' conflicts and other appointments is maintained by the Nominations Committee, together with conflict authorisations previously given, and regularly reviewed.

The Nominations Committee also monitors a Director's ability to fully discharge their duties and make a valued contribution to the Board, and that includes monitoring the number of other appointments held by Directors outside of the Company. For Non-Executive Directors, this situation is known and considered when they first join the Company and permission from the Chairman is required before any additional third party appointment can be accepted so that an opportunity exists for any overboarding or conflict risk assessment to be made.

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

The Board in Action

Engaging with the workforce



The Strategic Initiatives Circuit was a great way to meet the wider North America management team, including some new appointees, and discuss the strategy and various initiatives they are following. It also gave me a first-hand impression of the progress we are making and the development opportunities which exist in such an important major territory of the Group.

Matthew Crummack, Non-Executive Director

The importance for the Board to get out and about, and to be seen doing so, cannot be too strongly emphasised. It gives the Board visibility and enables the Non-Executive Directors to gain a better understanding of operational matters, safety considerations, key performance drivers and the risks and challenges facing the business. It also provides them with the opportunity to engage with local management and employees. While this invaluable experience cannot be replicated in the boardroom, it is there where the benefits can be found as the Non-Executives increase both their personal and collective contribution to the Board's effectiveness.

With the above in mind, the Board aims to visit two overseas operations each year, with many of the Directors also undertaking

individual site visits both at home and abroad throughout the year as an integral part of performing their duties.

In September, the Board went to the USA where we have more than 260 sites, which makes it a little difficult for the Board to get around. So this year we decided to bring some of our regional and local management teams together in Boston to host teach-ins and hold one-on-one meetings with the Non-Executive Directors on various aspects of the North America business as part of a Strategic Initiatives Circuit afternoon. This relaxed forum proved very successful in helping to build knowledge and improve understanding in each of the specific areas covered. An informal dinner attended by the Directors, the North America management team and all presenters from the afternoon's session



provided an excellent opportunity to build on existing relationships and bed in new ones.

Additionally, the Board visited two Customer Service Centres ('CSCs') in the region, one in School Bus and one in Transit. The Directors toured the facilities and received presentations from management and employees about the operations and their role within them. They spent time with drivers and maintenance technicians, saw first-hand how the new Target Zero safety campaign had been embraced, had lunch with the workforce and gained valuable insight into the Group's culture and values and how those are interpreted and exist locally.



Above: The highly sought after ASE Blue Seal of Excellence on display in the maintenance workshop at The Ride in Boston



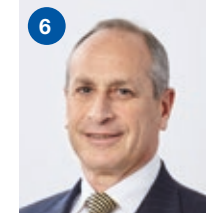
Below: Members of the Board receive a teach-in session from Judith Crawford, CEO Transit and EVP Commercial Development



While I undertake many site visits on my own each year, there is real value in one or two such field trips being undertaken by the Board as a whole, as we did to Boston this year. It gives the Directors a chance to spend time together, see our operations together and speak with management and our highly motivated staff together. The value this adds in helping to inform discussion and improve our performance in the boardroom is significant.

Chris Muntwyler, Non-Executive Director

Board of Directors



1. Sir John Armitt CBE (73) N S IA Chairman (Non-Executive Director)

Appointed: January 2013 and as Chairman February 2013

Key strengths: Sir John has extensive international experience (including working with the Government at ministerial level) in the rail, engineering and construction industries. He also has significant board-level experience both as Chief Executive and Chairman. He was awarded a CBE in 1996 for his contribution to the rail industry and received a knighthood in 2012 for services to engineering and construction.

Previous experience includes:

- Chairman, Government Commission on the Thames Estuary (2017-2018)
- President, Institution of Civil Engineers (2015-2016)
- Board member, Transport for London (2012-2016)
- Chairman, Olympic Delivery Authority (2007-2014)
- Chairman, Engineering and Physical Science Research Council (2007-2012)
- Chief Executive, Network Rail (including its predecessor, Railtrack) (2001-2007)
- Chief Executive, Costain Group PLC (1997-2001)
- Chief Executive, Union Railways (1993-1997)
- Various roles, John Laing PLC (1966-1993)

Current external appointments:

- Non-executive director, Berkeley Group Holdings PLC and Expo 2020
- Chairman, City & Guilds Group and National Infrastructure Commission

2. Dean Finch (52) Group Chief Executive

Appointed: February 2010

Key strengths: Dean is a qualified chartered accountant. He has more than 30 years' commercial, financial and operational experience of the transport sector gained in both Europe and North America, including working for the office of Passenger Rail Franchising on the privatisation of train operating companies. He has a proven track record of improving operational performance and delivering financial success in bus, coach and rail businesses. He also has substantial executive leadership and listed company experience.

Previous experience includes:

- Non-executive director, Royal Free London NHS Foundation Trust (2014-2016)
- Group Chief Executive, Tube Lines (2009-2010)
- Group Chief Operating Officer and various other senior roles (including Group Finance and Commercial Director, President and CEO, North America and Managing Director, Rail Division), FirstGroup plc (1999-2009)
- KPMG, specialising in Corporate Transaction Support Services (1987-1999)

Current external appointments: None

3. Chris Davis (48) Group Finance Director

Appointed: May 2017

Key strengths: Chris is a qualified management accountant. He has more than 25 years' international finance, strategic, IT and commercial experience with a strong global track-record across developed and emerging markets.

Previous experience includes:

- Group Financial Controller and Treasurer, Inchcape plc (2013-2017)
- Interim Group Chief Financial Officer, Inchcape plc (2016)
- Chief Financial Officer (North America), Diageo plc (2010-2012)
- Various senior roles (including Managing Director, Diageo Business Services; UK Finance Director; Strategy Director, Africa; Interim Managing Director, Guinness Nigeria), Diageo plc (2003-2013)
- IT programmes management, The Boots Company plc (1997-1999)
- International IT and strategy consulting experience at Andersen Consulting and Marakon Associates

Current external appointments: None

4. Matt Ashley (45) Executive Director

Appointed: January 2015

Key strengths: Matt is a qualified chartered accountant and brings significant international financial, corporate and operational experience to the Board gained from both within and outside National Express. At National Express, he has previously held Group and divisional finance roles, including Group Finance Director responsible for financial reporting, tax, treasury, investment appraisal, IT, investor relations and financial strategy. Pre-National Express, and in addition to auditing, Matt has supported complex corporate transactions of several multi-national companies. In his current role, he brings his financial and analytical skills together with his understanding of the transport sector and its operations.

Previous experience includes:

- Group Finance Director, National Express Group PLC (2014-2017)
- Group Financial Controller, National Express Group PLC (2010-2014)
- Director (Transport, Infrastructure and Listed companies), Deloitte (2002-2010)

Current external appointments: None

5. Jorge Cosmen (50) N S Deputy Chairman (Non-Executive Director)

Appointed: December 2005

Key strengths: Jorge is a non-independent Director with a connection to the Company's largest shareholder, the Cosmen family. He has accumulated a wealth of experience in international business development and has an International MBA from the Instituto de Empresa in Madrid.

Previous experience includes:

- Chairman, ALSA Group (until acquired by National Express Group) (1999-2005)
- Corporate Manager, ALSA Group (1995-1999)

Current external appointments:

- Non-executive director, Bankia SA

6. Lee Sander (62) A N R S I Senior Independent (Non-Executive) Director

Appointed: June 2011

Key strengths: Lee has a wealth of experience in the transportation, engineering, construction and global architectural sectors. He brings unparalleled US mobility industry knowledge and network from an engineering, customer and academic perspective.

Previous experience includes:

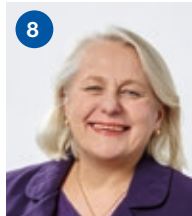
- Managing Director (Global Transportation and US Infrastructure), Hatch (2017-2018)
- Senior External Adviser, McKinsey & Company (2016-2017)
- President, The I. Grace Company (2015-2016)
- President, The HAKS Group Inc (2012-2015)
- Group Chief Executive (Global Transportation), AECOM (2009-2011)
- Chief Executive Officer, Metropolitan Transportation Authority of New York (2007-2009)
- Senior Vice President (Global Transportation), AECOM (1996-2006)
- Commissioner, New York City Department of Transportation (1994-1996)
- Founder, Rudin Center for Transportation Policy and Management at New York University

Current external appointments:

- President (Americas), Bombardier Transportation
- Chairman Emeritus, Regional Plan Association
- Vice Chairman, Greater Jamaica Development Corporation



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



7. Mike McKeon (62) ● A S I
Non-Executive Director

Appointed: July 2015

Key strengths: Mike is a chartered accountant. He has developed his core skills and extensive, wide-ranging international experience over many years of financial and business management in various sectors. He has acquired in-depth knowledge of how to develop and effect strategy, and of restructuring different businesses and operations to achieve success.

Previous experience includes:

- Senior Independent Director and Chairman of the Audit Committee, The Merchants Trust PLC (2008-2017)
- Chief Financial Officer, Severn Trent plc (2005-2015)
- Chief Financial Officer, Novar plc (2000-2005)
- Various senior business roles, both in the UK and overseas, at Rolls-Royce plc, CarnaudMetalbox, Elf Atochem and PricewaterhouseCoopers

Current external appointments: None

8. Jane Kingston (61) N R S I
Non-Executive Director

Appointed: February 2014

Key strengths: Jane is an accomplished human resources professional and executive of more than 30 years' standing with significant experience in developing high performing global organisations and business cultures. She has extensive international experience, having had responsibility for the people agenda in most parts of the world at some point during her career, and in a wide range of industries.

Previous experience includes:

- Group Human Resources Director, Compass Group PLC (2006-2016)
- Group Human Resources Director, BPB PLC (2002-2006)
- Senior HR roles at Enodis PLC, Blue Circle PLC (now Lafarge SA) and Coats Viyella PLC

Current external appointments:

- Non-executive director, Inchcape plc and Spirax-Sarco Engineering plc (where she is also Remuneration Committee Chair)

9. Chris Muntwyler (66) A N S I
Non-Executive Director

Appointed: May 2011

Key strengths: Chris has more than 30 years international experience in the IT, aviation and transport industries. He has gained recognition for his achievements relating to business transformations and the effective management of high profile corporate mergers and company integrations. He is now a management consultant, specialising in effective and sustainable turnarounds for organisations, strategy development, leadership guidance, and customer and process orientation.

Previous experience includes:

- Non-executive director, Panalpina World Transport (Holding) Ltd (2010-2018)
- Non-executive director, Pilatus Aircraft Ltd (2008-2011)
- Member, CBI President's Committee (2007-2008)
- Chief Executive, DHL Express (UK) Ltd (2005-2008)
- Managing Director (Switzerland, Germany and Central Europe), DHL Express (1999-2005)
- Non-executive director, ATPCO (1991-1997)
- Various senior executive roles (Switzerland, Sweden and North America), Swiss Air (1972-1999)

Current external appointments:

- President and CEO, Conlogica AG
- Non-executive director, Österreichische Post AG

10. Joaquín Ayuso (63) N S I
Non-Executive Director

Appointed: June 2011

Key strengths: Joaquín has considerable international experience in the transportation and infrastructure sector, as well as in finance and the regulated business environment. He has managed organisations with more than 100,000 employees with particular responsibility for operational activities.

Previous experience includes:

- Chief Executive, Ferrovial SA (2002-2009)
- Non-executive director, Hispania Activos Inmobiliarios SA (2014-2018)
- Non-executive director, BUDIMEX (2000-2002)
- Non-executive director, BAA plc (2006-2007)

Current external appointments:

- Board Vice Chairman (Board Executive Committee member), Ferrovial
- Non-executive director (and Nominations Committee Chair), Bankia SA
- Chairman, Autopista del Sol SA
- Senior Advisor (Spain and Portugal), AT Kearney

- Board or Committee Chair
- A Audit Committee
- N Nominations Committee
- R Remuneration Committee
- S Safety & Environment Committee
- IA Independent on Appointment
- I Independent

11. Matthew Crummack (48) R S I
Non-Executive Director

Appointed: May 2015

Key strengths: Matthew has extensive experience in consumer product and digital service industries, across multiple functions on an international basis. His experience is directly relevant to National Express as we place customers at the heart of our strategy and constantly focus on delivering continuously improving services.

Previous experience includes:

- Deputy CEO and Chief Integration Officer, lastminute.com Group (2015)
- Chief Executive, lastminute.com (2011-2015)
- Senior Vice President (Lodging, Europe and US), Expedia (2008-2010)
- Various senior roles at Nestlé UK and Procter & Gamble

Current external appointments:

- Chief Executive Officer, Gocompare.com Group plc

12. Dr Ashley Steel (59) A R S I
Non-Executive Director

Appointed: January 2016

Key strengths: Ashley has significant international consultancy experience and has acted as an adviser to FTSE listed and Fortune 500 boards. Her skills include strategy development, M&A, organisation effectiveness, risk management and HR, all across multiple sectors including transport, professional services, media, technology, infrastructure and business services. She has a PhD in Management from Henley Business School.

Previous experience includes:

- Non-executive director, Civil Aviation Authority (2015-2018)
- Non-executive director, Ince & Co LLP (2015-2018)
- Member, British Airways International Business Advisory Board (2015-2016)
- Vice Chairman, KPMG LLP (2012-2014)
- Global Chair (Transport, Leisure and Logistics), KPMG LLP (2003-2014)
- European Board Member, KPMG LLP (2007-2010)
- UK Board Member, KPMG LLP (2003-2007)
- Global Executive Partner (Global Media, Telco, Technology Practice), KPMG LLP (2001-2003)

Current external appointments:

- Non-executive director, Gocompare.com Group plc and the British Broadcasting Corporation (where she is also the Nations Representative for England)

Nominations Committee Report



Sir John Armitt CBE
Chairman

Primary role

To ensure that the Board and its Committees are properly structured and balanced (including the requisite skills, experience, knowledge, independence and diversity) and that effective succession planning (including a diverse pipeline) is in place for Directors and senior management.

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

Key responsibilities

- Monitor the structure, size and composition of the Board and its Committees and make recommendations to the Board
- Manage Board and senior management succession planning with due regard to the promotion of diversity

- Lead a rigorous process for new Director appointments and nominate, for Board approval, suitable candidates
- Manage individual Directors' conflicts of interest and monitor their effective contribution
- Supervise the annual performance evaluation of the Board, its Committees and the Directors

Activity highlights

- Reviewed the structure, composition and diversity mix of the Board
- Developed the Board and senior management succession plans, including anticipated Non-Executive Director rotation
- Reviewed the Group's Top 20 talent register and individual development plans
- Reviewed diversity initiatives and activities being undertaken in the business
- Directed the internal Board and Committees' performance evaluation

Membership, meetings and attendance

● Meeting attended ○ Meeting not attended

Committee member	Appointed	Meetings attended
Sir John Armitt (Chair) ¹	01.01.13	●●
Lee Sander ²	01.06.11	●●
Jorge Cosmen ³	01.12.05	●●
Chris Muntwyler ²	11.05.11	●●
Joaquín Ayuso ²	01.06.11	●●
Jane Kingston ²	26.07.16	●●

¹ Non-Executive Chairman of the Board

² Independent Non-Executive Director

³ Non-independent Non-Executive Director

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



Biographical details of the members are set out on pages 56 and 57.

Dear fellow Shareholder

I am pleased to present the Nominations Committee Report, which provides details of our work and activities during the year.

There were no changes to the membership of either the Board or its Committees in 2018 as they remained well-structured and balanced and continued to operate effectively. The Directors also continued to strengthen their relationships, working well together in achieving the Group's objectives and individually making a valued contribution to the Board's performance.

Notwithstanding this strong platform:

- with due consideration to the length of service of the Board as a whole, and with a view to ensuring that membership is regularly refreshed in a timely manner, the Committee increased its focus during the year on succession planning for Executive and Non-Executive Directors, and senior management; and
- in monitoring external developments, including increased emphasis – whether arising through the new UK Corporate Governance Code ('Code'), which applies to the Company from 2019, or otherwise – the Committee increased its visibility and time spent in looking at diversity in the business and the identification and career planning of our high potential and top talent employees across the Group.

Given that the above matters are viewed as important whole-Board topics, and while Committee led, full Board meeting discussion took place on each of them wherever possible.

Board composition

The Board consists of 12 members comprising myself as Non-Executive Chairman (independent on appointment), three Executive Directors, seven independent Non-Executive Directors and one non-independent Non-Executive Director. Further information on all Directors, including their key skills and strengths, is set out in their biographies on pages 56 and 57.



With the current Board composition, we are reaping the benefits of Directors who are fully engaged with the business and delivering against the Group's objectives, and they are committed to continue doing so going forward.

During the year, we again reviewed the composition of the Board and its Committees, with a particular focus on whether we continue to have Non-Executive Directors with the right mix and balance of skills and experience to optimise our performance. To assist us, we maintain a matrix setting out the different backgrounds and other attributes of all the Non-Executives and use it to review and assess those factors in the context of ensuring the continued delivery of the Group's strategy and vision. The matrix therefore serves two useful purposes in relation to skills, experience and knowledge:

- firstly, it identifies whether there is currently a gap on the Board or any of its Committees, and I am pleased to confirm that no such gap was identified. That said, since the year end, Dr Ashley Steel has been appointed to the Remuneration Committee to help strengthen its knowledge and experience and give support to its likely increased workload under the new Code; and
- secondly, and something which will grow in importance as three Non-Executive Directors approach their nine-year tenure on the Board, it will help us identify what we will need to look for in potential replacement candidates.

While acknowledging the value that refreshing the composition of a board can bring, the Committee also recognises the value that a stable board's engagement with, and detailed understanding of, the business can bring. Both the Committee and I are of the view that with the current Board composition, we are reaping the benefits of Directors who are fully engaged with the business and delivering against the Group's objectives, and they are committed to continue doing so going forward.

Succession planning

Both the Board and the Nominations Committee recognise the importance of having effective succession planning in place, including a diverse pipeline, for Directors and senior management and ensuring that their mix of skills, experience, knowledge, independence and diversity reflect the changing needs of the business and are aligned with the Group's evolving strategy.

During the year, and as noted above, the Committee reviewed and reflected on succession planning, both at Board level (particularly with regard to anticipated changes in certain Non-Executive Director roles, including my own, in the next few years), and at senior management level (particularly with a view to identifying potential internal candidates as successors to the Group Chief Executive in the longer term). While we agreed that no new actions were then necessary, the positions are being closely monitored and I do expect that we will commence the search for at least one Non-Executive Director this year.

Managed by the Group HR Director, and in consultation with the Group Chief Executive and Divisional Managing Directors, the Group maintains an established succession planning process for all Group Executive Committee ('GEC') members and their direct reports, divisional management teams and identified employees on the Group's high potential and Top 20 talent register. These succession plans, which include individual development roadmaps, are reviewed at least annually by the Board.

Having regard to these matters, the Committee is satisfied that the Group's succession plans are aligned to its strategy, appropriate for its size and reach and sufficiently robust.

Commitment to diversity

The Board strongly believes that diversity, in its broadest sense, is essential for creating and maintaining a competitive advantage. This is because having a clear commitment to diversity will enable the Group to attract and retain the best talent, drive innovation and ensure that multiple perspectives are brought to bear leading to improved decision-making and performance. The Group also serves customers and communities which are themselves significantly diverse and therefore our own diversity can help us to better serve and engage with these and other stakeholders. As such, the Board and this Committee remain committed to increasing the diversity of people, in terms of gender, social and ethnic background and other individual qualities, at all levels of the organisation.

Diversity at Board and senior management level

As can be seen from the charts overleaf, one of the key strengths of the existing Board is its diversity in terms of how its membership reflects the geographic spread of the Group's business, with Directors being nationals of, and having significant transport, infrastructure and related market experience in, countries where the Group has a material operating presence, such as the UK, Spain, Switzerland and the USA. This direct knowledge and relevant experience are invaluable to the Board in its deliberations and decision-making, and in enhancing the Board's overall effectiveness.

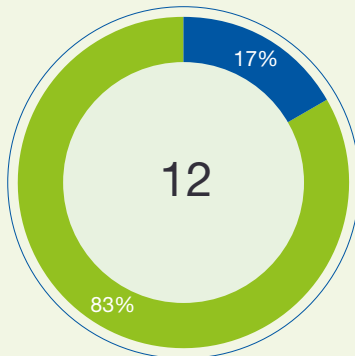
While female representation on the Board has remained at 17% given that no Director changes were made during the year, the Committee believes a natural opportunity to enhance diversity arises from the anticipated rotation of three Non-Executive Directors over the next two years or so. While all Board appointments are made on merit, the recruitment process will ensure that candidates of both genders, and from a range of different social and ethnic backgrounds who possess the requisite skills, experience and knowledge, participate in the process. The Board remains committed to the objectives of increasing its female representation to 33% by 2020, in line with the Hampton-Alexander recommendations, and also of seeking to enhance its ethnic diversity, within the context of appointing the best candidates.

Encouragingly, the GEC, which currently comprises 14 of the most senior managers below Board level, has over the last few years increased its gender and ethnic diversity, with four members now being female, representing 29% of its membership, and one being of ethnic origin. The gender diversity of the direct reports into GEC members is also 29%.

Nominations Committee Report continued

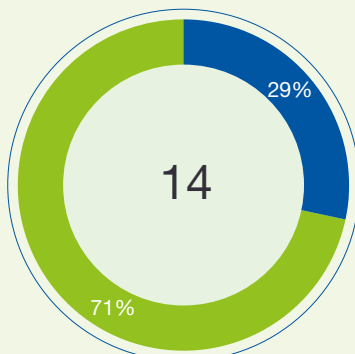
Gender diversity

BOARD OF DIRECTORS



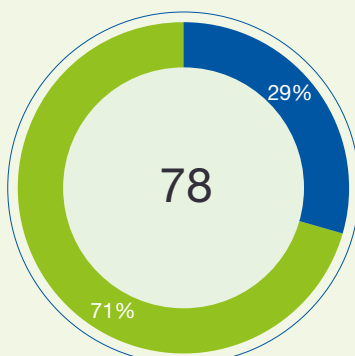
Female 2
Male 10

GEC MEMBERS



Female 4
Male 10

REPORTS INTO GEC MEMBERS



Female 23
Male 55

Diversity in the business

Management is committed to promoting a culture of inclusion and diversity and continues to develop initiatives to attract, retain and engage more women at all levels across the business. This commitment is supported by the Group's Diversity Policy and reflected in our embedded Values. To further drive this commitment and give it increased profile, we will shortly be launching a new Diversity & Inclusion Council with the aim of coordinating diversity strategies across the Group, and monitoring and reporting on progress. The Council will look at best practice externally and undertake further research internally in order to develop actions which will make a tangible and sustainable difference, recognising that it can take five to ten years for noticeable changes to come through.

The Board now receives an annual report from the Group HR Director on diversity and inclusion in the wider workforce, the first of which was received last November. This provided valuable diversity statistics and analysis and, supplemental to the divisional presentations received earlier in the year, updated the Board on the busy level of activity and various initiatives being pursued in the business to further enhance diversity. Examples of these included:

- in Spain, where ALSA has established a Gender Equality and Work-Life Balance Committee to promote gender equality and is participating in several government and industry-led programmes, such as the Promotion Project (Proyecto Promociona), which is supported by the Spanish Ministry for Health, Social Services and Gender Equality, and the Spanish Institute for Women's Affairs and Equal Opportunities, which assists women in developing management skills;

- in the US, where we employ over 27,000 people of which 57% are female and 53% are from an ethnic background, work continues to further strengthen and leverage the benefits from this significant diversity, including by conducting focused recruitment campaigns through media which target specific population groups (such as women, ethnic minorities, disabled persons and veterans) and providing diversity training to all employees;
- in the UK, where we employ over 6,000 people of more than 50 different nationalities, the bus and coach businesses have adjusted their recruitment and employment practices to encourage greater gender diversity, including by rewriting job advertisements to seek to attract more female job applicants, and by accommodating requests for flexible working wherever possible which has assisted with female employee retention; and
- in all territories, where we are working to ensure that our high potential and global graduate and apprentice programmes are focused on, and have active initiatives targeted at, improving gender and ethnic diversity in supervisory and management positions throughout the business.

Gender pay gap

In line with the new UK regulations, we published our first gender pay gap report for affected subsidiaries in April 2018. It showed an aggregated median and mean gender pay gap of 13.34% and 4.24% respectively across all UK-affected employees. We are confident that our gender pay gap is caused by the gender imbalance in our senior executive and vehicle driver positions and is not an issue of equal pay. We are also confident that over time our diversity commitment should act to reduce this UK gender pay gap.

Director effectiveness, independence and commitment

I again undertook a review of the effectiveness, independence and commitment of each of the Non-Executive Directors, with the Senior Independent Director undertaking the same review of myself, the outcomes of which have been shared with the Nominations Committee and the Board. Based on these reviews, the Committee has satisfied itself on the value of individual contributions made and time commitments given, and expected to continue, of all the Non-Executive Directors in the fulfilment of their duties. In doing so, the Committee also satisfied itself that:

- Lee Sander's absence from four meetings in 2018 (two in January due to a clash with his then new USA employer responsibilities and two in November due to illness) should be seen as a one-off occurrence recognising that his meeting attendance for the three years prior to 2018 was 100%;
- each Non-Executive Director, other than Jorge Cosmen, continues to be independent; and
- all Directors remain free of any conflict of interest which could interfere with the exercise of the Board's judgement.

Mr Cosmen is not considered to be independent due to his connection with the significant shareholding interest that the Cosmen family holds in the Company and his close links with the ALSA business in Spain. Despite his non-independent status, the Board benefits greatly from having Mr Cosmen's extensive knowledge and experience to hand, particularly about the Spanish transport market and political environment, both inside and outside the boardroom.

Directors' re-election

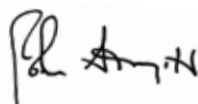
Based on the above considerations, the Board is recommending the re-election to office of all current Directors at this year's AGM. Details of the Service Agreements for the Executive Directors and Letters of Appointment for the Non-Executive Directors are set out in the Directors' Remuneration Policy which is available at www.nationalexpressgroup.com/about-us/corporate-governance/remuneration.

Board evaluation and Committee effectiveness

Given that the 2017 performance evaluation of the Board and its Committees was externally facilitated, this year we conducted an internal review based on various questions and follow-up discussions aimed at further improving effectiveness. Details of the evaluation, the Board discussion of its output (which confirmed that the Committee continues to operate well and to a high standard) and the actions agreed for increased focus and development during the remainder of this year, are set out in the Effectiveness section on pages 52 and 53.

Looking forward

Like last year, and given the increased emphasis provided under the new Code, the Committee expects that its main focus and activities in 2019 will remain focused on Board and senior management succession planning, diversity progress and talent development.

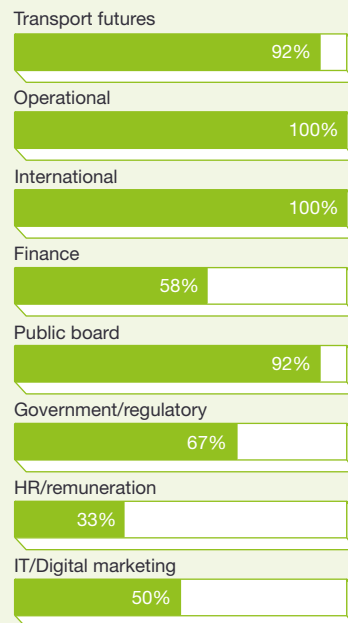


Sir John Armitt CBE

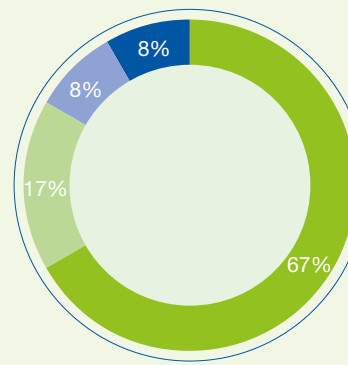
Chairman
28 February 2019

Board skills and strengths

EXPERIENCE

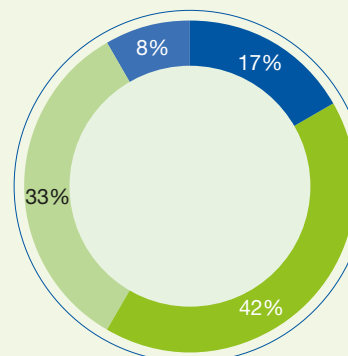


NATIONALITY



British 8, Spanish 2, Swiss 1, American 1

TENURE



0-3 years 2, 3-6 years 5, 6-9 years 4, 9+ years 1

Accountability

Audit Committee Report



Mike McKeon
Committee Chair

Primary role

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

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

Key responsibilities

- Monitor the integrity of the Group's financial reporting process and management
- Ensure that any significant financial judgements or estimates made by management are sound
- Approve the activities and monitor the performance of the internal and external auditors, including monitoring their independence, objectivity and effectiveness
- Evaluate the effectiveness of the Group's internal controls (including financial controls) and risk management systems

- Review the Group's process and controls for the detection of fraud, prevention of bribery and whistleblowing, and compliance with the Group's regulatory, legislative and applicable codes of practice requirements
- Maintain an appropriate and effective relationship with the external auditor

Activity highlights

- Scrutinised the full and half year financial statements
- Challenged the robustness of the Group's going concern and Viability Statement
- Implemented new accounting standards IFRS 9 and 15 and completed preparations for IFRS 16
- Conducted an external review of the internal audit function and commissioned one for the cyber security programme
- Reviewed the systems of internal controls and risk management
- Conducted an end-to-end effectiveness review of local whistleblowing facilities and arrangements throughout the Group

Membership, meetings and attendance

● Meeting attended ○ Meeting not attended

Committee member	Appointed	Meetings attended
Mike McKeon (Chair) ¹	01.01.13	● ● ●
Lee Sander ¹	01.06.11	○ ● ●
Dr Ashley Steel ¹	01.01.16	● ● ●
Chris Muntwyler ¹	11.05.11	● ● ●

¹ Independent Non-Executive Director

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



Biographical details of the members are set out on pages 56 and 57

Dear fellow Shareholder

I am pleased to present the Audit Committee's Report for 2018. It demonstrates the important role being played by the Committee within the Company's governance framework and in supporting the Board with risk management, internal control and financial reporting, and its high level of activity during the year against a structured programme.

Review of the year

In terms of compliance with the 2016 UK Corporate Governance Code ('Code') and related Guidance on Audit Committees, I believe the Committee has continued to address the spirit and requirements of both during the year. We have also worked to capture early the two key accountability changes in the new Code, issued by the FRC in July 2018 and which applies to the Company from 2019, namely, the management of emerging risks and the extension of whistleblowing arrangements.

The Committee again challenged itself to ensure that its work addressed those areas of most importance to the Group and/or which could have the biggest impact on its current or future financial performance. This resulted in the Committee's time and attention being focused on the highlighted activities shown opposite and explained below. Full activity details are set out on page 65.

Committee in action

With a view to helping make a meaningful contribution as Chair of the Committee to the exercise of its obligations, I visited the Group's North America management offices in Chicago last September. The purpose was to undertake a deep-dive review of:

- our improved North America insurance claims handling process: this is because insurance reserves are an area of significant estimation and judgement by management each year; and



While the Group's risk landscape continues to be challenging and dynamic, we are well placed to manage it effectively through both our risk management framework and strategic planning process.

– our first significant use of a recently introduced data analytics and business intelligence tool: this is because the new technology will increasingly be relied upon by local management for the predictive risk profiling of our drivers and the management and use of key operational performance indicators and personnel scorecards. When mature, this data tool set will allow a different approach to be taken to many aspects of management and governance in our North America business, including those of internal and external audit, hence why it merited advanced scrutiny.

I also took the opportunity while in Chicago to meet various other personnel, including our North America lead internal auditor and the local risk and insurance manager. It is my intention to visit at least one major operational business each year to achieve similar objectives.

Risk landscape

During the year, the Committee again reviewed and debated changes in the Group's risk profile at both a macroeconomic and geopolitical level, and from a key operational risks and threats perspective, as set out in the Group's principal risk matrix. Certain changes were made to reflect developments in our risk environment, including the treatment of Brexit as a separate principal risk rather than as a part of the wider economic environment risk as it had been before. Various Brexit outcomes were also considered as part of our going concern and viability stress testing, review of the Group's debt facilities and tax treaty arrangements and personal data handling.

One new risk was added to the Group's principal risk register during the year, namely, alternative fuel vehicles ('AFVs'). In anticipation of the new Code, the Committee has been supporting the Executive and the Board to create an emerging risk register at Group level to complement the principal risk register already in place. While AFVs were previously considered an emerging risk, given the rapid developments in associated technology and the fact that many OEMs are developing mass market products, it is now considered a principal risk.

This type of change is a good example of the increasing maturity of the Group's risk management processes in a dynamic environment. It also demonstrates the need for regular re-appraisal as some emerging risks can also represent significant opportunities, and for these both the upside potential and the downside risk need to be managed at the same time.

The Committee has increased its oversight of the internal controls and programme of activities in place across the Group to address cyber-attack threats which continue to pose a real risk to all businesses and noted that further progress against key milestones, as validated by our external advisers, has been made. However, recognising the fast-changing nature of cyber security and the increasingly sophisticated and organised nature of cyber criminals, and following a Committee presentation, IBM has recently been instructed to conduct a Group-wide review of our current structure, approach and protection capabilities, and to advise the Group on the next stage of its cyber development. I will report on IBM's findings and our response next year.

The Committee supports the ongoing development of good practice in risk reporting, hence why we have reviewed and enhanced our own reporting this year as set out on pages 39 – 45. We believe that the new format of presenting the principal risks adds clarity to the Group's risk profile and context in terms of relative likelihood and impact. Further evidence of our increased risk management maturity can be seen by the inclusion of a specific Board approved risk appetite statement and in the development of an emerging risk register, to complement the principal one already in place.

Overall, while the Group's risk landscape continues to be challenging and dynamic, we are well placed to manage it effectively through both our risk management framework and strategic planning process.

New accounting standards

A significant amount of management and Committee time was spent during the year considering the introduction of three new accounting standards. Implementation of IFRS 9 'Financial Instruments' and 15 'Revenue from contracts with customers', which applied to the Company for 2018, was completed satisfactorily in consultation with the external auditor.

In preparing for the introduction of IFRS 16 'Leases', which applies to the Company from 2019, management conducted a thorough use and operations analysis of all leased assets across the Group to then categorise, evaluate and assess their qualification against the new requirements. The Committee has been involved in reviewing the thoroughness of management's analysis and considerations in consultation with external advisers, and these were also the subject of separate challenge by and discussion with Deloitte. Additionally, the Committee recommended that the Remuneration Committee consider the potential knock-on effect of IFRS 16 to the EPS and ROCE targets applying to outstanding LTIP awards.

Full details regarding these three new accounting standards and their respective impact appears on pages 119, 120 and 129. The Remuneration Committee's review of IFRS 16 appears on page 76.

Viability Statement

The Committee reviewed and challenged management on its recommended viability period as well as on its robust modelling, stress testing scenarios and conclusions, and satisfied itself that a three-year outlook remained appropriate. This choice of period is driven principally by the fact that it is covered by the Group's strategic plan, reflects the nature of the Group's principal risks (some of which are external and have the potential to impact in the short-term) and takes into account three major risks, namely, Brexit, the Spanish long haul concession renewals and our bond refinancing timetable, all of which are expected to fall within the next three years. The Viability Statement, and a full explanation of it, appears on page 45.

Fair, balanced and understandable

The Committee assessed and recommended to the Board (which it subsequently endorsed) that, taken as a whole, the 2018 Annual Report is fair, balanced and understandable and provides the necessary information for shareholders to assess the Company's position and performance, business model and strategy.

Internal audit and control

The Group's internal audit function continued to operate effectively in 2018, particularly in respect of some high profile compliance assurance work, against a plan of activity approved and monitored by the Committee.

The outcome of EY's quality assurance review conducted early in the year was reassuring in that it confirmed the function operated to a high level and in adherence with the International Internal Auditing Standards. It also identified, in the light of best practice, an opportunity to evolve the function's role within the Group's 'three lines of defence' model and align its activities closer to the future needs and material risks of the business, and to make more use of technology in doing so. Implementation of EY's recommendations will continue throughout 2019.

During the year, the Committee also:

- reviewed, pre-publication, the Company's first payment practices and UK gender pay gap reports, and new processes and training to address the offence of facilitating corporate tax evasion;
- conducted an end-to-end effectiveness review of the Group's whistleblowing arrangements – this had a positive outcome and resulted in the need for an updated Group Whistleblowing Policy and the issue of an annual awareness campaign directive to all territories; and
- agreed an assurance work plan with the legal and procurement teams for 2019 to extend our modern slavery risk exposure analysis, compliance due diligence and training, with a particular focus on the North America supply chain.

The Committee is encouraged by the continuing improvement being made across the Group in its underlying control environment, as evidenced in the output work presented to it by the internal audit and risk management teams.

GDPR compliance

The proper use and safeguarding of personal data remains one of our most important risk areas and has been a high profile topic this year. The Committee had oversight of the Executive-led plan and training programme, and received implementation reports and presentations, to meet the requirements of the new General Data Protection Regulation ('GDPR') by 25 May.

Overall, we took a number of steps to improve our personal data management both internally and externally, particularly as regards key stakeholders, in order to achieve on-time compliance. We also met with UK senior management shortly after 'go-live' to assess how the introduction of our new GDPR policies and procedures were operating in practice. We were pleased to see that the UK business had fully integrated them into their normal activities ensuring they get the right management focus going forward.

Ongoing GDPR compliance will be monitored by internal audit as part of its annual work plan.

Committee effectiveness

The Committee's operations and activities formed part of the internal Board performance evaluation undertaken this year, details of which are provided in the Effectiveness section on pages 52 and 53. It confirmed that the Committee continued to operate effectively and to a high standard, with clear priorities, well defined responsibilities and clarity around its work plan.

Looking forward

The Committee is aware of the recently completed Kingman Review of the Financial Reporting Council ('FRC') and the CMA Market Study on statutory audit services, as well as the impending Brydon Review into the quality and effectiveness of the UK audit market. Many of the recommendations from both completed works are far reaching and if implemented would significantly change the Audit Committee's remit and how it operates. Equally, the Brydon Review could lead to significant change in the audit landscape. While the next steps are currently unclear, the Committee will closely monitor developments on all fronts.

I am pleased that the Committee achieved a consistently high level of performance during 2018, as highlighted above, and expect that 2019 will be equally challenging and busy as we seek to fulfil our core responsibilities in accordance with the new governance regime, in support of the Board and in a way that is consistent with the Company's culture and values. That said, I look forward to the Committee continuing to make a meaningful contribution to the success of the Group.

Finally, I would like to thank my fellow Committee members, together with management, internal audit and Deloitte, for their support during the year. In particular, I would like to recognise the excellent work of management in achieving on-time GDPR compliance and completing preparations for IFRS 16, two very demanding Group-wide and cross-functional projects.


Mike McKeon

Audit Committee Chair
28 February 2019

Committee composition and operations

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

Details of the Committee meetings held during the year are shown on page 49 and these included various private sessions with both the external auditor and Head of Group Internal Audit. The Committee Chair also has regular private meetings with the Group Finance Director, Head of Group Internal Audit and the Deloitte Senior Statutory Auditor (and his team) to ensure that throughout the year open and informal lines of communication exist should they wish to raise any concerns outside of formal meetings.

Audit Committee activity in 2018

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

Financial reporting

- The integrity of published Financial Statements, including the significant financial matters considered
- The information, underlying assumptions and stress test analysis presented in support of the Viability Statement and going concern status
- The consistency and appropriateness of the financial control and reporting environment
- The implementation of new accounting standards IFRS 9 and 15 and preparation for IFRS 16
- The availability of distributable reserves to fund the dividend policy and make dividend payments
- The fair, balanced and understandable assessment of the Annual Report and half year statement
- The risk, uncertainty and potential impact on the Group arising from Brexit and a potential no-deal outcome

External audit

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

Internal audit

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

Risk management and internal control

- The scope of the Group's internal controls and risk management programme
- The adequacy and effectiveness of the Group's internal control and risk management systems, including the management of its insurance and claims handling programme
- The Group's risk environment, including its significant and recently created emerging risk register
- The Group's IT risk strategy and disaster recovery plans
- The Group's cyber security threats, their continuing evolution and the Group's response to them
- The Group's fraud, anti-bribery and corruption and whistleblowing prevention measures
- The Group's preparation for and controlled implementation of GDPR
- Compliance with the Code and the Group's regulatory and legislative environment

Tax and treasury

- The Group's treasury policy and affairs, including associated key risks management
- The impact of refinancing activities on the Group's financial position
- The Group's tax affairs, including its tax strategy and tax evasion defence and controls programme
- The assurance of the Group's continuing liquidity in view of uncertain future threats, including a potential no-deal Brexit

Other

- The Committee's effectiveness and terms of reference
- The Group's Modern Slavery and Human Trafficking Statement
- The Company's payment practices and UK gender pay gap reporting
- The new Code requirements as they apply to the Committee's responsibilities

Significant financial matters

The following descriptions are of the two significant financial matters considered by the Committee, with input from management and the external auditor, in connection with the Group's Financial Statements and disclosures. These were considered to be significant taking into account the level of materiality and the degree of critical judgement or estimation exercised by management. The descriptions should be read in conjunction with the Independent Auditor's Report on pages 106 – 113 and the accounting policies disclosed in the notes to the Financial Statements on pages 119 – 129.

We have not provided a description of those other areas of management judgements and estimates reviewed, challenged and assessed by the Committee in consultation with Deloitte, and which the Committee considered as not significant. These areas included taxation, pensions, financial instruments, business combinations and discontinued operations, revenue recognition and new accounting standards IFRS 9, 15 and 16 and IFRIC 12.

Significant area of focus**Goodwill and fixed asset impairment**

(see notes 2 and 14 to the financial statements)

The Committee considered whether the carrying value of goodwill and intangible assets held on the Group's balance sheet at the year end (£1,461 million) should be impaired. The potential risk is around the recoverability of these balances, particularly in relation to our ALSA (£812 million) and North America (£621 million) businesses, with the key area of estimation uncertainty (as assessed and tested by management as part of their annual goodwill impairment review) arising from the application of discounted cash flows on a value in use basis. The discount and future growth rates applied are highly sensitive to change because both must reflect a long-term view of the underlying growth in each respective economy.

The Committee received a detailed report from management which outlined the robust impairment analysis and testing undertaken for the year on a bottom-up basis and which included: (i) the underlying cash flows, discount rates and future growth rates assumed; and (ii) the modelling adopted relating to the use of country-specific discount rates and various impact scenarios arising from the potential outcomes of ALSA's concession renewal programme. The report concluded that there is not a material risk of non-recoverability in this area and that neither the North America nor the ALSA goodwill assets are impaired. Indeed, both continue to have sufficient levels of headroom (albeit less than in previous years due to an increase in the discount rates used) and notwithstanding the addition of goodwill during the year through ongoing acquisition activities.

The Committee challenged management's methodology, range of assumptions and testing scenarios undertaken. It also noted that Deloitte had challenged management assumptions and found no issues. As a result, the Committee was satisfied that neither the goodwill nor other non-current assets of the Group as at the balance sheet date are impaired.

Significant area of focus**Insurance and other claims provisions**

(see notes 2 and 26 to the financial statements)

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

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

The Committee noted that in considering the overall balance sheet provision, there was a wide range of potential outcomes. However, taking into account the comfort taken by the Committee's Chair in his recent first-hand review of the North America claims handling process, the thorough internal analysis undertaken and the audit work conducted by Deloitte, the Committee concluded that the provision for North America insurance and other claims, as recommended by management, was within an acceptable range and was fairly stated.

In addition to the above, the Committee has considered, taken action and made onward recommendations to the Board, as appropriate, on a range of other matters during the year, including in relation to the Viability Statement, going concern, the potential impact arising from Brexit and other specific areas of audit, compliance and governance focus.

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

External auditor

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

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

The external audit plan and the £1.3 million fee proposal for the financial year under review (2017: £1.2m) was prepared by Deloitte in consultation with management and presented to the Committee for consideration and approval. The plan again focused on risk, challenge and materiality and was aligned to the Group's structure and strategy. It was also designed to continue transition of the audit, as directed by Deloitte, to be more internal control assurance based (and less substantive) in its emphasis and with increased use made of data analytics.

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

Effectiveness

Immediately following completion of the external audit process for 2018, the Committee conducted a review of its effectiveness and a performance review of Deloitte. This was carried out through a mix of a survey questionnaires and analysis and follow-up consultation with Committee members, the Executive Directors, members of the senior finance team and divisional Finance Directors. The qualitative and robust assessment focused on the valuable feedback and insights received, process and communication, handling of issues and the quality of the audit team, and had regard to the latest Audit Quality Inspection Report on Deloitte issued by the FRC.

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

External audit tendering policy

The Company last put its external audit out to competitive tender in 2011 following which Deloitte was appointed to the office of auditor, replacing EY. The Company has complied during the year under review, and through to the date of this report, with the provisions of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

The Company is next required to retender the audit by no later than the financial year ending 2021. The Committee will assess the quality of the external audit annually and, on the basis that its quality remains high and the audit fee represents good value to shareholders (both as benchmarked versus market practice), it is expected that the next audit tender will take place at that time. We will, however, look to start early planning for the next tender during 2019.

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

Non-audit services

To help protect the objectivity and independence of Deloitte, and in addition to its own internal safeguards, the Company operates a Non-Audit Services Policy that sets out the types of non-audit services, such as assurance work, which Deloitte may provide to the Group. The policy, which includes a pre-approval process, specific financial control limits and a definitive list of permitted and non-permitted services, and which meets the FRC's revised Ethical Standard requirements, remained unchanged during the year and is, after review, proposed to remain so again for 2019.

Details of the fees charged by Deloitte, split between audit and permitted non-audit fees, for the year ended 31 December 2018 can be found in note 6 to the financial statements on page 133. Total fees for non-audit services, including the half year review, amounted to £0.1 million, representing 7.7% of the Group's total audit fees payable to Deloitte for the year. No fees were approved or paid on a contingent basis.

Audit Committee Report continued

Internal audit

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

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

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

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

Effectiveness

The Committee monitors and formally assesses the effectiveness of the internal audit function on an annual basis and seeks to satisfy itself that the quality, expertise, experience and cost of the function is appropriate to the Group.

As reported last year, the Committee commissioned EY to conduct an external quality assurance review of the function in early 2018. EY's development recommendations and 18-month plan of action through to the end of 2019 are being implemented in full to ensure the positioning of the function and the focus of its activities continue to be aligned with the future needs and material risks of the business. The Committee will monitor implementation progress against plan during the year.

Overall, the Committee concluded that the internal audit function continued to be effective, objective and independent in the work it undertakes, and has a good value-add reputation with operational management in the performance of its role.

Risk management and internal control

The Board is responsible for determining both the nature and extent of the Group's risk management and internal control framework and for determining its risk appetite (i.e. the balance in risk and opportunity deemed acceptable in pursuing the Group's strategic objectives).

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

Risk management

The Group has an embedded risk management culture and our approach continues to mature and evolve. This is being led by the divisional heads and actively supported by the Group Director of Insurance and Risk in the management of their risk registers, in driving risk awareness and in developing and sharing best practice.

The Committee receives regular updates on the Group's principal and emerging risks, including deep-dive reviews of particular risks, such as cyber, which allows for discussion and the monitoring of progress against mitigation actions previously agreed. This year, the Committee also received specific and satisfactory updates on:

- regulatory developments in relation to risk management and the Group's proposed response;
- benchmarking of the Group's risk reporting against FTSE100 and S&P 100 organisations; and
- the good progress being made in each division with their new risk registers, and additional risk-related work, such as that carried out by the recently established North America Risk & Compliance Committee.

Regular reports are also received by the Committee from the external auditor, and from internal audit and other major business functions on various aspects of financial reporting, internal control, risk management, legal and compliance. In turn, the Committee provides the Board with interim assessments of risk and their potential impact on the Group's financial position, accounting affairs and control systems and on how material risks to the Group are being managed. The annual risk management work plan, prepared in consultation with management, is reviewed and approved by the Committee to ensure alignment with the Group's changing risk profile as well as its strategic plan and the near-term priorities of the business.

2019 will see the Committee continue to support the Board in fulfilling its responsibilities for risk management by carrying out further deep-dive reviews, as appropriate, with associated business management and reviewing the Group's principal and emerging risk registers, and the divisional risk registers.

The Group's risk management framework and appetite, together with the process in place for identifying, evaluating, monitoring and managing the principal risks and uncertainties faced by the Group, are set out on pages 39 – 44.

Internal controls

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

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

Effectiveness

Assisted by the Committee, the Board reviewed the systems of internal controls and risk management described above (which have been in place for the year under review and through to the signing of this Annual Report) taking into account the assurance work undertaken by both the risk management and internal audit functions, and the relevant process, controls and testing undertaken by Deloitte as part of its half year review and full year audit.

In respect of the centralised treasury back-office accounting function, and following the successful implementation of IFRS 9, the Committee reviewed and assessed the need to address some control findings. It is satisfied management has a plan to address these findings and will review its implementation in 2019. Other than in this area of technical non-cash accounting, no significant weaknesses or control failures were found while identified opportunities to strengthen the controls have been taken and will themselves be subject to regular review as part of internal audit's work plan.

Fair, balanced and understandable

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

Based on the above, the Committee recommended, and in turn the Board confirmed, that the 2018 Annual Report, taken as a whole, is fair, balanced and understandable and provides the necessary information for shareholders to assess the Company's position and performance, business model and strategy.

Anti-Bribery and Corruption Policy

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

Whistleblowing Policy

The Group is committed to promoting a safe and effective culture for employees to raise genuine concerns without fear of reprisals.

The Committee reviews the Group's whistleblowing facilities in each of the businesses, which allows employees to report genuine concerns about suspected impropriety or wrongdoing (whether financial or otherwise) on a confidential basis, and anonymously if legally permitted. The facilities take the form of a free multi-lingual helpline per country of operation provided by an independent third party.

Reported whistleblowing incidents are investigated locally in the first instance with monthly summary reports submitted to the Group Company Secretary and reviewed by the Group Executive Committee in case a higher level of independent investigation is required. During the year, there were no whistleblowing incidents investigated at Group level. A summary incident report is presented to the Board at each meeting.

An end-to-end effectiveness review of the whistleblowing facilities in place in all territories was undertaken during the year – this had a positive outcome and identified the need to issue an updated Group Whistleblowing Policy and an annual awareness campaign directive in all territories. The updated policy will meet the extended requirements of the new Code for whistleblowing facilities to be made available to the whole workforce, to cover the reporting of any concerns and for the Board to routinely review the operation of the facilities. The practicalities surrounding the implementation of these new policy extensions will be addressed during the year.

Safety & Environment Committee Report



Chris Muntwyler
Committee Chair

Primary role

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

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

Key responsibilities

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

Membership, meetings and attendance

● Meeting attended ○ Meeting not attended


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

¹ Independent Non-Executive Director

² Non-Executive Chairman of the Board

³ Non-independent Non-Executive Director

Other attendees (by invitation): Executive Directors, Group Safety Director, Head of Group Property and, as required, external advisers.

 Biographical details of the members are set out on pages 56 and 57.

Dear fellow Shareholder

I am pleased to present this year's Safety & Environment Committee Report which provides an overview of the Group's main activities and progress in these two important areas during the year. More information can be found on pages 32 and 33 respectively.

Safety

The Board believes that the Company should aim to lead the industry on safety matters and continuously seek to improve our standards. That is why the safety of our employees and customers receives the highest level of attention from the Board with all Directors being members of the Committee. It is also why safety remains the number one priority of the executive team. In recognising this ongoing strategic importance:

- an 18% weighting of the executive team's annual bonus continues to be linked to the Group's safety performance: 10% on improving our normalised Fatalities Weighted Injuries ('FWI') Index score per million miles operated and 8% on improving safety systems and processes; and
- a revised safety underpin applied to this year's annual bonus plan, and has been introduced as an underpin to the Company's Long-term Incentive Plan for awards to be made in 2019 onwards.

Dean Finch, Group Chief Executive, has established a strong and embedded safety culture in the business and this is maintained through his personal ownership of a rigorous governance framework. He has overall responsibility for safety and is supported by divisional Managing Directors, the Group Safety Director and local safety teams. It is they who set the annual safety plan and priorities for continued improvement and progress against these are reviewed at the Chief Executive's Safety Committee on a quarterly basis.



Your decision to install cameras in all fleet vehicles [in North America] shows your commitment to developing a comprehensive safety management system for driver oversight and remediation of unsafe behaviour throughout your fleet.

US National Transportation Safety Board

As Committee Chair, and to ensure independence of safety oversight, I have direct access to the Group Safety Director and meet with her on regular basis throughout the year. I also visit operations from time to time (as do other Non-Executive Directors) to better understand the safety risks, exposures and challenges facing the business and the actions being taken locally to address them. I feedback my observations and assessment to both management and the Committee. To this end, I spent four days in February 2018 making safety audit visits in the USA (as reported on last year) and in October I visited Oviedo in Spain to review:

- ALSA's Driver Training Centre, which is continuing its research programme with the local university on how to select the best vehicle drivers. It has recently introduced driver psychometric testing and simulation for specific road situations and accidents, not just for basic training. With the Group investing heavily in driver training, this work is extremely relevant in helping to identify good and not so good drivers earlier, before the investment is made. By analysing drivers across Spain, Morocco and Geneva, the team is building a statistical database which will improve the quality of their driver testing module; and
- ALSA's accident investigation and management response following a tragic accident that had recently occurred in Avilés. I was extremely impressed with the quality and speed of their approach and pleased with the recognition expressed by Pere Navarro, Director General of Traffic in Spain, when he commented at the time that: *'It [ALSA] is not a pirate company, local or small, but one of the most important in passenger transport. ALSA has always been a benchmark in road safety.'*

Performance

The Committee is extremely pleased to report that the executive team has continued to operate and manage a robust set of safety processes and systems across the Group which, compared with 2017, has delivered an improved performance with fewer responsible major injuries, lost time injuries and high severity vehicle accidents, and a lower vehicle accident rate.

Most notable within that performance was North America's excellent safety performance which included no responsible fatalities (for the first time in five years), no lost time injuries, a 30% reduction in major injuries and a 6% reduction in minor injuries – together, these represent a very commendable achievement.

However, the Committee notes the slight increase in the Group's absolute FWI score in 2018, up 0.717 to 9.291, although on a per million miles operated basis, FWI was flat year-on-year and is therefore still the lowest on record. While it is disappointing that FWI did not improve again, the Committee takes comfort and encouragement from the 74% improvement achieved in the Group's FWI per million miles operated since we launched Driving Out Harm in 2011.

Following the report issued in May 2018 by the US National Transportation Safety Board ('NTSB') into the driver-responsible school bus accident in Chattanooga in late 2016, the Company moved quickly and positively to submit a response to the recommendations made, including setting out the Group-wide actions already taken and planned to be taken to address them, particularly in relation to improving driver oversight and behaviour. I believe that the acknowledgement letter received back from the highly reputable NTSB clearly demonstrates the significant ongoing investment and commitment we are making in pursuing safety performance improvements throughout the Group: *'We are pleased that you implemented the recommended complaint resolution system and have established training and monitoring systems to identify and resolve safety violations. In addition, your decision to install cameras in all fleet vehicles shows your commitment to developing a comprehensive safety management system for driver oversight and remediation of unsafe behaviour throughout your fleet. We commend your prompt action to embrace the intent of our recommendations and invest in company-wide procedures to improve safety across all your operations. These actions satisfy Safety Recommendations H-18-17 and -18, which are classified 'Closed – Acceptable Action'.'*

The Committee has also received assurance from internal audit that the Company's committed action plan to the NTSB is being implemented Group-wide within the agreed timescales.

Global Safety Policies

The implementation of our five new Global Safety Policies ('Policies'), launched in April 2017, continued in 2018. Internal audit has again provided the Committee with assurance that each division has met its key milestones against plan for the year and is on track to meet the completion target of 2020. When business acquisitions are made, and as part of our integration management, a tailored plan is created to ensure they too commence and complete implementation of the Policies within an acceptable timeframe.

The focus of our transformational programme this year has been on improving driver oversight and management, and the progress made has been immense. For example:

- over 10,000 more vehicles have been fitted with Lytx DriveCam, the incident alert and driver monitoring system provided by an on-board camera. Altogether, over 2,400 vehicles have now been fitted in the UK, 15,000 in North America and some 1,000 in Spain. The UK fit-out will be completed in 2019 and North America in 2020;
- all businesses have introduced risk profiling of their drivers. This is a critical part of the overall plan to improve driver oversight and uses inputs such as accident history, speed management, DriveCam events, telematics and complaints to determine what actions need to be taken for individual drivers; and
- extensive driver oversight and evaluation training of supervisors and managers has taken place across the Group – 350 in the UK, 130 in Spain and 1,400 in North America.

Particularly pleasing to the Committee is that it can see both tangible benefits and a return on the Company's investment coming through from the introduction of the new Policies, which are making a real difference. For example, in 2018:

- recognising that DriveCam is our key method for monitoring and improving driver behaviour, at the 35 Customer Service Centres ('CSCs') in North America where DriveCam has been installed for more than a year, the average risk score has improved by 58% and coachable events per event recorder has improved by 66%; and
- the average cost per incident claim in North America was 22% lower than in 2017 and the estimated cost of their Top 10 incidents was 50% lower.

These impressive results, being driven by our strong safety leadership, are helping us to improve both the effectiveness of our driving standards and the efficiency of our safety programme across the Group.

Safety awards and further external certification

The Committee was also pleased to learn of several safety awards and external certifications received again in the Group during 2018. These included:

- the prestigious Sword of Honour from the British Safety Council ('BSC'), which recognises the commitment to an excellent health and safety management standard, received by UK coach for the fourth successive year and by UK bus for the third successive year. Bus also became the first company to achieve the BSC's 45001 certification while Coach retained its BS OHSAS 18001 standing. Separately, both businesses also achieved 5-Star Occupational Health and Safety Audit Status with the BSC; and
- ALSA being selected by the European Council for Transport Safety as an example of good practices in road safety management. It also received the Best HR Practice Award from Estrella LUIKE (a specialist automotive magazine) for its Master Driver programme.

Target Zero

In February last year, Dean Finch launched a 'Target Zero' safety campaign with a simple message that any fatality is unacceptable and with a simple objective of trying to achieve a Target Zero year (i.e. one in which no responsible fatalities occur). A number of hard-hitting posters, videos and other communications were created and shared across the Group for local use to drive home the tough message and ensure it was clearly understood in all territories. The campaign has been wholeheartedly received by the entire business with lots of innovative promotions and events taking place to support it.

As part of a North America initiative, local businesses were invited to come up with their own take on the campaign and some of the winning and honourable mention entries appear above and below.

The Directors witnessed first-hand how two local operations in Boston, a School and a Transit Customer Service Centre ('CSC'), had embraced Target Zero and the approach they were taking to promote it when the Board visited the CSCs in September – the pride, passion and strength of belief were clear for all to see. While Target Zero may not have been achieved across all territories in 2018, it was achieved in North America and I am sure it will not be long before it is achieved Group-wide as well.



Lake Villa, IL – School Bus Winner

By challenging drivers to share best practice with each other on their Target Zero clip-board, this CSC was able to get everyone involved.



Salina, KS – School Bus Winner

It took a team effort, precision driving and a drone to create this aerial photo reinforcing Target Zero.



Boston, 'The Ride' – Transit Honorable Mention

'The Zero Team' photo emphasises the steps needed to achieve zero fatalities.



The focus on employee engagement and driving training continues as does significant fleet and technology investments with improvements in fleet efficiency and miles per gallon fuel usage remaining key deliverables in all divisions.

These industry-leading awards and recognitions give the Committee great confidence in the embedded nature and robustness of our safety management framework and arrangements in place across the whole Group.

Environment

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

With respect to the management of the Group's environmental responsibilities, our performance remained strong in 2018. The maintenance of our CDP rating 'B' and Water Disclosure rating 'C' represents a significant achievement in the sector and we are proud to have continued our record of no reported violations, enforcement actions or compliance notices in the year. We are also prepared to meet ESOS Phase 2 compliance from 5 December 2019.

While a year-on-year outturn for the Group shows only a marginal decrease in total emissions of 0.3% tCO₂e per million passenger km, this still represents a worthy reduction of 2,500 tonnes of CO₂. However, the outturn should not detract from the UK's strong performance this year (3% decrease) and needs to be considered in the context of an overall increase in both driven km and passenger km of 3% and 4% respectively in the year. Additionally, and in applying the intensity metrics, the Group's tCO₂e per million passenger km shows a year-on-year decrease of 4.75% and a total decrease of 13% for our five-year KPI period ended 31 December 2018 – this is significant when measured against a 20% increase in passenger km operated in the same period.

We have continued to make solid progress with our Driving Excellence in Environmental Performance programme. We set ourselves some ambitious five-year KPI targets against which we have delivered at the close some good results, with our water consumption and transaction energy use running well ahead of target. Also, and notwithstanding the fact that challenges remain with site energy use and waste to landfill, we exceeded our total tCO₂e target per million passenger km by almost 5% year-on-year and by over 19% for the five-year period. Robust new science based KPIs, in line with the Sectoral Decarbonisation Approach, are being finalised. These will cover a seven-year period to 2025 and focus on the six elements identified by the Intergovernmental Panel on Climate Change.

The focus on employee engagement and driver training continues as does significant fleet and technology investments with improvements in fleet efficiency and miles per gallon fuel usage remaining key deliverables in all divisions.

Health and wellbeing

During 2018, the Group continued with its various divisional programmes and initiatives, as reviewed annually by the Committee, to promote and enhance the health and wellbeing of our workforce through a mix of physical, occupational and mental health services. Examples of these included:

- in the UK, the Health Bus, which is run by medical professionals and visits local sites to provide free and confidential medical appointments to employees, conducted over 6,500 appointments in the year – it also received the British Quality Foundation's Innovation in Employee Engagement Award in March 2018. Mental health received increased focus with the provision of counselling support through the Employee Assistance Programme and the launch of a mental health awareness campaign in October 2018 to coincide with World Mental Health Day;

- in Bahrain, the company arranges free health checks by a registered nurse and personal support through its Employee Assistance Programme. The company has also raised awareness of mental health issues, the dangers of fatigue and heat exhaustion and, in conjunction with the local hospital and Bahrain Cancer Care Group, breast cancer among women;
- in the USA, where the Health and Wellbeing Strategy is in its second year, the company carried out a range of initiatives with its employees aimed at identifying and preventing medical issues. Counselling support to employees and their families on mental health and other issues is also provided through their Employee Assistance Programme; and
- in Spain and Morocco, the businesses continue to promote the wellbeing of employees through their 'For Your Health' programme, which includes an online blog with suggestions and advice on healthy living, eating and exercise. They also offer discounts to all employees and their families on a range of health services.

Committee effectiveness

The Committee's operations and activities formed part of the internal performance evaluation of the Board conducted this year (see the Effectiveness section on pages 52 and 53). It confirmed that the Committee continues to operate very well and effectively in providing oversight of safety and environmental governance.

Looking forward

In 2019, the Committee will continue to monitor and review the structure, content and operation of the Group's safety and environment arrangements. Finally, I would like to thank Dean Finch and his management team for their relentless effort and ongoing leadership in again delivering improvements in both of these two very important aspects of the business in 2018.

Chris Muntwyler

Safety & Environment Committee Chair
28 February 2019

Directors' Remuneration Report

Annual Statement by the Remuneration Committee Chair



Jane Kingston
Committee Chair

Primary role

To review and recommend to the Board the framework, policy and practices for remuneration of the Chairman, the Executive Directors and other senior executives, and for implementing the policy.

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

Key responsibilities

- Determine the remuneration of the Executive Directors and Senior Management Group ('SMG') members, with due regard to remuneration and workforce policies and practices existing elsewhere in the Group
- Determine the Chairman's fees
- Oversee administration of the Company's share incentive plans
- Review and monitor the Group's compliance with relevant gender pay reporting requirements

Membership, meetings and attendance

● Meeting attended ○ Meeting not attended

Committee member	Appointed	Meetings attended
Jane Kingston (Chair) ¹	26.02.14	●●●●
Lee Sander ¹	01.06.11	○●●●
Matthew Crummack ¹	06.05.16	●●●●
Dr Ashley Steel ¹	29.01.19	n/a

¹ Independent Non-Executive Director

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

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

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



Biographical details of the members are set out on pages 56 and 57

Dear fellow Shareholder

On behalf of the Board, I am pleased to present the Remuneration Committee's report for the financial year ended 31 December 2018. The business has continued to build on the strong performance of recent years, despite operating in difficult competitive trading and economic conditions, to again deliver record-breaking results.

The Committee's agenda for the year was another full one as we consulted with major shareholders on the Policy, assessed year end outcomes and approved new awards and targets under the bonus and LTIP, and considered the impact of the new statutory accounting standard IFRS 16 on outstanding LTIP awards. We also began work in response to the new UK Corporate Governance Code ('Code') and secondary legislation coming into force for 2019.

Aligning pay and performance in 2018

2018 was another standout year of achievement for the Group. The financial highlights panel on page 76 shows our strong and balanced outperformance compared with 2017 as we again delivered in excess of plan on all key metrics. The Executive Directors also made significant progress on a number of strategic projects with tangible results, most notably in relation to safety improvements, digital channel delivery and increasing our focus around hubs in large, dense urban areas, all with the aim of continuing our growth trajectory into 2019 and beyond. Additionally, and despite the political uncertainty surrounding Brexit and the turbulence experienced in the London stock market towards the end of the year, our share price proved resolute, outperforming both the FTSE 250 Index and our peer group average during the year. The Board is also recommending a 10% increase in the final dividend, the third consecutive year of this level of increase.



During the year, we have operated the new Policy to motivate, reward and retain a high quality executive team, under the leadership of Dean Finch, which is continuing to deliver superior performance as it executes on an ambitious strategy.

The Committee has undergone a robust and full assessment of the Group's performance during the year, taking into account both financial and non-financial measures. As part of that, it consulted with the Chair of the Safety & Environment Committee before satisfying itself that:

- as per the revised safety underpin introduced by the Policy (see below), no significant negative event occurred during the year, as a result of a systemic failure of management to put in place and operate effective safety processes, that had a material adverse impact on the reputation of the Company and its share price; and
- the executive team has continued to operate and manage a robust set of safety systems and processes across the Group with an overall year-on-year improvement being delivered.

Accordingly, and given that the threshold targets for both the Group normalised profit before tax ('PBT') and North America normalised earnings before interest and tax ('EBIT') were achieved, the Committee was able to confirm that all the conditions required to be satisfied before any payment can be made under the short and long-term incentive plans had been met. However, the Committee noted the slight year-on-year increase in the Group's absolute Fatalities Weighted Injuries ('FWI') Index score, although on a normalised per million miles operated basis FWI was flat on last year and remains the lowest on record. While disappointing that FWI did not improve again, and that as a result a 10% bonus opportunity was missed for Dean Finch and Chris Davies, it should not detract from the ongoing significant safety investment and commitment of the executive team and the safety performance improvements made throughout the Group during the year, particularly the outstanding performance in North America, as explained in the Safety & Environment Report on pages 70 – 73.

Arising from the above, the following incentive outcomes were approved by the Committee without the exercise of any discretion:

- annual bonuses of between 58-90% of maximum opportunity for 2018, of which a portion will be deferred into shares. These will be paid in March;
- 96.3% of maximum vesting for the 2016 LTIP awards with a three-year performance period ended 31 December 2018. These are due to vest in April 2019; and
- 95.8% of maximum vesting for the legacy 2014 LTIP award held by Dean Finch with a five-year performance period ended 31 December 2018. This is the last of this type of award and is also due to vest in April 2019.

The Committee believes that the high level outturn bonus payments and LTIP vestings fairly reflect the impressive performance of the business and individuals as well as the strong results delivered to shareholders. These include total shareholder return ('TSR') and basic statutory earnings per share ('EPS') growth of 42% and 27% respectively over the past three years and 80% and 140% respectively over the past five years.

Directors' Remuneration Policy review

The Committee reviewed the Policy last year to ensure that the remuneration structure remained fit for purpose in continuing to support the Group's strategic priorities and incentivise the executive team to achieve stretching targets, balanced against the need to be sensitive to shareholder requirements and corporate governance best practice. We consulted on a draft Policy with many of our shareholders, and various shareholder advisory groups, and made a number of refinements as a result of that exercise. The final Policy received over 95% support at the 2018 AGM and it became effective from that date for an intended three-year period. I would like to thank our shareholders for engaging in what was a constructive two-way dialogue during the consultation process. The relationship that exists between the Committee and our shareholders is greatly valued and we will ensure it continues.

During the year, we have operated the new Policy to motivate, reward and retain a high quality executive team, under the leadership of Dean Finch, which is continuing to deliver superior performance as it executes on an ambitious strategy. As can be seen from this year's performance and outturns, I believe the Policy is working and properly aligns the executive team's interests with those of shareholders for the long-term.

We have simplified the Directors' Remuneration Report this year by only including a summary of the Policy in relation to Executive Directors' remuneration. The full Policy, covering both Executive and Non-Executive Directors' remuneration, can be found on pages 74 – 84 of the Company's 2017 Annual Report and on its website at www.nationalexpressgroup.com/about-us/corporate-governance/remuneration.

Directors' Remuneration Report

This Directors' Remuneration Report has been prepared in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended) ('Regulations'), the Listing Rules and the provisions of the 2016 Code and comprises the following sections:

- Annual Statement by the Remuneration Committee Chair
- Remuneration at a glance – this contains an overview of our remuneration strategy and the performance outcomes of the variable elements of executive remuneration
- Summary of the Directors' Remuneration Policy as approved by shareholders at the 2018 AGM
- Annual Report on Remuneration – this describes the implementation of the Policy and sets out details of payments made to Directors in 2018. This report is subject to an advisory vote by shareholders at the 2019 AGM.

Remuneration for 2019

The Committee has recently completed its annual review of salary and can confirm that for 2019 the base salary increase for each of the Executive Directors will be 2.8% – this compares to increases in the range of 2-3% for the wider UK workforce during 2018 and as projected for 2019. The Committee believed it was appropriate to award the Directors an increase towards the top of this range to reflect both strong corporate and individual performances.

As reported last year, the Company continues to provide Matt Ashley with an international relocation assistance package in support of his two-year Chicago-based assignment as President and CEO, North America, which expires at the end of August 2019. The estimated gross cost to the Company of his relocation package in 2018 was £434,311. While the Committee is fully supportive of Matt Ashley and believes that such assistance is appropriate in the context of the role he is performing, this package will be subject to review and reduction by the Committee, in line with best practice, in the event his original term assignment is extended.

The Committee undertook a review of the performance targets for the bonus profit metrics for 2018 and determined that it was appropriate to reduce the width of the threshold to maximum range around the target level from +/-10% to +/-5%. The purpose of the change was to more closely reflect the realistic range of outcomes either side of target. In addition, the Committee gave consideration to the fact that the wider range for Group PBT in 2018 could have resulted in a payment being made for a performance below that of 2017 which was not acceptable to the Board.

The structure, performance conditions and award opportunity for the bonus and LTIP arrangements in 2019 will be unchanged and operated as per the 2018 plans, save that in respect of the bonus:

- the FWI safety element (10% opportunity), currently measured on a year-on-year improvement per million miles operated basis, will move to a no-worse than previous year per million miles operated basis. Given the continuing growth in the business and current record low level of FWI, maintaining this performance next year is felt to be a sufficiently demanding challenge; and
- Matt Ashley's profit-related element (50% opportunity) will be based solely on North America EBIT rather than on a mix of Group PBT and North America EBIT. This will now fully align his profit focus with his day-to-day executive responsibilities.

By way of reminder, 2019 will be the first of three consecutive and equal years' reduction in Dean Finch's pension allowance from the Company. This voluntary position offered by him last year will see his allowance reduce to 33.3% of salary in 2019 (from 35% in 2018) and subsequently to 31.6% in 2020 and 30% in 2021.

New accounting standard IFRS 16

During the year, the Committee considered the introduction of the new statutory accounting standard, IFRS 16, replacing IAS 17 'Leases', which applies to the Company from 2019, and its expected impact on the return on capital employed ('ROCE') and EPS performance metric targets attaching to outstanding and future LTIP awards. The Committee decided to neutralise the impact on outstanding awards (i.e. by converting IFRS 16 outturns back to IAS 17) to ensure that participants are neither rewarded nor penalised vis-à-vis the basis on which their awards were originally granted. This decision is consistent with both the advice received by the Committee from PwC, its remuneration consultants, as to expected market practice on this matter and the approach previously taken by the Committee in similar circumstances.

2018 financial performance highlights**GROUP REVENUE****£2.45bn****up 6.9%¹****NORMALISED PROFIT BEFORE TAX****£220.0m****up 11.3%¹****STATUTORY PROFIT AFTER TAX****£138.7m****up 8.0%²****FREE CASH FLOW****£198.6m****up 35.7%¹****NORMALISED DILUTED EARNINGS PER SHARE****32.8p³****up 13.1%**¹ On a constant currency basis² On a continuing basis³ On an IFRS 16 restated basis, this equates to 32.3p

For LTIP awards to be made in 2019, the EPS and ROCE targets will be set with reference to their 2018 outturns, as restated for IFRS 16, and will remain stretching taking into consideration the principal operating and external risks facing the business over the next three years as highlighted on page 40.

Corporate governance developments

The Company complied throughout the year with all remuneration aspects of the 2016 Code. Being cognisant of the new Code and supporting guidance introduced by the Financial Reporting Council ('FRC') in July 2018 which applies to the Company from 2019, the Committee has also been working with management to review our approach to the new Code, in particular in addressing the employee voice and engagement provisions which will form part of a broader Board exercise as how best to consider stakeholder views more generally in its decision-making process. Our review highlighted that we are already compliant with a number of the principles and provisions of the new Code relating to executive remuneration, including:

- a well thought-out and implemented Policy that has a strong link to Group strategy and long-term success;
- appropriate use of judgement and discretion within incentive plans and the Policy;
- phased release and a five-year term (including vesting and holding period) for LTIPs, which apply regardless of whether the Executive remains employed or not;
- consideration by the Committee of workforce pay, including annual salary budgets and awards and oversight of incentive provisions across the Group; and
- full disclosure of the decisions made by the Committee and engagement that has been carried out with shareholders each year.

We will continue our new Code assessment work during this year and implement any extended and/or new processes deemed necessary. While we do not intend to make any structural changes to remuneration in 2019 as we have just undertaken a full review of the Policy, we will continue to monitor market practice and respond appropriately.

The wider workforce environment

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

As a Committee, we already receive comprehensive information on pay practices and economic conditions across the Group, including on pay increases across the UK, Spain and North America. In addition, we have oversight of the remuneration of all individuals in the Group earning above £100,000 per annum. As part of setting the scene for and contextualising the pay review and decisions of the Committee, we will continue to develop this reporting in 2019 and intend to take into account broader information on workforce pay, policies and practices, including diversity, the gender pay gap and the employee agenda generally.

Gender pay

In line with new UK regulations, we published our first gender pay gap reports in April 2018. They showed an aggregated median gender pay gap of 13.34% and a mean gender pay gap of 4.24% across affected UK employees. We are confident that our gender pay gap is not an issue of equal pay but rather one caused by the imbalance in gender diversity of those occupying senior management positions in the UK. As a business, we are committed to promoting a culture of inclusion and diversity and continue to develop initiatives to attract, retain and engage more women across the business and at all levels. I have always been impressed by the Group's focus on talent and commitment to build long-term leadership capability through its global graduate and apprentice programmes with diversity, in its broadest sense, continuing to be a key objective of our actions in this area.

Further information on our diversity approach at the Board and activity in the business is set out in the Nominations Committee Report on pages 58 and 61.

Committee effectiveness

The Committee's effectiveness and activities formed part of the internal review of Board effectiveness performed for the year. Details of this review are provided in the Effectiveness section on pages 52 and 53. Overall, the Committee continued to operate effectively and to a high standard having delivered on a significant agenda during the year. With a view to strengthening the overall knowledge and experience of the Committee, I am pleased to confirm that Dr Ashley Steel was appointed a Committee member on 29 January this year.

Looking forward

I am comfortable that the Policy now in force continues to support the business strategy and the Committee can operate appropriately within it, using judgement where necessary to assess outcomes and determine awards in the light of performance.

Together with the Board, the Committee welcomes the introduction of the new Code and believes we have a responsibility to embrace it. Accordingly, we will continue our assessment and implementation work in 2019 while also keeping an eye on emerging best practice as it develops, and engage with shareholders as required. We will report against the new Code next year.

I hope you find the information contained in this report helpful and I welcome any comments you may have. I also look forward to receiving your support for the Annual Report on Remuneration at this year's AGM.



Jane Kingston

Remuneration Committee Chair
28 February 2019

Remuneration at a glance

Introduction

In this section, we highlight:

- the linkage between our strategic initiatives and the various elements of remuneration being used to drive and incentivise their achievement; and
- the annual bonus and LTIP targets for performance periods ended 31 December 2018, the Company's performance against each of them and the resulting bonus payouts and LTIP vesting levels as a proportion of the maximum opportunity available for the Executive Directors in 2018.

More details can be found in the Annual Report on Remuneration on pages 82 – 99.

Remuneration link to strategy

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

Strategic initiative	Remuneration element
Revenue growth	– Group normalised PBT or North America normalised EBIT target in the annual bonus plan – EPS target attaching to LTIP awards
Cost efficiency and better margins	– ROCE and TSR targets attaching to LTIP awards
Operational excellence – safety, customers, people and community	– Non-financial goals in the annual bonus plan
Superior cash and returns	– Free cash flow target in the annual bonus plan – ROCE and TSR targets attaching to LTIP awards
Creating new business opportunities	– Non-financial goals in the annual bonus plan

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

Principles of remuneration

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

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

Targets, outturns and payouts for 2018

Annual bonus

Measure	Threshold	Target	Maximum	Actual
Group normalised PBT	£194.1m	£204.3m ¹	£214.6m	£220.0m
North America normalised EBIT	\$129.8m	\$136.6m ²	\$143.4m	\$130.1m ³
Group free cash flow	£111.5m	£123.9m ⁴	£136.3m	£198.6m

¹ The Group normalised PBT target was set at £206.3m, due recognition having been given to the underlying normalised PBT of £190m in 2017 (i.e. net of £10.0m of non-recurring items). This was adjusted to £204.3m to reflect foreign exchange rate movements and growth capital profit

² The North America normalised EBIT target was set at \$133.7m. This was adjusted to \$136.6m to reflect foreign exchange rate movements and growth in capital profit

³ An internal management charge of £0.7m reduces the actual North America normalised EBIT to an external reported figure of \$129.4m

⁴ The Group free cash flow target was set at £125.6m. This was adjusted to £123.9m to reflect foreign exchange rate movements and growth capital profit

Executive Directors	Bonus maximum opportunity as % of salary	Bonus earned as % of salary				Total bonus earned as % of salary ¹	Bonus earned as % of maximum opportunity
		Group normalised PBT	North America normalised EBIT	Group free cash flow	Non-financial measures		
Dean Finch Group Chief Executive	200.0%	100.0%	–	50.0%	30.0%	180.0%	90.0%
Chris Davies Group Finance Director	150.0%	75.0%	–	37.5%	21.0%	133.5%	89.0%
Matt Ashley President and CEO, North America	150.0%	18.8%	1.1%	37.5%	30.0%	87.4%	58.3%

¹ Part of the bonus earned is subject to a one-year deferral in the form of forfeitable shares in the Company. These shares are not subject to any further conditions except for continued employment

Long-term incentives whose performance period ended on 31 December 2018

2014 five-year LTIP award (Dean Finch only)

Measures	Weighting	Threshold (30% vesting)	Target	Maximum (100% vesting)	Actual	Vesting as % of Maximum
TSR vs. FTSE 250 Index	1/4	Median	–	Upper Quintile	Median to Upper Quintile (Rank 58 th of 210)	83.0%
TSR vs. Bespoke Index	1/4	Median	–	≥ Index +10% p.a.	> Index +10% p.a.	100.0%
EPS	1/2	23.3p	–	28.2p	32.8p	100.0%
Total vesting						95.8%

2016 three-year LTIP awards (Dean Finch and Matt Ashley)¹

2017 two-year LTIP Recruitment Incentive Award (Chris Davies only)

Measures	Weighting	Threshold (30% vesting)	Target (50% vesting)	Maximum (100% vesting)	Actual	Vesting as % of Maximum
TSR vs. FTSE 250 Index	1/6	Median	–	Upper Quintile	Median to Upper Quintile (Rank 66 th of 221)	77.7%
TSR vs. Bespoke Index	1/6	Equal to Index	–	≥ Index + 10% p.a.	> Index + 10% p.a.	100.0%
EPS	1/3	25.6p	27.1p	29.5p	32.8p	100.0%
ROCE	1/3	9%	10%	12%	12.4%	100.0%
Total vesting						96.3%

¹ Vested share awards are subject to a compulsory two-year holding period, including post termination of employment

Summary of the Directors' Remuneration Policy

The Directors' Remuneration Policy ('Policy') was approved by shareholders at the AGM on 16 May 2018 and came into effect from that date. It is intended to apply for three years until the AGM in 2021. The full Policy can be found on pages 74 – 84 of the Company's 2017 Annual Report and on its website at www.nationalexpressgroup.com/about-us/corporate-governance/remuneration. A summary of the main features of the Policy, as it applies to Executive Directors' remuneration, is provided in the table below. Details of the remuneration arrangements for the Non-Executive Directors are set out in the Annual Report on Remuneration on pages 91 – 92.

Considerations when setting and determining the Directors' Remuneration Policy

The Remuneration Committee has responsibility for determining the remuneration of the Executive Directors and other senior executives, and the fees of the Company Chairman. Its primary objective when setting Policy is to align remuneration to the long-term success of the business and shareholders, while at the same time enabling the Company to effectively recruit, motivate and retain Executives of the calibre required to lead the business and successfully implement the strategy, but without paying more than is necessary to do so. To achieve this, the Committee takes into account the responsibilities, experience, performance and contribution of the individual, as well as levels of remuneration for individuals in comparable roles elsewhere. The Policy places significant emphasis on the need to achieve stretching and rigorously applied performance targets, with a significant proportion of remuneration weighted towards performance-related variable pay.

The Committee values investors' views in the process of formulating remuneration policy decisions and also monitors best practice and developments in remuneration trends. It is therefore committed to maintaining strong relationships and an open dialogue with shareholders and shareholder advisory bodies and encourages them to share their thoughts with us.

While the Company does not formally consult with employees on executive remuneration, it does receive regular updates from the Group HR Director and, when setting remuneration for the Executive Directors, the Committee takes note of the overall approach to pay and employment conditions existing elsewhere with the wider workforce in the Group.

Summary of the Directors' Remuneration Policy (as it relates to Executive Directors only)

Element	Policy	
Base salary	Salaries are reviewed annually, reflecting the Executive's role, job size and responsibility, and the performance and effectiveness of the individual. Increases will not normally exceed the general employee increase for the country in which the individual is domiciled	
Benefits	Benefits provided include: <ul style="list-style-type: none"> – Family private healthcare – Death-in-service and life assurance cover (4x base salary) – Long-term sickness and disability insurance – Car allowance – Free travel on the Company's services – Professional membership subscriptions 	
Pension	The salary supplement in lieu of pension provision represents: <ul style="list-style-type: none"> – Group Chief Executive: 35% of salary, reducing to 30% in equal annual instalments over three years from 2019 – Other Executive Directors: up to 25% of salary 	
Annual bonus	Quantum of award	The maximum bonus opportunity available is: <ul style="list-style-type: none"> – Group Chief Executive: 200% of salary – Other Executive Directors: 150% of salary
	Performance metrics	The performance measures which apply to bonus awards are split: <ul style="list-style-type: none"> – 75% subject to normalised profit and free cash flow targets – 25% subject to non-financial targets
	Deferral requirement	A proportion of the bonus payment is subject to mandatory deferral into shares for one year from award: <ul style="list-style-type: none"> – 25% of the bonus earned up to 125% of salary – 50% of the bonus earned between 125% and 150% of salary – 75% of the bonus earned above 150% of salary (applicable to the Group Chief Executive only)

Element		Policy
Long-Term Incentive Plan ('LTIP')	Quantum of award	LTIP awards can be granted each year in value: <ul style="list-style-type: none"> – Group Chief Executive: up to 200% of salary – Other Executive Directors: up to 150% of salary in normal circumstances (up to 200% of salary in exceptional circumstances)
	Performance metrics	The three-year financial performance period metrics which apply to LTIP awards are based equally: <ul style="list-style-type: none"> – 1/3 earnings per share ('EPS') – 1/3 return on capital employed ('ROCE') – 1/3 total shareholder return ('TSR'), split equally between the FTSE 250 comparator group and a bespoke group of competitors
	Vesting at threshold	Achievement of threshold performance results in LTIP shares vesting: <ul style="list-style-type: none"> – EPS and TSR: 25% of award – ROCE: 0% of award
	Holding period	A compulsory two-year holding period applies (including post termination of employment) to vested LTIP shares
Other features	Underpin	The Remuneration Committee has discretion to scale back bonus awards and/or LTIP shares vesting if, as a result of the systematic failure of management to put in place and operate effective safety processes, a significant negative event occurs during the vesting period that has a material adverse impact on both the reputation of the Company and its share price
	Dividend equivalents	Dividend equivalents (in the form of additional shares or cash) are paid on deferred forfeitable shares and can be paid on vested LTIP shares both in respect of the vesting period and during the compulsory holding period
	Malus and clawback	In respect of both the annual bonus and LTIP awards: <ul style="list-style-type: none"> – Malus provisions apply prior to payments and shares vesting – Clawback provisions apply to payments made and shares vested for a two-year period (including post termination of employment) from payment or vesting
	Shareholding requirement	A minimum shareholding value requirement to be met over a five-year period from the later of 2015 (when the provision was first introduced) and the Executive's date of appointment: <ul style="list-style-type: none"> – Group Chief Executive: 200% of salary – Other Executive Directors: 150% of salary
New joiners	Service contracts	Typically, rolling service contracts with an employer notice period of 12 months will apply (unless exceptional circumstances require a longer period initially, reducing down to 12 months, in order to secure an external recruit)
	Remuneration package	The remuneration package for a new Executive Director can include: <ul style="list-style-type: none"> – Salary and benefits, including a salary allowance in lieu of a pension provision – Pro-rated participation in the annual bonus plan (unless the commencement date is after 1 September) of up to 200% of salary – Participation in the LTIP with annual award levels of up to 200% of salary (which may be pro-rated depending on the time of appointment) – Reimbursement of costs and outgoings relating to appointment – Where appropriate, 'buy-out' remuneration (in the form of cash and/or shares) on a comparable basis to arrangements being forfeited on leaving a previous employer, taking into account performance conditions and their achievement or likely achievement, the proportion of the performance period remaining and the form of the award
Termination	Good leavers	For Executives who leave due to retirement, disability, redundancy, death, sale of part of the Company that employs them, or any other reason that the Remuneration Committee determines: <ul style="list-style-type: none"> – Salary, pensions and benefits (including untaken annual leave) paid through to date of termination – Bonus eligibility for year of termination – Deferred bonus shares vest on termination – LTIP awards vest on termination or on normal vesting date, as determined by the Remuneration Committee, subject to satisfaction of performance conditions at vesting and normally pro-rated to time
	Other leavers	For Executives who leave for any other reason: <ul style="list-style-type: none"> – Salary, pension and benefits (including untaken annual leave) paid through to date of termination – No eligibility for bonus in year of termination – Deferred bonus shares and unvested LTIP awards lapse on termination

Annual Report on Remuneration

This Annual Report on Remuneration describes how the Directors' Remuneration Policy ('Policy') was implemented in the financial year to 31 December 2018 and how it will be implemented in the financial year commenced 1 January 2019. The relevant sections of this report have been audited, as required by the Regulations.

1. Remuneration information relevant from 2017 (as previously reported)

(a) Chris Davies: appointment as Group Finance Director on 1 June 2017

Chris Davies joined the Company on 2 May, was appointed an Executive Director on 10 May and became Group Finance Director on 1 June 2017. On appointment, he was granted two Recruitment Incentive Awards ('RIA') under the Long-Term Incentive Plan ('LTIP') in recognition of certain incentives he forfeited on leaving his previous employer. The first RIA, which had a one-year term but subject to the same performance conditions as applied to the three-year LTIP awards granted to Executives in 2015, vested on the first anniversary of grant (i.e. on 10 May 2018). The second RIA, which has a two-year term but is subject to the same performance conditions as apply to the three-year LTIP awards granted to Executives in 2016, is scheduled to vest on the second anniversary of grant (i.e. on 10 May 2019).

(b) Matt Ashley: appointment as President and CEO, North America on 1 September 2017

As part of a career development opportunity for him and a strengthening of the executive team for the Company, Matt Ashley relinquished his role as Group Finance Director, but retained his executive directorship, on 31 May 2017 to take up a two-year term assignment as President and CEO, North America, based in Chicago from 1 September 2017. In order to support him in this role, the Company has provided him (and his family) with a relocation assistance package for the duration of the assignment in line with normal practice for an international relocation at executive level. The following residual elements of the package, which include tax equalisation and exchange rate protection, continue to be available:

- a 10% of salary compensation allowance (to part recognise the loss of household income arising from his spouse's loss of UK employment), occasional return flights to the UK, school fees, rented unfurnished accommodation, company car, medical and travel insurance and tax return preparation assistance; and
- return costs associated with shipping and flights to the UK.

As Matt Ashley is liable to tax on these deemed relocation benefits, the amount paid to him in the year (substantially in the USA), as set out in this report under 'Relocation benefits', is the total grossed-up cost of tax amount (except in relation to the compensation allowance) estimated to be paid by the Company on his behalf. In 2018, this amounted to £434,311 (2017: £337,885, part year only, as adjusted for the actual tax paid by the Company).

Matt Ashley's relocation package will be subject to review and reduction in line with best practice by the Remuneration Committee in the event his original term assignment is extended beyond 31 August 2019.

2. Single total figure of remuneration for Executive Directors

The table below sets out the single total figure of remuneration and breakdown for each Executive Director in relation to the financial year ended 31 December 2018 with comparative figures provided for 2017.

The subsequent tables and information give more detail on how the performance outcomes have been measured with respect to the annual bonus and LTIPs in the context of value created for shareholders.

£'000	2018							Total
	Base salary	Taxable benefits ¹	Pension allowance	Annual bonus ²	LTIPs vested ³	Sub-total	Relocation benefits	
Dean Finch	630	30	221	1,135	2,187	4,203	-	4,203
Chris Davies	359	18	90	479	257	1,203	-	1,203
Matt Ashley	359	17	90	314	587	1,367	434 ⁴	1,801

£'000	2017							Total
	Base salary	Taxable benefits	Pension allowance	Annual bonus	LTIPs vested ⁵	Sub-total	Relocation benefits	
Dean Finch	615	30	215	1,169	2,196	4,225	-	4,225
Chris Davies ⁶	233	12	59	333	126	763	-	763
Matt Ashley	350	18	88	499	561	1,516	338 ⁷	1,854

¹ Taxable benefits comprise a car allowance, private medical insurance and death-in-service and life assurance cover

² The annual bonus represents the gross bonus declared and to be paid in March 2019 in connection with the performance achieved in 2018. As explained on page 85, part of the bonus will immediately be paid in cash and part will be deferred for one year in the form of forfeitable shares in the Company, subject only to continued employment

³ The LTIP values shown represent the estimated value of shares that are scheduled to vest in April and/or May 2019 arising from a five-year legacy award made to Dean Finch in 2014, a three-year award made to Messrs Finch and Ashley in 2016 and, as referred to in 1(a) above, a two-year RIA made to Chris Davies in 2017. All such awards were based on a 31 December 2018 performance period end and their values have been calculated using a share price of 392.0p, being the three-month average to 31 December 2018. The values also include, in relation to the 2016 awards to Messrs Finch and Ashley and the 2017 award to Chris Davies, the dividend equivalent of 38.125p and 26.61p per share respectively earned during the vesting period on the shares due to vest. These translate to a total dividend equivalent entitlement, to be paid in cash on vesting (as determined on grant), to Dean Finch of £125,777, to Matt Ashley of £52,051 and to Chris Davies of £16,329. The actual value of shares on vesting will be confirmed in next year's report

⁴ As explained in 1(b) above, Matt Ashley continues to receive an international relocation assistance package to support him (and his family) in his role as President and CEO, North America, based in Chicago, within the terms of his two-year assignment which commenced on 1 September 2017. As he is liable to tax on these deemed relocation benefits, the amount shown as paid to him in the year is the total grossed-up cost of tax amount (except in relation to the compensation allowance) estimated to be paid by the Company on his behalf. Additionally, in respect of the relocation benefits paid to him in the USA during the year, the total amount shown includes the converted value of such benefits based on an exchange rate of \$1.3:£1, being the average rate for 2018. The actual grossed-up cost of tax amount paid by the Company in 2018 will be confirmed in next year's report

⁵ Since last year's LTIP values of vested shares (which included dividend equivalent payments to be made on vesting) were estimated, the figures shown for 2017 in this year's report have been adjusted to reflect the actual vesting date values on 5 March 2018 for Messrs Finch and Ashley for the three-year LTIP (share price of 378.4p), 10 May 2018 for Chris Davies' one-year RIA (share price of 397.6p) and 23 May 2018 for Dean Finch's five-year LTIP (share price of 421.0p). The difference in value is an increase for each Director as follows: £158,005 for Dean Finch, £14,289 for Chris Davies and £20,036 for Matt Ashley

⁶ The 2017 remuneration for Chris Davies is shown in respect of his period of service during that year (i.e. from 10 May)

⁷ Since last year's total grossed-up cost of tax amount paid by the Company in relation to Matt Ashley's relocation assistance package was estimated, the 2017 amount and total comparative figure shown have been adjusted by £42,031 to reflect the actual amount paid by the Company for the year

(a) Base salary

As explained in last year's report, the Committee determined that for 2018 the base salaries for each of the Executive Directors would be increased by 2.5%, which was broadly in line with the increase for the UK general workforce. This reflected the excellent financial and operating performance delivered by Dean Finch and supported by his Executives. Accordingly, the base salaries set by the Committee for 2018 were £630,375 for Dean Finch and £358,750 for both Chris Davies and Matt Ashley.

(b) Pensions

In lieu of a pension provision, the Executive Directors receive a pension allowance (gross) which does not qualify as salary or for any other benefit or entitlement. Until 31 December 2018, the Group Chief Executive received an annual allowance of 35% of salary and each of the other two Executive Directors an allowance of 25% of salary.

Under the new Policy approved at the 2018 AGM, and as volunteered by him, Dean Finch's pension allowance will be reduced from 35% to 30% of salary in three equal annual instalments commencing in 2019. Benefits under his previous unfunded pension arrangement ceased to accrue with effect from 5 June 2016.

(c) Annual bonus

A summary of the 2018 performance-related bonus plan for the Executive Directors is set out below:

Group Chief Executive:

– Maximum opportunity	– 200% of salary
– Target weighting	– 75% financial
	– 25% non-financial (including 18% safety and 7% business development)
– Deferred element	– 25% of bonus earned up to 125% of salary
	– 50% of bonus earned between 125 – 150% of salary
	– 75% of bonus earned between 150 – 200% of salary

Other Executive Directors:

– Maximum opportunity	– 150% of salary
– Target weighting	– 75% financial
	– 25% non-financial (including 18% safety and 7% business development)
– Deferred element	– 25% of bonus earned up to 125% of salary
	– 50% of bonus earned between 125 – 150% of salary

The Committee has full discretion in the payment of annual bonuses. It is a pre-condition to the award of any:

- bonus, that the Committee, in consultation with the Chair of the Safety & Environment Committee, has determined that a significant negative event has not occurred that has had a material adverse impact on both the reputation of the Company and its share price as a result of the systematic failure of management to put in place and operate effective safety processes; and
- financial element of the bonus, that the Group must have achieved at least the threshold level of normalised PBT for the year.

The Committee has reviewed performance against both the financial and non-financial targets attached to the 2018 bonus plan and, in addition, made an assessment of the Group's overall performance in the year.

2018 bonus structure and performance conditions

The following table sets out the structure and performance conditions which attached to the 2018 bonus plan.

Structure	Group Chief Executive (% of base salary)	Other Executive Directors (% of base salary)	Performance conditions
Maximum bonus opportunity	200%	150%	Proportion of bonus subject to compulsory deferral into Company shares for one year from award
Bonus, potential at 95% of budgeted normalised PBT/EBIT	0%	0%	Awarded on achieving threshold level
On-target bonus potential at 100% of budgeted normalised PBT/EBIT	50%	37.5%	Awarded on achieving budget
Stretch bonus for 105% of budgeted normalised PBT/EBIT	100%	75%	Awarded on achieving a stretch target of 105% of normalised PBT/EBIT
Bonus potential at 90% of budgeted free cash flow	0%	0%	Awarded on achieving threshold level
On-target bonus potential at 100% of budgeted free cash flow	25%	18.75%	Awarded on achieving budget
Stretch bonus potential at 110% of budgeted free cash flow	50%	37.5%	Awarded on achieving a stretch target of 110% of budgeted free cash flow
Non-financial targets (underpinned by achievement of 95% of budgeted normalised PBT/EBIT)	50%	37.5%	Awarded on meeting key strategic objectives tailored to each Executive Director's responsibilities

Note

For Dean Finch and Chris Davies, their financial targets are all Group based, including normalised PBT. However, for Matt Ashley, given his current role and responsibilities, his profit target is split 25% Group normalised PBT and 75% North America normalised EBIT and his free cash flow is Group based. This is reflected in the table below.

2018 bonus targets, outturns and awards

The following table sets out the targets, performance outturns and awards in respect of the 2018 bonus plan. No discretion was applied by the Committee in determining the awards.

Measure	Weighting	Threshold	Target	Maximum	Actual	Bonus value achievable between Threshold and Maximum (% of salary)			Actual bonus value achieved (% of salary and/or £'000)		
						Dean Finch	Chris Davies	Matt Ashley	Dean Finch	Chris Davies	Matt Ashley
Financial targets	75%										
Group normalised PBT		£194.1m	£204.3m ¹	£214.6m	£220.0m	0-100%	0-75%	0-18.8%	100.0%	75.0%	18.8%
North America normalised EBIT		\$129.8m	\$136.6m ²	\$143.4m	\$130.1m ³	–	–	0-56.2%	–	–	1.1%
Group free cash flow		£111.5m	£123.9m ⁴	£136.3m	£198.6m	0-50%	0-37.5%	0-37.5%	50.0%	37.5%	37.5%
Non-financial targets⁵	25%					0-50%	0-37.5%	0-37.5%	30.0%	21.0%	30.0%
Total bonus awarded									180.0%	133.5%	87.4%
									£1,135	£479	£314
To be paid in cash									113.8%	98.0%	65.4%
									£717	£352	£235
To be deferred in shares									66.2%	35.5%	22.0%
									£418	£127	£79

¹ The Group normalised PBT target was set at £206.3m, due to recognition having been given to the underlying normalised PBT of £190m in 2017 (i.e. net of £10.0m of non-recurring items). This was adjusted to £204.3m to reflect foreign exchange rate movements and growth capital profit

² The North America normalised EBIT target was set at \$133.7m. This was adjusted to \$136.6m to reflect foreign exchange rate movements and growth capital profit

³ An internal management charge of \$0.7m reduces the actual North America normalised EBIT to an external reported figure of \$129.4m

⁴ The Group free cash flow target was set at £125.6m. This was adjusted to £123.9m to reflect foreign exchange rate movements and growth capital profit

⁵ Details of the non-financial targets, and the corresponding performance outturns for each of the Executive Directors, are set out in the summary table overleaf

The cash bonus will be paid, and the deferred bonus award granted, in the form of forfeitable shares in the Company under the rules of the Executive Deferred Bonus Plan ('EDBP'), in March 2019. The forfeitable shares:

- will be calculated based on the Company's average share price for the five business days immediately preceding the date of grant;
- will be held in the Company's Employee Benefit Trust where the beneficial interest is held by, and dividends arising on them are paid to, the Executive Director;
- are not subject to any performance condition and will vest on the first anniversary of grant, subject to continued employment or, in the absence of the same, good leaver status being confirmed under the EDBP; and
- are subject to malus and clawback for a two-year period from the date of grant, including post termination of employment.

Annual Report on Remuneration continued

Summary of non-financial bonus targets and corresponding performance outturns for 2018

As set out in the table below, Dean Finch and Chris Davies have been judged against a common set of Group finance and safety objectives, and individual business development objectives. Matt Ashley has been judged against a mixed set of Group and North America based finance and safety objectives, and individual business development objectives. In total, these represent a 25% target weighting of the annual bonus opportunity for each Director. Further information on the Group's safety performance can be found in the Safety & Environment Committee Report on pages 70 – 73.

Based on the below assessment against the objectives set (some of which were shared), the Committee determined that in respect of the non-financial elements of their respective bonuses, the performance of Dean Finch ('DF') warranted a 30% payout of a 50% of salary maximum opportunity, and Chris Davies ('CD') and Matt Ashley ('MA') warranted a 21% and 30% payout respectively of their 37.5% of salary maximum opportunity.

Objectives	Performance
Safety: Improvement in normalised FWI (per million miles operated)	Not achieved: DF/CD Achieved in full: MA <ul style="list-style-type: none"> – DF/CD The Group's FWI per million miles operated was flat year-on-year at 0.013 and is therefore still the lowest on record, representing a 74% improvement since Driving Out Harm was launched in 2011. Despite this equal best achievement, which also needs to be seen in the context of a 3% increase in million miles operated in the year, the absence of a year-on-year improvement means that this 10% weighted bonus objective was not met. Nonetheless, the Group's relentless focus and efforts in driving FWI improvement across the business continues unabated, as reflected in the CEO-led 'Target Zero' safety campaign for no responsible fatalities launched during the year and achieved in North America for the first time in five years (see below). – MA North America achieved an excellent safety performance year, including no responsible fatalities for the first time in five years. As a result, their FWI per million miles operated improved year-on-year by an impressive 37.5% (2017: 0.012 vs. 2018: 0.007). No responsible lost time injuries, a 30% reduction in major injuries and a 6% reduction in minor injuries were also achieved in North America.
Safety: Improvement in safety systems and processes	Achieved in full: DF/CD/MA
Further improve safety culture through improved safety awareness campaigns	– The CEO-led 'Target Zero' campaign has provided fresh impetus and safety messaging to build on the Driving Out Harm platform. The simplicity of message has really been effective in underscoring individual responsibility. The campaign has been rolled out across all divisions and features prominently in our internal communications and in all new employee induction training.
Complete implementation of a single system in each business to capture all driver-related complaints and comments	– Each of our businesses now has in place a single system for collating driver-related complaints and comments. In North America, their system access has been extended to the school districts and Bus Report (iCaseworks) has now been fully implemented. The UK centralised its customer complaints management into the Customer Contact Centre mid-2018 with a single team now responsible for analysis and reporting. The UK will move to iCaseworks, as will ALSA, during the first half of 2019.
Continued roll-out of Lytx DriveCam (the incident alert and driver monitoring system provided by an on-board camera) and Master Driver programme consistent with our 2020 plan	<ul style="list-style-type: none"> – Over 10,000 more vehicles have been fitted with Lytx DriveCam during the year. In total, over 2,400 vehicles have now been fitted in the UK, 15,000 in North America and some 1,000 in Spain. In the UK (where coaching effectiveness has improved by 16% and poor driver behaviour has reduced by 23%), the fit-out will be completed in 2019. In North America (where, at the 35 CSCs that DriveCam has been installed for more than a year, the average risk score has improved by 58% and coachable events per event recorder by 66%), the fit-out will be completed by 2020. – Our Master Driver programme continues to gain strength aligned with the 2020 plan: there are now 531 Master Drivers in the UK, 105 in Spain, 177 in Morocco and 114 in Bahrain. In North America, work on the Master Driver programme is being linked to enhanced driver evaluation and will be further developed in 2019.
Progress implementation of standard operating procedures in maintenance	– Significant progress has been made in each division with the implementation of standard operating procedures in line with our World Class Maintenance concept. Seven Global Maintenance Standards have now been introduced in all territories.
Improve management of speeding and distracted driving behaviours	<ul style="list-style-type: none"> – Continuous speed monitoring technology is in place in all divisions and, whilst the technology is still being refined, significant reductions in speeding events have been achieved. Monitoring of speeding and managing events is now a matter of day-to-day routine for our local General Managers. GPS has been fitted to 97% (2,388) of the vehicles in Spain (where automated speed monitoring of 92% of ALSA drivers is now possible). In North America, speed monitored occurrences are 25.4% lower than in December 2017. – In UK bus and North America school bus we are currently trialling systems which control the speed of the vehicle to see whether this has the potential to prevent speeding. In North America and the UK, we launched an awareness campaign to reduce violations of our mobile device policy and enforced a zero-tolerance approach to all such violations. <p>Matt Ashley has shown very strong safety leadership in the business in 2018, which has supported the Group's performance improvements as explained above. As well as personally championing the Target Zero campaign in North America, he has promoted targeted safety incentives, initiatives and investments in additional resources and enhanced safety systems and processes across the business in the region. This has included the roll-out and introduction of digital technology, such as Lytx DriveCam, speed reporting and management, driver oversight and risk profiling tools, all of which will help improve safety and drive down costs. The financial benefits, as well as the human ones, are already beginning to come through in North America.</p>

Objectives	Performance
Business development:	Achieved in full: DF Achieved in part: CD/MA
Deliver strong growth in North America through continued acquisition strategy and tackling profitability issues in the on going business	<ul style="list-style-type: none"> – DF/MA North America grew revenue by 8.0% in constant currency in 2018 (largely driven by acquisitions offsetting the adverse impact of bad weather in Q1 and Q4) and added \$7.8m in operating profit in a tough year. A targeted programme of profit protection measures helped to offset the pressures of higher driver wages (an area of increasing focus in 2019) and maintenance costs, where increased investment has driven a much better operating performance. Details of the seven acquisitions made in the year can be found in the North America business review on pages 25 – 27.
Drive faster passenger and revenue growth, ensuring we exploit modal and adjacent sales opportunities from our business units	<ul style="list-style-type: none"> – DF/MA We drove passenger and revenue growth in the year with Group revenue increasing by 6.9% in constant currency (5.6% reported) to £2.45bn underpinned by growth in each of North America, ALSA and the UK. In North America, organic performance was boosted by strong delivery from our recently acquired businesses. In the UK, revenue finished above prior year due to core passenger growth, the Stewarts Coach acquisition and the securing of the Jaguar Land Rover contract. In ALSA, revenue was up €84.9m on prior year with growth in regional, urban and long haul, and acquisitions making a strong contribution. Adjacencies were also developed in Morocco with a network increase in Tangiers, growth in Marrakech and Khourigba and the winning of the €1bn (lifetime revenue) joint venture contract in Rabat.
Build on our 2017 claims defensibility work to better manage risk across the business	<ul style="list-style-type: none"> – DF/MA We have continued to hold monthly updates on the claims defensibility programme with our primary focus again being on North America where we have traditionally had the biggest risks. We have made significant progress. This is reflected in the average cost per incident being 22% lower than in 2017, the estimated cost of our Top 10 incidents being 50% lower than in 2017 and no individual motor vehicle claim received against the Group in the year being greater than \$0.5m – an unprecedented achievement.
Effectively utilise digital and technological opportunities to both drive further productivity across the business and improve our customer centricity and ease of use	<ul style="list-style-type: none"> – DF/CD/MA We have made continued good progress in the year in utilising digital and technological opportunities to both drive further productivity across the business and improve our customer centricity and ease of use. Examples of these benefits include: <ul style="list-style-type: none"> • contactless rollout in the UK, which helps with customer centricity; • the successful launch of new on-board electronic ticketing machines in our Dundee fleet (which improves both speed and ease of use) and a performance improving UK bus App, with a UK coach App scheduled to be launched in Q1 2019 to help improve their booking system; • the development of a Motor Coach application in North America (within the Compass system) to support the booking and efficient operation of our motor coach services; and • load factor improvements in Spain and UK coach, and the acceleration of journey times in UK bus.
Improve our strategic positioning in existing and new markets so that we end 2018 stronger than when we started it	<ul style="list-style-type: none"> – DF Our strategic position in existing markets has been strengthened by our contract growth, acquisitions and focus on digital. UK coach digital revenue has been assisted by increased yield from price optimisation, third party revenue from partners and digital marketing driving website traffic. The increase in activity is putting National Express further at the forefront of our customers' mind for consideration of mode of transport. ALSA has enjoyed a strong set of digital marketing results – achieving at the same time a 38% reduction in cost for paid search. UK bus also delivered strong digital growth, up 8.6% on sales in December. – We significantly strengthened our position in key markets through acquisitions and contract wins. We completed 11 acquisitions during the year: seven in North America, three in ALSA and one in the UK. Our position in Morocco has also been strengthened with the development of the Rabat contract. We have laid the foundation for further growth in 2019 with a strong pipeline of potential deals under evaluation at the end of the year. We have continued to keep a watch on new markets and there is potential to enter new territories in 2019. – We are also strengthening our strategic positioning by: (i) the customer services work we are driving in North America where we are investing in the short-term to drive margin improvements in the long-term, and (ii) our further diversification into transit in North America and away from long haul in Spain, the latter being the reason for three targeted acquisitions completed in Spain this year, namely, Argabus, Cal Pita and BC Tours.
Improve and harmonise the accounting and control environment across the Group	<ul style="list-style-type: none"> – CD He successfully introduced the challenging new accounting standards, IFRS 9, 15 and 16, across the Group in a consistent and coherent manner, particularly leading on the IFRS project review and minimalisation impact. On the people side, he changed the structure of the Group Finance team, splitting senior roles and changing personnel (both through internal reorganisation and external recruitment) to better align with key finance streams and strengthen the overall control environment across the Group.
Complete thorough due diligence on 2018 acquisitions and carry out post integration reviews of 2017 acquisitions to ensure returns are being maximised	<ul style="list-style-type: none"> – CD He up-weighted the Group Investment Panel process to improve the level of financial due diligence ahead of 2018 acquisitions. A best practice template document for financial due diligence was developed and issued. He led the evaluation of all prior year acquisitions and presented the results to the Board demonstrating average 15% returns.

Annual Report on Remuneration continued

Objectives	Performance
Business development: (continued)	Achieved in full: DF Achieved in part: CD/MA
Improve the commercial delivery of Group finance, including reviewing the scope for shared services, upgrading talent in the team, and evolving the effectiveness of Investor Relations	<ul style="list-style-type: none"> - CD He successfully restructured Group finance and related activities within his responsibilities to better focus on business performance and accounting and control. He has reconstituted the finance leadership team across the Group and led the drive for cash delivery, creating new working capital facilities. He personally undertook more than 80 investor meetings in 2018, reinstating the profile of the Group in front of North American, Spanish and German investors, prompting one investor to rate a meeting with Chris as "amongst the top five meetings we have had with a Finance Director".
Complete an end-to-end global review of costs for IT, Legal and Risk, and embed improved governance processes	<ul style="list-style-type: none"> - CD He completed an inaugural end-to-end Group cost review of the IT function, identifying both restructuring and cost saving opportunities in North America and the UK. The Legal and Risk end-to-end reviews were started but not completed in the year due to changes in personnel, they will now be undertaken in 2019. On governance, Chris co-led the Group profit protection planning exercise in conjunction with Group Procurement.
End the year net positive on bus count through contract renewal and new contract wins with contract retentions/wins at least at hurdle rate margins	<ul style="list-style-type: none"> - MA With regard to the bid season, the Group ended net negative on bus count, partly due to our 'up-or-out' rate plan driven by the need to increase rates above consumer price inflation in many contracts to maintain profitability.
Deliver talent uplift programme to build the future capabilities of the business	<ul style="list-style-type: none"> - MA He has made progress on talent uplift during the year but there is further work to be done in 2019. A total of 74 management hires (General Manager or above/senior management) were made in the year across Transit, School Bus, Maintenance and Corporate.

(d) Long-Term Incentive Plan ('LTIP') vesting and awards**LTIP vesting in 2019**

LTIP awards granted in 2014, 2016 and 2017 to the Executive Directors are scheduled to vest in April and/or May 2019 as the respective five, three and two-year performance measurement periods relating to them ended on 31 December 2018. Details of the performance conditions attaching to the awards, and the extent to which they have been met are set out below. No discretion was applied by the Committee in determining the awards.

2014 five-year LTIP award (Dean Finch only)¹

Performance condition	Weighting	Threshold (30% vesting)	Maximum (100% vesting)	Actual	Percentage vesting
TSR vs. FTSE 250 Index	1/4	Median	Upper Quintile	Median to Upper Quintile (Rank 58 th of 210)	83.0%
TSR vs. Bespoke Index ²	1/4	Median	≥ Index + 10% p.a.	> Index + 10% p.a.	100.0%
EPS	1/2	23.3p	28.2p	32.8p	100.0%
Total vesting					95.8%

¹ This is the last of the five-year LTIP legacy awards made to Dean Finch

² Comprising three comparator companies, namely: FirstGroup plc, Stagecoach Group plc and Go-Ahead Group plc

2016 three-year LTIP awards (Dean Finch and Matt Ashley)**2017 two-year LTIP Recruitment Incentive Award (Chris Davies only)**

Performance condition	Weighting	Threshold (30% vesting)	Target (50% vesting)	Maximum (100% vesting)	Actual	Percentage vesting
TSR vs. FTSE 250 Index	1/6	Median	–	Upper Quintile	Median to Upper Quintile (Rank 66 th of 221)	77.7%
TSR vs. Bespoke Index ¹	1/6	Equal to Index	–	≥ Index + 10% p.a.	> Index + 10% p.a.	100.0%
EPS	1/3	25.6p	27.1p	29.5p	32.8p	100.0%
ROCE	1/3	9%	10%	12%	12.4%	100.0%
Total vesting						96.3%

¹ Comprising three comparator companies, namely: FirstGroup plc, Stagecoach Group plc and Go-Ahead Group plc

For TSR measures, straight-line vesting will occur between threshold and maximum levels of performance. For EPS and ROCE measures, straight-line vesting will occur between threshold and target, and between target and maximum levels of performance.

Vesting details

In relation to Dean Finch, he was granted:

- in 2014 a five-year LTIP award in the form of a nil cost option over 204,520 shares. As 95.75% of the performance conditions have been met, 195,827 of these shares are scheduled to vest on 9 April 2019; and
- in 2016 a three-year LTIP award in the form of a nil cost option over 342,641 shares. As 96.28% of the performance conditions have been met, 329,906 of these shares are scheduled to vest on 6 April 2019.

In relation to Matt Ashley, he was granted in 2016 a three-year LTIP award in the form of a nil cost option over 141,797 shares. As 96.28% of the performance conditions have been met, 136,526 of these shares are scheduled to vest on 6 April 2019.

Annual Report on Remuneration continued

In relation to Messrs Finch and Ashley and their respective 2016 three-year LTIP share vesting:

- as committed to by the Remuneration Committee at the time of grant, they will each receive a cash payment (gross) equivalent to the total dividend paid by the Company on the number of vested shares during the vesting period, amounting to £125,777 and £52,051 respectively; and
- the vested shares are subject to a compulsory two-year holding period and malus and clawback applies for two years from the date of vesting, including post termination of employment. The Executives are also entitled to receive cash dividend equivalent payments on the vested shares during the holding period while the options remain unexercised.

In relation to Chris Davies, he was granted in 2017 a two-year RIA in the form of a nil cost option over 63,735 shares. These were granted with the same performance conditions as attached to the 2016 three-year LTIP awards (as above). As 96.28% of the performance conditions have been met, 61,366 of these shares are scheduled to vest on 10 May 2019. As committed to by the Committee at the time of grant, he will also receive a cash payment (gross) equivalent to the total dividend paid by the Company on the number of vested shares during the vesting period, amounting to £16,329. The vested shares are not subject to a holding period, but malus and clawback apply.

LTIP awards made in 2018

The tables below set out details of the LTIP awards granted to the Executive Directors in 2018. Vesting will be determined according to the achievement of the performance conditions shown over the three-year financial period ending 31 December 2020.

Three-year LTIP awards

Dean Finch

Grant date	Number of shares awarded	Award type	Award amount	Face value of award ¹ £'000	Percentage vesting at threshold performance	Performance period	Performance conditions
03.04.18	325,775	Nil cost option ²	200% of salary	1,261	TSR and EPS: 30% ROCE: 0%	01.01.18 – 31.12.20	TSR, EPS and ROCE – see below

Chris Davies and Matt Ashley

Grant date	Number of shares awarded	Award type	Award amount	Face value of award ¹ £'000	Percentage vesting at threshold performance	Performance period	Performance conditions
03.04.18	139,050	Nil cost option	150% of salary	538	TSR and EPS: 30% ROCE: 0%	01.01.18 – 31.12.20	TSR, EPS and ROCE – see below

¹ The face value of the award has been calculated by multiplying the number of shares awarded by the share price at the time of grant. The relevant share price was 387.0p on 29 March 2018, this being the closing share price on the last business day preceding the date of grant. For Dean Finch, the face value represented 200% of his then annual salary and for Messrs Davies and Ashley it represented 150% of their then respective annual salaries

² A portion of the award has been granted in the form of an approved market-value Company Share Option Plan ('CSOP') option (over shares with a face value of £30,000), with an exercise price of 387.0p per share, aligned with the requirements of Schedule 4 to the Income Tax (Earnings and Pensions) Act 2003

Performance conditions attaching to three-year LTIP awards

Performance level	EPS (1/3 of award)	ROCE (1/3 of award)	TSR vs. FTSE 250 Index (1/6 of award)	TSR vs. Bespoke Index ¹ (1/6 of award)	Percentage of award vesting
Below threshold	Less than 31.5p	Below 9%	Below Median	Below Index	0%
Threshold	31.5p	9%	Median	Equal to Index	EPS and TSR: 30% ROCE: 0%
Target	33.3p	10%	–	–	EPS and ROCE (only): 50%
Maximum	36.3p or above	12% or above	Upper Quintile	≥ Index + 10% p.a.	100%

¹ Comprising three comparator companies, namely: FirstGroup plc, Stagecoach Group plc and Go-Ahead Group plc

For TSR measures, straight-line vesting will occur between threshold and maximum levels of performance. For EPS and ROCE measures, straight-line vesting will occur between threshold and target, and target and maximum levels of performance.

Vested shares will be subject to a compulsory two-year holding period and malus and clawback will apply for two years from the date of vesting, including post termination of employment. The Remuneration Committee has determined that dividend equivalents will be payable in cash on vested shares over the vesting period and during the holding period while the option remains unexercised.

Indicative vesting levels for other outstanding LTIP awards

The table below sets out the indicative vesting levels for other outstanding LTIP awards assuming their respective performance conditions had been tested through to 31 December 2018 (without making any allowance for pro rata reduction for any period of time that is less than the length of the performance period).

LTIP award year/type	EPS		ROCE		TSR vs. FTSE 250 Index		TSR vs Bespoke Index ¹		Total (max 100%)
	Weighting	Vesting	Weighting	Vesting	Weighting	Vesting	Weighting	Vesting	
2017 three-year LTIP	1/3	71.4%	1/3	100.0%	1/6	44.3%	1/6	100.0%	81.2%
2018 three-year LTIP	1/3	44.4%	1/3	100.0%	1/6	100.0%	1/6	100.0%	81.5%

¹ Comprising three comparator companies, namely: FirstGroup plc, Stagecoach plc and Go-Ahead Group plc

Executive Deferred Bonus Plan

The table below sets out the awards under the EDBP in the form of forfeitable shares in the Company:

- which vested on 8 March 2018 and related to the one-year deferred element of the bonus for the financial year ended 31 December 2016; and
- which were granted on 8 March 2018 and related to the deferred element of the bonus for the financial year ended 31 December 2017. These shares, which have a one-year deferred period, are scheduled to vest on 8 March 2019. Dividends paid by the Company on these shares during the deferred period have been passed to the Executives as per their entitlement.

Executive Director		As at 1 January 2018	Vested 8 March	Granted 8 March	Lapsed	As at 31 December 2018	Market price at date of vesting	Date of grant	Date of vesting
Dean Finch	2017	91,838	91,838	–	–	–	393.9p	08.03.17	08.03.18
	2018	–	–	119,939	–	119,939	–	08.03.18	08.03.19
Chris Davies	2018	–	–	24,708	–	24,708	–	08.03.18	08.03.19
Matt Ashley	2017	31,503	31,503	–	–	–	393.9p	08.03.17	08.03.18
	2018	–	–	37,021	–	37,021	–	08.03.18	08.03.19

Forfeitable share awards in the Company relating to the one-year deferred element of the bonus declared for the financial year ended 31 December 2018 (see page 85) will be granted to the Executive Directors in March 2019, subject to the rules of the EDBP and continued employment only, and will ordinarily vest on the first anniversary of grant. Dividends paid on these shares during the deferred period will be passed on to the Executives. These awards are subject to malus and clawback for a two-year period from the date of award, including post termination of employment.

3. Single total figure of remuneration for Non-Executive Directors

The table below sets out the single total figure of remuneration (fees) for the Non-Executive Directors who served during the year:

Non-Executive Director	2018 £'000	2017 £'000
Sir John Armitt CBE (Chairman and Nominations Committee Chair)	246	240
Jorge Cosmen (Deputy Chairman)	53	52
Joaquín Ayuso ¹	53	52
Matthew Crummack	53	52
Jane Kingston (Remuneration Committee Chair)	64	62
Mike McKeon (Audit Committee Chair)	64	62
Chris Muntwyler (Safety & Environment Committee Chair) ¹	64	62
Lee Sander (Senior Independent Director) ¹	61	59
Dr Ashley Steel	53	52

¹ A travel allowance of £4,000 is payable to overseas-based Directors for attendance at each Board meeting or other Board-related matters held outside their continent of residence. For 2018, the allowances paid were as follows: Joaquín Ayuso £4,000, Chris Muntwyler £8,000 and Lee Sander £20,000

Annual Report on Remuneration continued

With effect from 1 January 2018:

- the Committee determined that the Chairman's fee would increase by 2.5% to £246,000 p.a. to align with market median fee levels for FTSE 250 top half companies; and
- the Board determined that the Non-Executive Directors' base fee would increase by 2.5% to £52,800 p.a., the Senior Independent Director's fee would increase by 13% to £8,500 p.a. and the Committee Chair fee (excluding Nominations) would increase by 10% to £11,000 p.a. These changes were made to ensure that the fees payable reflect the role, responsibilities and market median rates for these positions.

Payments to past Directors

There were no payments made to past Directors during the year.

Payments for loss of office

There were no payments made for loss of office to any former Director during the year.

4. Statement of Directors' shareholdings

Executive Directors' interests and share ownership guidelines

In order to align the interests of the Executive Directors more closely with those of shareholders, the Executive Directors are encouraged to build up and retain a shareholding in the Company over a five-year period from 2015, or their respective date of appointment if later, as set out in the Policy on page 81. The shareholding target for the Group Chief Executive is shares to the value of 200% of salary and for the other Executive Directors is 150% of salary.

The beneficial and non-beneficial interests of the Executive Directors and their connected persons, and details of their outstanding LTIP interests, as at 31 December 2018 are shown below:

Executive Director	Shares held directly			Other share interests	
	Shareholding target (% salary)	Shareholding value at 31 December 2018 (% salary) ¹	Beneficially owned	Forfeitable shares held under the EDBP	Outstanding LTIP awards subject to performance conditions
Dean Finch	200%	222%	254,683 ²	119,939	1,222,163
Chris Davies ³	150%	29%	3,000	24,708	354,382
Matthew Ashley	150%	168%	124,278 ²	37,021	434,927

¹ The 31 December 2018 share price of 374.0p per share has been used for the purposes of this calculation and has been applied to the beneficially owned and forfeitable shares held under the EDBP in arriving at the shareholding value as at 31 December 2018

² The shares beneficially owned by Messrs Finch and Ashley include 182,283 and 75,877 shares respectively representing the net of tax LTIP vested shares which remain subject to a residual holding period which commenced on 5 March 2018 (the original date of vesting) and continues through to 5 March 2020 (the expiry of the compulsory two-year holding period, including post termination of employment)

³ Chris Davies' required shareholding level applies to the five-year period commencing from his date of appointment on 10 May 2017

The Appendix on page 99 provides more information on all outstanding LTIP awards held by the Executive Directors.

Non-Executive Directors' share interests

Non-Executive Directors are not subject to the share ownership guidelines or a specific shareholding requirement. Details of their interests in shares and those of their connected persons as at 31 December 2018, all of which are held beneficially, are shown below:

Non-Executive Director	As at 31 December 2018
Sir John Armitt CBE	6,000
Joaquín Ayuso	–
Jorge Cosmen ¹	69,237,515
Matthew Crummack	2,696
Jane Kingston	5,100
Mike McKeon	10,000
Chris Muntwyler	–
Lee Sander	1,000
Dr Ashley Steel	15,416

¹ Jorge Cosmen's holding includes shares held by European Express Enterprises Ltd which are shown on page 103 in the list of substantial shareholders in the Company

The Register of Directors' interests maintained by the Company contains full details of the Directors' holdings in shares and options over shares in the Company.

The closing price of the Company's ordinary shares at 31 December 2018 was 374.0 pence (2017: 380.9p) and the range during the year then ended was 344.6 pence to 422.2 pence per share.

Changes since year end

There have been no changes in Directors' shareholdings between 31 December 2018 and the date of this report.

5. History of CEO's pay

The table below sets out the total remuneration delivered to the Group Chief Executive over the last ten years, valued using the methodology applied to the single total figure of remuneration:

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Group Chief Executive	R Bowker ¹	D Finch	D Finch	D Finch	D Finch	D Finch	D Finch	D Finch	D Finch	D Finch
Total remuneration (£'000)	465	1,356	1,454	1,701	1,553	1,562	3,661	3,887	4,225	4,203
Annual bonus payment (as % of maximum opportunity)	0%	100%	100%	100%	95%	93%	96%	83.5%	95%	90%
LTIP vesting level achieved (as % of maximum opportunity)	n/a	n/a ²	n/a ²	32.5%	0%	0%	73.4%	80.8%	86.9%	96%

¹ R Bowker resigned on 10 July 2009

² During each of 2010 and 2011, Dean Finch did not have an entitlement to any LTIP awards with attaching performance conditions whose final year of performance ended during that year

6. Comparison of overall performance

2018 was another standout year of achievement for the Group with revenue, profits and free cash flow up significantly on 2017, beating the budgeted normalised PBT by 7%. This excellent result, underpinned by a strong and sustainable free cash flow, has merited the Board's recommended 10% increase in the full year dividend for the third year in a row.

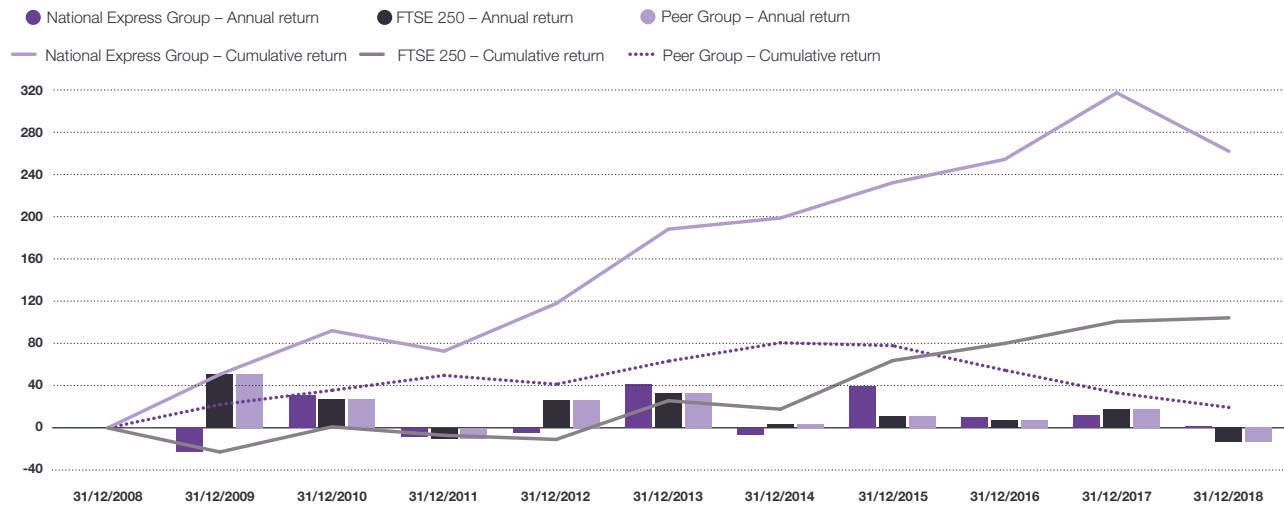
In 2018, across the Group, we carried 15 million more commercial passengers than 2017. We also saw significant development in our digital capabilities throughout the Group with our retailing, pricing and operational content all improving.

Group revenue increased by 6.9% in constant currency to £2.45bn with growth contributions coming from North America (8.0%), ALSA (11.2%) and UK coach (5.4%). Our organic performance was boosted by strong delivery from recently acquired businesses. The Group completed 11 acquisitions in the year: seven in North America, three in ALSA and one in the UK. ALSA enjoyed its best ever financial performance with EBIT growth of 11% on a reported basis and UK coach also delivered strong organic growth of 7%. Group operating profit grew 7.7% in constant currency with growth in all divisions and the operating margin increasing from 10.4% to 10.5%. Group EBITDA exceeded £400m for the first time, meaning that the loss of the entire UK rail business at its peak has now been more than offset.

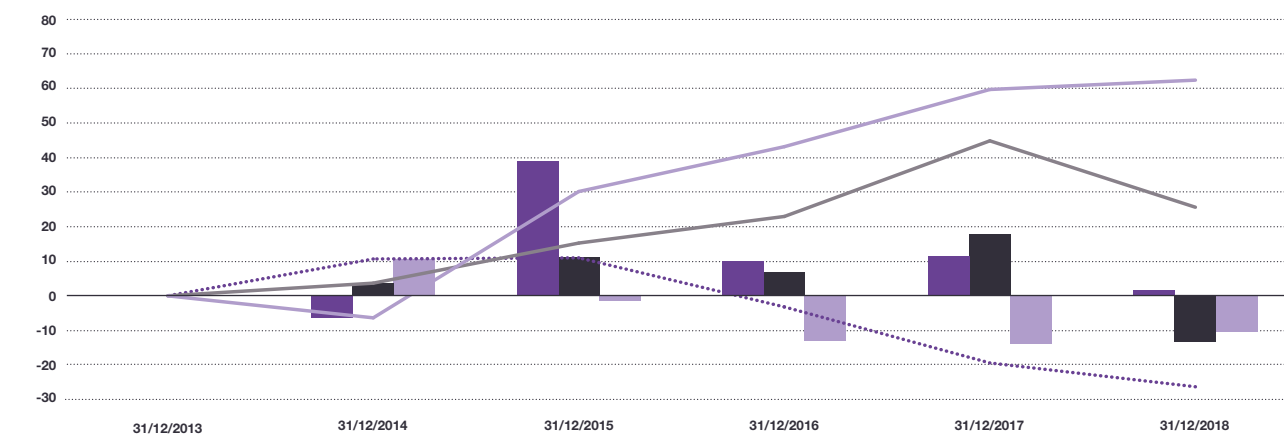
Altogether, 2018 was another year of record-breaking results and sector-leading performance.

The three graphs below show a comparison of the Company's cumulative total shareholder return (i.e. share price growth plus dividends paid) and annual return against the FTSE 250 Index and a Bespoke Index (comprising peer group companies) over a ten-year, five-year and three-year period. The FTSE 250 Index has been selected as the Company is a constituent of that Index and it is therefore considered to be the most appropriate benchmark for comparative purposes. As can be seen from the graphs, the Company has significantly outperformed both indices over all three time periods.

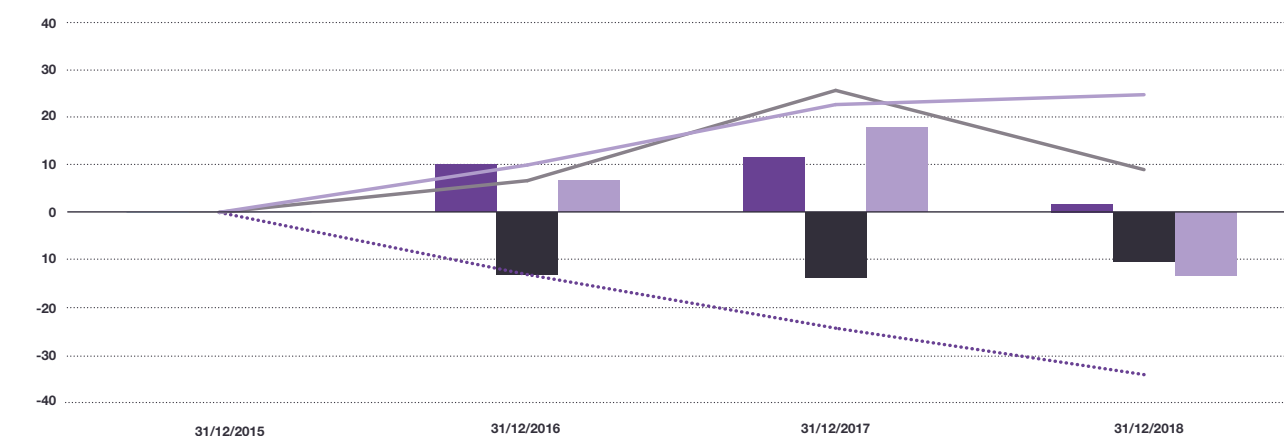
Shareholder returns: ten-year history



Shareholder returns: five-year history



Shareholder returns: three-year history



7. The context of pay in National Express Group

The following table sets out the change in certain elements of remuneration paid to the Group Chief Executive from 2017 to 2018 compared with the average percentage change of the UK employee population.

The Group Chief Executive's remuneration, disclosed in the table below, has been calculated to take into account base salary, taxable benefits and annual bonus (including any amount deferred) on the basis used for determining the single figure. The UK employee remuneration is based on the base salary, taxable benefits and annual bonus of those UK employees who received taxable benefits and bonuses. The Group uses the UK workforce as an appropriate comparator group for the average employee as this avoids complicated exchange rate adjustments that would otherwise have to be used if we included employees from the Group's overseas operations in the calculation.

Comparator persons or group	Average percentage increase/(decrease) from 2017 to 2018		
	Base salary	Taxable benefits	Performance-related bonus
Group Chief Executive	2.5%	0%	(2.9)%
UK employees	2.3%	(7.2)%	3.1%

8. Relative importance of the spend on pay

The table below sets out the total spend on pay in 2018 and 2017 compared with distributions made to shareholders:

Measure	2018	2017	Increase from
	(£m)	(£m)	2017 to 2018 (%)
Overall Group spend on pay including Directors	1,260.9	1,161.6	8.5%
Profit distributed by way of dividend	70.8	64.7	9.4%

9. Statement of implementation of current Directors' Remuneration Policy in 2019

(a) Executive Directors' base salaries

The Committee determined that the base salary for the Group Chief Executive and each of the Executive Directors would be increased by 2.8% with effect from 1 January 2019, broadly in line with the UK workforce increase of 2 – 3% over the past 12 months and projected for 2019. In doing so, the Committee recognised the strong financial and operational performance delivered by Dean Finch, supported by his executive team, in 2018 and their strong individual performance.

Accordingly, the annual base salaries of the Executive Directors in 2019 are:

Executive Director	Base salary (gross)
Dean Finch, Group Chief Executive	£648,000
Chris Davies, Group Finance Director	£368,800
Matt Ashley, President and CEO, North America	£368,800

(b) Pensions

In accordance with the Policy, and as volunteered by Dean Finch, his pension allowance will be reduced from 35% to 30% of salary in three equal annual tranches commencing in 2019. Therefore, he will receive a 33.3% of salary pension allowance in 2019. Each of the other Executive Directors will receive a 25% of salary allowance.

Annual Report on Remuneration continued

(c) Annual bonus

The annual bonus for the 2019 financial year will be structured and operate for all Executive Directors on the same basis as the arrangements in place during 2018 (as set out on page 84), save that:

- in respect of normalised FWI, which represents a 10% non-financial bonus opportunity, the present year-on-year improvement requirement per million miles operated, will move to a 'no-worse than previous year' requirement. Given the continuing growth in the business and the increased miles operated, and the FWI improvements already made, it is felt that maintaining the current record low level of FWI next year will be a sufficiently demanding challenge; and
- for Matt Ashley, in respect of his 50% profit-related bonus opportunity, the present metric split of 25% Group normalised PBT and 75% North America normalised EBIT will move to be a 100% North America normalised EBIT metric in order to fully align this bonus element with his day-to-day executive responsibilities.

When setting the bonus targets for 2019, the Committee has taken into account;

- the Board's challenging three-year strategy to 2021 and the first-year expectations within that strategy;
- the Group's approved budget and operating plan for 2019;
- stock market consensus for 2019;
- the non-recurring items included in the 2018 results which will need replacing in 2019;
- increased pricing pressures and competition in the UK, Spain and North America; and
- the focus of responsibilities of the Executive Directors.

Targets will be set on a basis consistent with accounting measures (i.e. without reference to exceptional items).

The Committee will set calibrated targets for the bonus measures and intends to disclose actual performance against these in next year's Annual Remuneration Report. As a matter of commercial sensitivity, the Committee has decided not to disclose bonus performance targets in advance although, given its strategic importance to the Group, 18% (2018: 18%) of the 25% non-financial bonus opportunity will continue to be based on safety objectives: 10% on normalised FWI (as above) and 8% on improving safety systems and processes (as current).

(d) Long-Term Incentive Plan awards

LTIP awards in 2019 are proposed to be granted in line with the normal annual award levels contained in the Policy. Accordingly, awards with attaching performance conditions will be made to the value of 200% of salary to the Group Chief Executive and 150% of salary to the other Executive Directors.

The performance condition metrics, weightings and vesting levels for the 2019 awards will be as set out in the table below. The EPS and ROCE targets have been set with reference to their 2018 outturns, as restated for IFRS 16, and remain stretching taking into consideration the principal operating and external risks facing the business over the next three years as highlighted on page 40.

Performance condition	Weighting	Threshold (25% vesting EPS and TSR, 0% vesting ROCE)	Target (50% vesting)	Maximum (100% vesting)
TSR vs. FTSE 250 Index	1/6	Median	–	Upper Quintile
TSR vs. Bespoke Index ¹	1/6	Equal to Index	–	≥ Index + 10% p.a.
EPS	1/3	35.3p	37.4p	39.0p
ROCE	1/3	8%	9%	11%

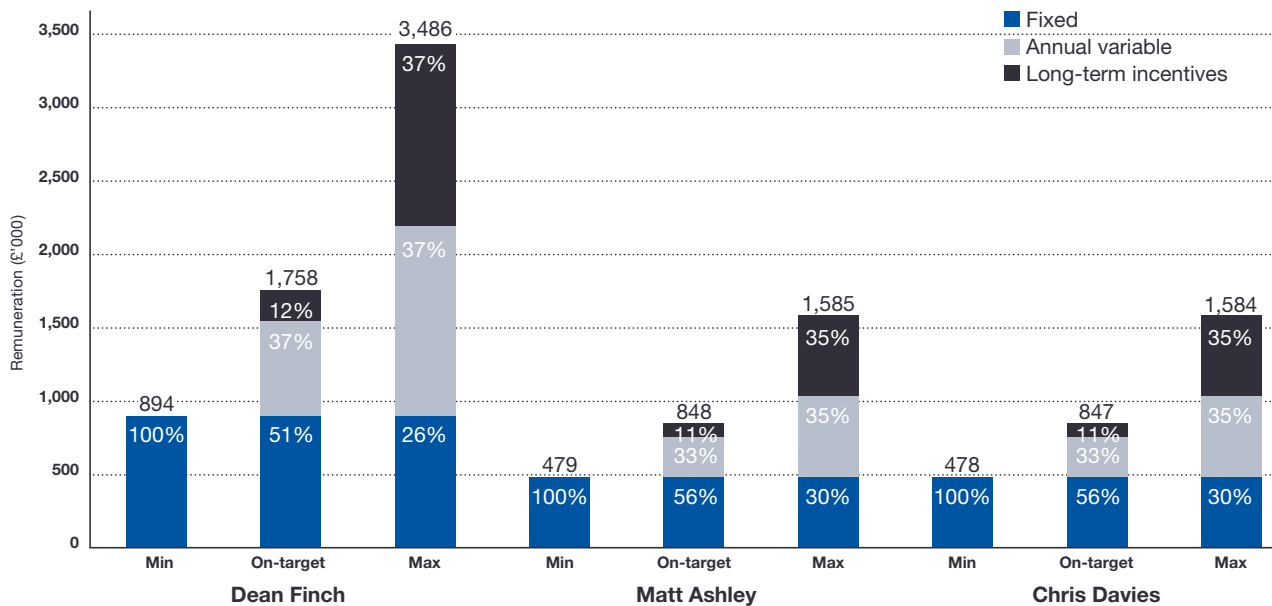
¹ Comprising three comparator companies, namely: FirstGroup plc, Stagecoach Group plc and Go-Ahead Group plc

Performance for each element will be measured over the three-year financial period ending 31 December 2021; vesting shares will be subject to a compulsory two-year holding period post vesting; and malus and clawback will apply for two years from the date of vesting, including post termination of employment. Dividend equivalent entitlements will attach to any vested shares over the vesting period and during the holding period while the option remains unexercised.

For TSR measures, straight-line vesting will occur between threshold and maximum levels of performance. For EPS and ROCE measures, straight-line vesting will occur between threshold and target, and target and maximum levels of performance.

10. Total remuneration opportunity at various levels of performance

Our aim is to ensure that superior awards are only paid for exceptional performance, with a substantial proportion of the Executive Directors' remuneration payable in the form of variable pay. The charts below illustrate the remuneration opportunity provided to each Executive Director at different levels of performance for 2019.



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

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

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

- Salaries are those set as at 1 January 2019
- Benefits are those paid in 2018 (but excludes relocation costs for Matt Ashley)
- LTIP awards are granted at the normal annual level under the Policy
- Minimum performance level assumes fixed pay only and no variable payments
- On-target performance level assumes performance in line with the Company's expectations, resulting in threshold LTIP vesting and 50% of maximum annual bonus payout. While the bonus plan has targets for threshold, on-target and maximum, the LTIP only has targets for threshold and maximum for some metrics. The value shown above for the On-target level includes the values for On-target bonus and threshold LTIP performance
- Maximum performance level assumes an outstanding level of performance (i.e. maximum annual bonus and full LTIP vesting)
- Share price appreciation is ignored.

Annual Report on Remuneration continued

11. Non-Executive Directors' fees

With effect from 1 January 2019, and to ensure that the annual fees paid reflect the current roles, responsibilities and market median rates for the positions held, the Committee has determined for the Chairman and the Board has determined for the other Non-Executive Directors that:

- the Chairman's fee (all inclusive) would be increased by 2.8%* or £7,000 p.a.;
- the Non-Executive Directors' base fee would be increased by 2.8%* or £1,500 p.a.;
- a Committee Chair's fee would remain unchanged; and
- the Senior Independent Director's fee would be increased by £1,500 p.a.

* The same level of increase as awarded to the Executive Directors in respect to their base salary for 2019 (see above)

Accordingly, the annual fees of the Chairman and Non-Executive Directors in 2019 are:

Role	Fees (gross)
Chairman (including as Chair of the Nominations Committee)	£253,000
Non-Executive Director (base fee)	£54,300
Committee Chair (excluding Nominations Committee)	£11,000
Senior Independent Director	£10,000

In addition, a travel allowance of £4,000 will continue to be payable to those overseas-based Directors for each Board meeting or other Board-related matters they attend outside their continent of residence.

12. Historical results of voting on the Annual Report on Remuneration and the Directors' Remuneration Policy

The votes cast on the resolution seeking approval of the Annual Report on Remuneration at the 2018 AGM were as follows:

Resolution	% of votes For	% of votes Against	Number of votes withheld ¹
To approve the Annual Report on Remuneration for the year ended 31 December 2017 (advisory vote only)	94.7	5.3	1,401,575

The votes cast on the resolution seeking approval of the Directors' Remuneration Policy at the 2018 AGM were as follows:

Resolution	% of votes For	% of votes Against	Number of votes withheld ¹
To approve the Directors' Remuneration Policy (binding vote)	95.7	4.3	86,207

¹ A vote withheld is not a vote at law and is not counted in the calculation of votes For or Against a resolution

13. Retained advisers to the Committee: PricewaterhouseCoopers ('PwC')

During the year, the Committee received remuneration and governance advice from PwC, its external remuneration consultants. Apart from some input received on benchmarking roles below Board level for pay review purposes, and advice received in relation to tax, internal audit support and deal delivery, PwC has no other connection with the Group. PwC has voluntarily signed up to the Remuneration Consultants Group Code of Conduct. The Committee is satisfied that the advice it receives from PwC is objective and independent. For the financial year under review, PwC received fees of £66,801 in connection with its work for the Committee.

14. Dilution

The Company has permitted new share dilution authorities reserved to it under the rules of its 2015 LTIP as previously approved by shareholders, which are in line with the Investment Association's guidelines. However, given that the Company's funding strategy has been and continues to be to satisfy all outstanding share incentive awards granted under that plan (and its other incentive plans) through the delivery of market purchased shares held in the Company's Employee Benefit Trust, as opposed to the issue and allotment of new shares, the Company has not to date used up any of its permitted dilution authority under the 2015 LTIP.

Appendix

The table below sets out the share awards granted to Executive Directors under the rules of the Company's 2005 LTIP, as amended (through to 2014) and the 2015 LTIP (since 2015) which either vested during 2018 or remain outstanding as at 31 December 2018:

LTIP award year/type	Date of grant	Awards held at 01.01.18	During 2018			Awards held at 31.12.18	Scheduled vesting/ Exercise date ¹	Latest exercise date ¹
			Granted	Exercised	Lapsed			
Dean Finch								
LTIP 3-year	11.06.15	356,303	–	344,544 ²	11,759	–	05.03.18	05.03.20
LTIP 3-year (Approved CSOP) ^{5,9}	11.06.15	9,526	–	–	9,526	–	05.03.18	05.03.20
LTIP 3-year	06.04.16	342,641	–	–	–	342,641	06.04.19	06.04.21
LTIP 3-year	18.04.17	341,476	–	–	–	341,476	18.04.20	18.04.22
LTIP 3-year	03.04.18	–	325,775	–	–	325,775	03.04.21	03.04.23
LTIP 3-year (Approved CSOP) ^{6,9}	03.04.18	–	7,751	–	–	7,751	03.04.21	03.04.23
LTIP 5-year	23.05.13	257,973	–	189,222 ³	68,751	–	23.05.18	23.05.19
LTIP 5-year	09.04.14	204,520	–	–	–	204,520	09.04.19	09.04.20
Total		1,512,439	333,526	533,766	90,036	1,222,163		
Chris Davies								
LTIP 1-year (RIA)	10.05.17	31,867	–	30,814 ⁴	1,053	–	10.05.18	10.05.20
LTIP 2-year (RIA)	10.05.17	63,735	–	–	–	63,735	10.05.19	10.05.21
LTIP 3-year	10.05.17	143,403	–	–	–	143,403	10.05.20	10.05.22
LTIP 3-year (Approved CSOP) ^{7,9}	10.05.17	8,194	–	–	–	8,194	18.04.20	18.04.22
LTIP 3-year	03.04.18	–	139,050	–	–	139,050	03.04.21	03.04.23
Total		247,199	139,050	30,814	1,053	354,382		
Matt Ashley								
LTIP 3-year	11.06.15	142,902	–	138,186 ²	4,716	–	05.03.18	05.03.20
LTIP 3-year	06.04.16	141,797	–	–	–	141,797	06.04.19	06.04.21
LTIP 3-year	18.04.17	145,752	–	–	–	145,752	18.04.20	18.04.22
LTIP 3-year (Approved CSOP) ^{8,9}	18.04.17	8,328	–	–	–	8,328	18.04.20	17.04.22
LTIP 3-year	03.04.18	–	139,050	–	–	139,050	03.04.21	03.04.23
Total		438,779	139,050	138,186	4,716	434,927		

¹ Awards vesting under the 2015 LTIP are subject to a two-year compulsory holding and exercise period which run concurrently from the date of vesting

² Share price on exercise was 390.34 pence

³ Share price on exercise was 420.88 pence

⁴ Share price on exercise was 407.78 pence

⁵ Exercise price is 314.9 pence per share

⁶ Exercise price is 387.0 pence per share

⁷ Exercise price is 366.1 pence per share

⁸ Exercise price is 360.2 pence per share

⁹ All LTIP awards are granted in the form of nil cost options save for LTIP approved CSOP awards which are granted as a market value share option with an exercise price per share as set out above. LTIP approved CSOP awards are aligned with the requirements of Schedule 4 to the Income Tax (Earnings and Pensions) Act 2003 and can be exercised by way of set-off against any shares vesting under the corresponding LTIP award

By Order of the Board



Jane Kingston

Remuneration Committee Chair

28 February 2019

Relations with Shareholders

Investor relations programme 2018

JAN

- Consultation with major shareholders on proposed changes to the Company's Directors' Remuneration Policy

FEB

- Chairman meeting with Cosmen family (largest shareholder)
- Consultation with major shareholders on proposed changes to the Company's Directors' Remuneration Policy

MAR

- 2017 full year results announcement and presentation to analysts and investors (London)
- Investor roadshow in respect of full year results (London and Edinburgh)
- Chairman meetings with investors about strategy, corporate governance and the AGM

APR

- Non-deal US investor roadshow (New York and Boston)

MAY

- Q1 Trading Update and conference call with analysts and investors
- AGM (Birmingham)

JUN

- Investor meetings at investor conference (London)
- Investor meetings

JUL

- 2018 half year results announcement and presentation to analysts and investors (London)

AUG

- Investor meetings

SEP

- Investor roadshow in respect of half year results (London)
- Investor meetings at investor conferences (London)
- Non-deal US investor roadshow (Boston)

OCT

- Investor meetings at investor conference (London)
- Investor meetings
- Q3 Trading Update and conference call with analysts and investors

NOV

- Non-deal specific investor roadshows (London)

DEC

- Investor meetings

Investor engagement

The Board is committed to maintaining an open dialogue with the Company's equity institutional and debt investors and individual shareholders and recognises the importance of those relationships in the governance process. This engagement allows the Board to better understand their views and ensure they are provided with timely and appropriate information on the Group's strategy, performance, objectives, financing and other key developments.

The Chairman, supported by the Executive Directors and the investor relations team, has overall responsibility for ensuring that we listen to and effectively communicate with our shareholders. The Board is kept fully informed of the views and concerns of major shareholders and the views and information needs of institutional and major investors.

The investor relations section of the Company's website, www.nationalexpressgroup.com/investors, includes all RNS announcements, share price information, annual and interim results statements, Annual General Meeting ('AGM') notices and other similar corporate communication and shareholder materials available for download.

Institutional investors

The Company operates a comprehensive engagement programme, aligned to its financial reporting calendar and other key events, for institutional investors and research analysts, providing the opportunity for current and potential investors to meet with executive and operational management.

The Chairman, Group Chief Executive and Group Finance Director held several meetings with existing and prospective institutional shareholders during the year and gave presentations to them following the full and half year results. These are designed to provide more information on the Group's strategy, financial and operational performance, strengths and capabilities and future plans. They have also met and given presentations to research analysts and investment banks' sales teams.



The Board is committed to maintaining an open dialogue with the Company's equity institutional and debt investors and individual shareholders and recognises the importance of those relationships in the governance process.

The Senior Independent Director and other Non-Executive Directors have made themselves available for meetings where requested by shareholders.

There were 11 analysts who published equity research notes covering the Company during the year. Details of the firms that currently follow the Company appear on the investor section of our website. As anticipated, with the introduction of MiFID II, analyst coverage has reduced during the year, with nine analysts currently providing coverage. It is anticipated that this level could fall further over the coming year. As a result, the Company is engaging more frequently with investment banks' sales teams and attending investor conferences to ensure that shareholders and investors continue to receive timely updates and information on the Group's strategy, financial and operational performance. In addition, the Company has hosted a few non-deal roadshows in the past year, including meeting with investors in the USA for the first time in a number of years.

The Company's brokers and investor relations advisers provide regular confidential feedback on investor views, perceptions and opinions and these are shared with the Board. During the year, the Board also received analysts' briefings and feedback from advisers on shareholder and market perception of the Group's performance and strategy.

Details of the Company's substantial shareholders are set in the Directors' Report on page 103.

Debt investors

The Group Finance Director and Group Treasurer have met debt investors in the UK during the year to discuss various topics such as the full and half year results, future funding requirements, subsidiary security and guarantees and credit rating movements. The treasury team also maintains regular dialogue with the Group's key relationship banks and other potential lenders.

Further information on our debt investors can be found in the investor relations section of the Company's website.

Individual shareholders

Private shareholders, who represent 93% of the total number of shareholders on our register, are encouraged to give feedback to and communicate through the Company Secretary. The Company's website provides a direct link to Shareview (www.shareview.co.uk) which enables shareholders to view and manage their shareholder account online.

Annual General Meeting

The AGM provides all shareholders with an opportunity to meet with and ask questions of Directors regarding the business, the latest Annual Report and the matters before the meeting. Attending shareholders also receive a strategic progress update from the Chairman and a business performance review from the Group Chief Executive. The results of the AGM are published on the Company's website.

Details of the Company's 2019 AGM can be found on page 104.

Other disclosures

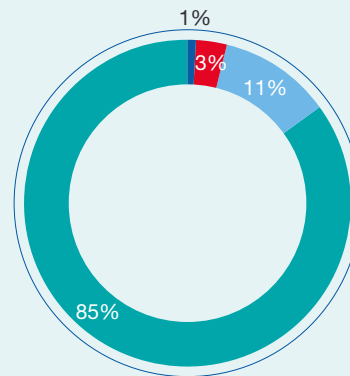
Other disclosures required by paragraph 7.2.6 of the Disclosure and Transparency Rules and the Companies Act 2006 are set out in the Directors' Report on pages 102 – 104.

The Corporate Governance Report was approved by the Board.

Jennifer Myram
Group Company Secretary
28 February 2019

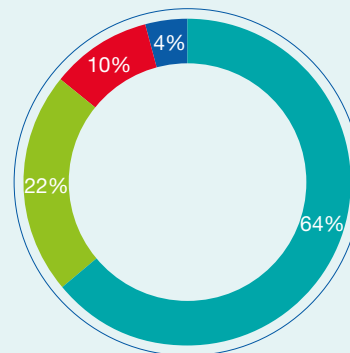
Share register analysis

BY SIZE OF HOLDING



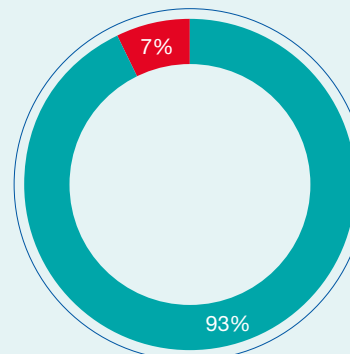
- 1,000-5,000
- 5,001-50,000
- 50,001-1,000,000
- Over 1,000,000

BY GEOGRAPHY



- UK
- Europe
- North America
- Rest of the World

BY SHAREHOLDER TYPE



- Private shareholders
- Nominee and institutional investors

Directors' Report

The Directors present their report and audited accounts for the year ended 31 December 2018. This Directors' Report and the Strategic Report, which includes the trends and factors likely to affect the future development, performance and position of the business and a description of the principal risks and uncertainties of the Group (which can be found on page 41 – 44 and is incorporated by reference), collectively comprise the management report as required under the Disclosure and Transparency Rules ('DTR').

Additional disclosures

Other information that is relevant to this report, and which is incorporated by reference, including information required in accordance with the UK Companies Act 2006 ('Act') and Listing Rule 9.8.4R, can be located as follows:

Information	Page No
Business model and likely future developments	4
Viability Statement and going concern	45
Governance	46 – 103
Financial instruments	162
Greenhouse gas emissions	200

Company status

National Express Group PLC is a public limited liability company incorporated under the laws of England and Wales. It has a premium listing on the London Stock Exchange main market for listed securities (LON:NEX) and is a constituent member of the FTSE 250 Index. The Company has branches in Spain.

Disclaimer

The purpose of this Annual Report is to provide information to the members of the Company and it has been prepared for, and only for, such members as a body, and no other persons. The Company, its Directors and employees, agents and advisers do not accept or assume responsibility to any other person to whom this document is shown or into whose hands it may come and any such responsibility or liability is expressly disclaimed.

A cautionary statement in respect of forward-looking statements contained in this Annual Report appears on the inside back cover of this document.

Results and dividends

The results for the year are set out in the financial statements on pages 114 – 199.

The Board has recommended a final dividend for the year of 10.17 pence per ordinary share (2017: 9.25p) which, together with the interim dividend of 4.69 pence per ordinary share (2017: 4.26p) paid on 21 September 2018, gives a total dividend for the year of 14.86 pence per share (2017: 13.51p). Subject to shareholder approval, the final dividend will be paid on 14 May 2019 to ordinary shareholders on the register of members at the close of business on 23 April 2019.

Events since the balance sheet date

Save in respect of the £500 million bridge-to-bond facility introduced in January 2019 (see note 36 page 178), there have been no material post balance sheet events since 31 December 2018.

Directors

The names and biographical details of the current Directors (all of whom held office throughout the year), and the Board Committees of which they are members, are set out on pages 56 – 57.

The Service Agreements of the Executive Directors and the Letters of Appointment of the Non-Executive Directors are available for inspection at the Company's registered office. Brief details of these are included in the Directors' Remuneration Policy, a copy of which is available on the Company's website at www.nationalexpressgroup.com/about-us/corporate-governance/remuneration.

Appointment and removal of Directors

The rules for the appointment and replacement of Directors are set out in the Company's Articles of Association ('Articles'), the 2016 UK Corporate Governance Code ('Code'), the Act and related legislation. The Board may appoint a Director either to fill a casual vacancy or as an addition to the Board so long as the total number of Directors does not exceed the limit prescribed in the Articles. An appointed Director must retire and seek election to office at the next Annual General Meeting ('AGM') of the Company (see below).

In addition to any power of removal conferred by the Act, the Company may by ordinary resolution remove any Director before the expiry of their period of office and may, subject to the Articles, by ordinary resolution appoint another person who is willing to act in their place.

In accordance with the requirements of the Code and the Board's policy, all the Directors will retire at the forthcoming AGM and have offered themselves for re-election. The Board is satisfied that each of the Directors standing is qualified by their skills, experience, time commitment and contribution to the Board and the long-term sustainable success of the Company.

Directors' powers

The Board manages the business of the Company under the powers set out in the Articles. These powers include the Directors' ability to issue or buy back shares. Shareholders' authority to empower the Directors to make certain market purchases of its own ordinary shares is sought at the AGM each year. The Articles can only be amended, or new Articles adopted, by a resolution passed by shareholders in general meeting by at least three quarters of the votes cast.

Directors' interests

Save as disclosed:

- in the Directors' Remuneration Report, none of the Directors, nor any person connected with them, has any interest in the share or loan capital of the Company or any of its subsidiaries; and
- in note 36 to the Consolidated Financial Statements on page 176, none of the Directors had at any time during the year ended 31 December 2018 a material interest, directly or indirectly, in any contract of significance with the Company or any subsidiary undertaking (other than the Executive Directors in relation to their Service Agreements).

Directors' conflicts of interest

The Board operates a policy to identify and manage declared actual and potential conflicts of interest which Directors (or their connected persons) may have and are obliged to avoid under their statutory duties and the Articles.

The Board considers each Director's situation and decides whether to approve any conflicts based on the overriding principle that a Director must always only be able to consider and exercise judgement to promote the success of the Company. The policy has been in place and operated effectively throughout the year.

Directors' indemnities and insurance

The Company has granted indemnities to each Director in respect of any liabilities incurred in relation to acts or omissions arising in the ordinary course of their duties, but only to the extent permitted by law. The Company also maintains appropriate Directors' and Officers' liability insurance in respect of potential legal action instigated against its Directors.

Substantial shareholders

As at 31 December 2018, the Company had been notified under DTR 5 of the following interests in its shares representing 3% or more of the voting rights in its issued share capital:

	Number of ordinary shares	Percentage of total voting rights ¹
European Express Enterprises Limited ²	66,481,891	12.99%
Newton Investment Management Limited	51,043,618	9.97%
Prudential plc	45,956,649	8.98%
Standard Life Aberdeen PLC	41,017,767	8.02%
J O Hambro Capital Management Limited	25,165,433	4.92%

¹ The total number of voting rights attaching to the issued share capital of the Company on 31 December 2018 was 511,738,648

² The holding of European Express Enterprises Ltd forms part of the holding of Jorge Cosmen (Deputy Chairman) as shown in the Directors' Remuneration Report on page 93

Other than as disclosed above, the Company received no further DTR notifications, by way of change to the above information or otherwise, during the period from 1 January to 28 February 2019, being the period from the year end through to the date on which this report has been signed. Information relating to notifications received under the DTR is publicly available to view via the regulatory information service on the Company's website.

Share capital

The Company has a single class of share capital which is divided into ordinary shares of nominal value 5 pence each all ranking pari passu. No new shares were issued during the year and as at 31 December 2018 there were 511,738,648 ordinary shares in issue and fully paid. The rights attached to the ordinary shares of the Company are defined in the Articles. Further details relating to share capital can be found in note 32 to the Consolidated financial statements on page 167.

The Company was granted authority at the 2018 AGM to make market purchases of its own shares up to 10% of its issued share capital and to allot shares within certain limits approved by shareholders. These authorities have not been used during the year and will expire at the 2019 AGM. Renewal of these authorities will be sought at the 2019 AGM.

Employee Benefit Trust

First Names (Jersey) Limited is a shareholder in the Company which acts as Trustee of the National Express Group Employee Benefit Trust ('EBT'). It is used to purchase Company shares in the market from time to time and hold them for the benefit of employees, including for satisfying outstanding awards under the Company's various share incentive plans. The EBT purchased a total of 2,025,000 shares in the market during the year for an aggregate consideration of £7.99 million (including dealing costs) and released 1,910,086 shares to satisfy vested share plan awards.

As at 31 December 2018, the EBT held 1,758,660 Company shares in trust (representing 0.34% of the issued share capital). The Trustee may vote the shares it holds at its discretion. A dividend waiver is in place from the Trustee in respect of dividends payable by the Company on certain of the shares held in the EBT.

Further details regarding the EBT, and of shares issued during the year pursuant to the Company's various share incentive plans (whose rules, where relevant, reflect the current Investment Association guidelines for permitted dilution limits), are set out in note 7 to the Consolidated Financial Statements on page 134.

Shareholder voting rights and restrictions on transfer of shares

Shareholders are entitled to attend and vote at all general meetings, where every shareholder has one vote on a show of hands and one vote for each share held on a poll.

There are no special control rights attaching to the Company's ordinary shares save that the control rights over ordinary shares held in the EBT can be directed by the Company to satisfy the vesting of outstanding awards under its various share incentive plans.

The Company is not aware of any agreements or control rights between existing shareholders that may result in restrictions on the transfer of securities or voting rights. The rights, including full details relating to voting of shareholders and any restrictions on transfer relating to the Company's ordinary shares, are set out in the Articles and in the explanatory notes to the Notice of 2019 AGM which accompanies this document. Resolutions will be proposed at the 2019 AGM to authorise the Directors to exercise all powers to allot shares, or grant rights for, or to convert any security into shares, and approve a limited disapplication of statutory pre-emption rights.

Change of control

There are several agreements that take effect, alter or terminate upon a change of control of the Company following a takeover bid.

Under the terms of the Company's revolving credit facilities, upon a change of control, the Company would have five days to enter negotiations with the lenders to alter the terms. Following ten days of negotiations, if no agreement has been reached, outstanding balances may become repayable.

Under the terms of the £1.5 billion Euro Medium Term Note ('EMTN') Programme (as updated on 3 October 2018), there is a change of control put option such that, upon a change of control event, any EMTN holder may require the Company to redeem or purchase that EMTN.

The Company entered into a private placement Note Purchase Agreement on 30 July 2012 relating to the issue by the Company of €78,500,000 4.55% Senior Notes due 16 August 2021. Under the terms of the Agreement the Company is required to offer to repay Note holders the entire unpaid principal amount and interest thereon upon a change of control.

The Group's UK bus business' operating subsidiary is party to a contract with Transport for West Midlands ('TfWM'), formerly known as Centro, governing certain aspects of such operation. The contract with TfWM contains an event of default on a change in control of the UK operating subsidiary (which would be triggered on a change in control of the Company) if such change in control is not approved by TfWM.

The Group's UK coach business operates a number of coach and bus services from or at certain UK airports and the UK coach operating subsidiary is also contracted to provide passenger transport services for certain other third parties. A number of these contracts contain rights for the counterparties to terminate them on a change of control of the relevant subsidiary company party to such contracts (certain of which would be triggered by a change in control of the Company).

The Company's various share incentive plans contain provisions that take effect on a change in control of the Company but do not entitle participants to a greater interest in the shares of the Company than created by the initial grant or award under the relevant plan.

While no one of these contracts is considered significant in the context of the Group's business as a whole, the impact on the Group if all such contracts were terminated could be significant.

There are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment or otherwise that occurs specifically because of a takeover.

Political contributions

No political donations were made during the year (2017: nil).

Equal opportunities

National Express is an equal opportunities employer and has in place an Equal Opportunities Policy. Our range of employment policies and guidelines reflect the legal and employment requirements of the territories in which we operate and safeguard the interests of employees, potential employees and other workers. We do not condone unfair treatment of any kind and offer equal opportunities in all aspects of employment and advancement (including recruitment, training, career development and promotion) regardless of race, nationality, gender, age, marital status, sexual orientation, disability, religious or political beliefs. The Company recognises it has clear obligations to give fair consideration and selection to disabled applicants and to satisfy their training and development needs during employment. Where an employee becomes disabled, the objective is to retain their services wherever possible.

Information regarding the Company's safeguarding of human rights is set out on pages 34 and 35.

Employee engagement

The Group encourages employee involvement in its affairs. Subsidiary companies produce a range of internal newsletters and circulars which keep employees abreast of developments. Senior management within the Group meet regularly to review strategic developments and management conferences are held at Group and business levels to bring senior managers together to share ideas and develop policy. Members of the Senior Management Group are also visible within the businesses and undertake a range of visits where they meet face to face with employees to gather feedback on safety and other issues. Dialogue takes place regularly with trade unions and other employee representatives on a wide range of issues.

Employee views are sought through regular employee satisfaction surveys, both within business units and across the Group. Following such surveys, the results are reviewed by the Board and senior management before being shared with employees and action plans put in place to deal with issues arising.

The Group has a structured programme to encourage innovation and reward suggestions and employees' contributions. The Board reviews other employee activities and outcomes, including the Group's independent People Value audit which to date has been conducted annually.

Further information relating to employees and employee engagement is set out in the Strategic Report on pages 33 – 35 and in the Board in Action case study on page 55.

Auditor and disclosure of information to the auditor

So far as the Directors are aware, there is no relevant audit information that has not been brought to the attention of the Company's auditor. Each Director has taken all reasonable steps to make himself or herself aware of any relevant audit information and to establish that such information was provided to the auditor.

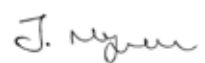
As recommended by the Audit Committee and endorsed by the Board, a resolution to re-appoint Deloitte LLP as auditor of the Company will be proposed at the 2019 AGM.

Annual General Meeting

This year's AGM will be held at 2.00pm on Thursday, 9 May 2019 in the Horton Suite at the Macdonald Burlington Hotel, Burlington Arcade, 126 New Street, Birmingham, B2 4JQ. A separate circular, comprising a letter from the Chairman, Notice of Meeting and explanatory notes on the resolutions proposed, accompanies this Annual Report. Copies of both documents can also be found on the Company's website at www.nationalexpressgroup.com.

The Directors' Report was approved by the Board on 28 February 2019.

By Order of the Board



Jennifer Myram

Group Company Secretary
National Express Group PLC
Company number 2590560

Directors' Responsibilities Statement

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ('IFRS'), as adopted by the European Union ('EU') and Article 4 of the International Accounting Standards Regulation and have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (combining United Kingdom Accounting Standards and applicable law), including FRS 101 'Reduced Disclosure Framework'. Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

In preparing the parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.


The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

We confirm that to the best of our knowledge:

- the Financial Statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

This Responsibility Statement was approved by the Board of Directors and is signed on its behalf by:



Dean Finch

Group Chief Executive



Chris Davies

Group Finance Director

28 February 2019

Independent auditor's report to the members of National Express Group PLC

Opinion

In our opinion:

- the Financial Statements of National Express Group plc (the 'Parent Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2018 and of the Group's profit for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union;
- the Parent Company Financial Statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation.

We have audited the financial statements which comprise:

- the Group Income Statement;
- the Group Statement of Comprehensive Income;
- the Group and Parent Company Balance Sheets;
- the Group and Parent Company Statements of Changes in Equity;
- the Group Statement of Cash Flows;
- the related notes 1 to 39 for the Group Financial Statements; and
- the related notes 1 to 19 for the Parent Company Financial Statements.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company Financial Statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the Financial Statements section of our report.

We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the Financial Statements in the UK, including the Financial Reporting Council's (the FRC's) Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	<p>The key audit matters that we identified in the current year were:</p> <ul style="list-style-type: none"> – Impairment of goodwill and other fixed assets; and – North American insurance and other claims provisions. <p>The key audit matters identified in the current year are consistent with the prior year.</p>
Materiality	<p>The materiality that we used for the Group financial statements in the current year was £11.0 million, which was determined on the basis of normalised profit before tax (as defined on page 114).</p> <p>Materiality represents 5% of this profit metric.</p>
Scoping	<p>The Group is organised into four operating divisions, each of which has its own sub-consolidation, plus the head office function. Audit work for these components was completed to levels of materiality between £4.4 million and £7.0 million. The components account for 100% of Group revenue, operating profit and Group net assets.</p> <ul style="list-style-type: none"> – Full scope audit work was completed on a divisional sub-consolidation basis for UK, North America, Germany and Spain (including Morocco). – Full scope audit procedures have been performed on the Parent Company financial statements. – All other parts of the Group have been subject to analytical review procedures.
Significant changes to our approach	<p>There have been no significant changes to our approach as compared to the prior year.</p>

Conclusions relating to going concern, principal risks and viability statement

Going concern

We have reviewed the directors' statement in Note 2 to the Financial Statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's and Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

We considered as part of our risk assessment the nature of the Group, its business model and related risks including where relevant the impact of Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the Directors' assessment of the Group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the directors' plans for future actions in relation to their going concern assessment.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Principal risks and viability statement

Based solely on reading the Directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the Group's and the Company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 41-44 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation on page 63 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the Directors' explanation on page 45 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to report whether the Directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of goodwill and other fixed assets**Key audit matter description**

Total goodwill, intangible assets and property, plant and equipment at 31 December 2018 were £2,852.3 million (2017: £2,601.6 million). The most significant balances relate to the Spanish and the North American divisions which are £1,274.9 million (2017: £1,187.4 million) and £1,326.2 million (2017: £1,174.4 million), respectively.

There is a risk surrounding the recoverability of these balances, as assessed annually by management as part of their impairment review, using discounted cash flows on a value in use basis.

Potential fraud risks are identified in relation to the key judgements in assessing goodwill and other fixed assets for impairment due to the potential risk of inappropriate management bias. These key judgements include the discount rate and the perpetual growth rate applied in the model and ALSA's margin improvement after the concession renewals.

The value in use models are sensitive to changes in these rates, both of which must reflect a long-term view of underlying growth in each respective economy. Estimating a value in use is inherently judgemental, and a range of assumptions can reasonably be applied in determining an appropriate discount rate and perpetual growth rate to use.

In Spain the risk in relation to the Spanish concession renewals arises due to the potential pricing impact after the renewals and the subsequent margin recovery. The key judgements are around whether management will retain the concessions and what the margin will be if it does.

The Audit Committee Report on page 66 refers to goodwill and fixed asset impairment as a key judgement considered by the Audit Committee.

Note 2 to the Financial Statements sets out the Group's accounting policy for testing goodwill and other fixed assets for impairment. The basis for the impairment reviews is outlined in Note 14 to the financial statements, including details of the pre-tax discount rate and terminal growth rate used. Note 14 to the financial statements also includes details of the extent to which the goodwill and fixed asset impairment test is sensitive to changes in the key inputs.

How the scope of our audit responded to the key audit matter

Our procedures for challenging management's methodology and assumptions focussed on the Group's interests in Spain (and Morocco) and North America and included:

- validating the integrity of the impairment models through testing of the mechanical accuracy and verifying the application of the input assumptions;
- understanding the underlying process used to determine the risk adjusted discount rates;
- assessing the appropriateness of any changes to assumptions since the prior period;
- challenging the cash flow forecasts with reference to historical forecasts, actual performance and independent evidence to support any significant expected future changes to the business;
- understanding and assessing the appropriateness of the key assumptions used in the Spanish concession renewals process and the expected margin impact in the Spanish division;
- working with our valuation specialists to benchmark the discount rates and perpetuity growth rates applied to external macro-economic and market data. This involved consideration of the impact of territory-specific risk adjustments to the discount rate and perpetuity growth rates versus the risk adjustments made to the underlying cash flows; and
- assessing the appropriateness of the disclosure included in the financial statements including the sensitivity analysis provided.

Key observations

We determined that there is currently sufficient headroom for both the Spain and Morocco division and the North America division such that we concur with management that no impairment is required.

In the interests of transparency and consistency, management has again provided detailed sensitivity disclosures, despite concluding no reasonably possible movement in a key assumption would lead to impairment.

We concluded that the assumptions applied in the impairment models, when taken in aggregate, are within our acceptable range.

North American insurance and other claims

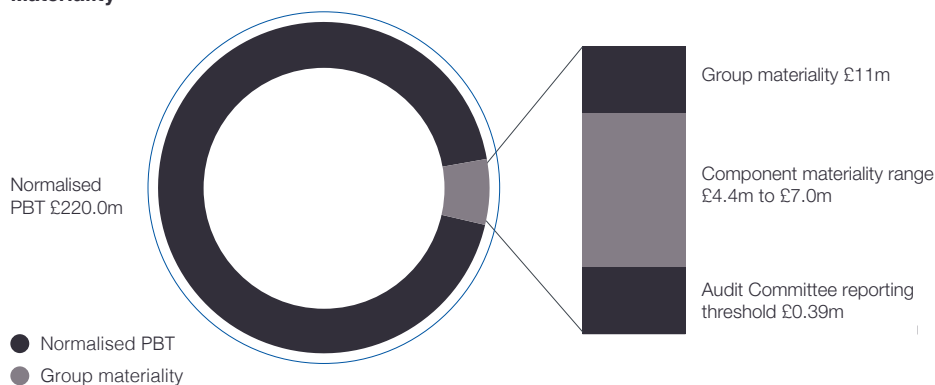
Key audit matter description	<p>The Group operates two levels of insurance, a self-covering level and an outsourced level. Of the total Group claims provision of £95.6 million at 31 December 2018 (2017: £114.1 million), £90.4 million (2017: £109.2 million) relates to the North American division. This reflects historical claims being managed by the Group, as well as provision for new claims identified in the year, including amounts arising through acquisitions in the year that have required separate fair value consideration.</p> <p>Estimation of insurance and other claims provisions, including those arising on acquisition, is highly judgemental and is based on assessment of the expected settlement of known claims together with an estimate of settlements that will be made in respect of incidents incurred but not reported at the balance sheet date.</p> <p>The measurement of the self-insured claims provision in North America uses a combination of actuarial assumptions around loss development and management judgement to ensure that the Group is appropriately provided.</p> <p>Given the level of complexity and judgement involved in making these estimations, management utilises an independent actuarial expert to calculate a range of potential outcomes for the liability relating to their large portfolio of low value claims. There is a risk of material misstatement, whether due to error or inappropriate management bias, and therefore the eventual outcome could be materially different from that estimated and provided for.</p> <p>The Audit Committee Report on page 66 refers to North American insurance and other claims provisions as a key judgement considered by the Audit Committee. This area has also been highlighted as a key accounting estimate and judgement in Note 2 to the Financial Statements. Details of the Group claims provision are given in Note 26 to the Financial Statements.</p>
How the scope of our audit responded to the key audit matter	<ul style="list-style-type: none"> – We used our actuarial specialists to challenge the assumptions inherent in the valuation produced by the Group's actuary in North America for the high-volume lower value claims, such as the loss development factors and ultimate expected losses, and to re-perform the actuarial calculation to develop a valuation range. Additionally we have assessed the expert's competence and considered their independence and objectivity. – For the individually large claims not subject to actuarial review, we discussed the nature of each claim with the US general counsel and those responsible for claims handling and tested a sample of items to independent third party reports to assess the expected range of possible outcomes. This included testing the fair value of provisions recognised on acquisitions during the year. – We compared the overall level of provision recorded to the range determined by management and the Group's actuary, to conclude whether the level of provision was appropriate. This involved consideration of the audit evidence supporting the range as well as the independent assessment of the range for higher-volume lower value claims produced by our actuarial specialists.
Key observations	<p>As part of our detailed audit work testing the various aspects of the provision, including new amounts recognised at fair value on acquisition and the income statement charge for the year, we did not identify any material exceptions.</p> <p>As a result we concluded the overall balance sheet position is materially in line with our expectations.</p>

Our application of materiality

We define materiality as the magnitude of misstatement in the Financial Statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the Financial Statements as a whole as follows:

	Group financial statements	Parent Company financial statements
Materiality	£11.0m (2017: £10.0m)	£7.0m (2017: £7.4m)
Basis for determining materiality	<p>5% (2017: 5%) of normalised profit before tax. This materiality level equates to less than 1% (2017: less than 1%) of equity.</p> <p>Normalised profit before tax is disclosed on the face of the Group income statement where it is reconciled to statutory profit before tax. Note 11 to the Financial Statements outlines loss before tax of £1.7 million for discontinued operations.</p>	<p>Parent Company materiality is set at approximately 64% (2017: 74%) of Group materiality, which equates to 0.9% (2017: 0.8%) of Parent Company's net assets.</p>
Rationale for the benchmark applied	<p>Normalised profit is a key performance measure for management, investors and the analyst community, which facilitates the users' understanding of the underlying trading performance.</p> <p>Normalised results are defined as the statutory results excluding intangible amortisation for acquired businesses and result for the year from discontinued operations and in the prior year UK restructuring.</p>	<p>Net assets is considered as an appropriate benchmark for the Parent Company given that it is mainly a holding company.</p>

Materiality

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £385,000 (2017: £350,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our group audit was scoped by obtaining an understanding of the Group and its environment, including group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, as in the prior year, we focussed our group audit scope primarily on the audit work at the four operating divisions (UK, German Rail, ALSA and North America) and the Group head office function. Each operating division produces its own sub-consolidation and was subject to an audit that was scoped relevant to its component materiality level, which was between £4.4 million and £7.0 million (2017: between £3.2 million and £7.4 million). This audit work was performed by Deloitte Touche Tohmatsu Limited member firms. The Group head office work was performed to a component materiality level of £6.4 million, consistent with the prior year.

The four operating divisions and the Group head office function contributed 100% (2017: 100%) of Group revenue and 100% (2017: 100%) of Group operating profit and 100% (2017: 99%) of Group net assets.

An audit of specified account balances was performed by KPMG over the underlying financial statements of the Bahrain joint venture.

At the Parent entity level we also tested the consolidation process.

The Group audit team continued to follow a programme of planned visits designed so that the Senior Statutory Auditor and/or a senior member of the audit team visits each of the three non-UK divisions where the Group audit scope was focussed at least once a year in addition to the work performed at the Group head office. In relation to the current year audit the Senior Statutory Auditor and/or a senior member of the audit team visited Spain, North America and Germany at least twice. Senior members of the audit team also visited the Group's operations in Morocco and the joint venture in Bahrain during the year. Likewise, the Group audit team has maintained appropriate oversight over both UK divisions for component reporting and reviewing purposes.

Outside of the planned visits, regular discussions were held with the component audit teams throughout the year to direct and supervise the planning and execution of their audit work.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the Financial Statements and our auditor's report thereon.

We have nothing to report in respect of these matters.

Our opinion on the Financial Statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Financial Statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- Fair, balanced and understandable – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit Committee reporting – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the audit committee; or
- Directors' statement of compliance with the UK Corporate Governance Code – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Responsibilities of directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- enquiring of management, internal audit and the audit committee, including obtaining and reviewing supporting documentation concerning the Group's policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
 - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- discussing among the engagement team including significant component audit teams and involving relevant internal specialists, including tax, valuations, pensions and IT regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential fraud risks in relation to:
 - the estimation of North American insurance and other claims given the level of judgement involved;
 - the management assumptions on the Spain concession renewal, perpetual growth rate and discount rate applied to the goodwill impairment model; and
 - the completeness and accuracy of deferred revenue in relation to pre-booked tickets and pre-paid travelcards in the UK components and the cut off of contractual revenue in Spain division;
- obtaining an understanding of the legal and regulatory framework that the Group operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Group. The key laws and regulations we considered in this context included the Companies Act 2006, Listing Rules, Pension legislation, Tax legislation, and Regulations from the Traffic Commissioners.

Audit response to risks identified

As a result of performing the above, we identified the North American insurance and other claims as a key audit matters. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to that key audit matter(s).

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the Financial Statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the Audit Committee and in-house and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- completed focussed testing on the deferred revenue balance at 31 December 2018 in UK Bus and UK Coach by recalculating the deferred income held by each of the divisions based on journeys paid for vs. travelled by the year end and formed an expectation of revenues in ALSA through examining a sample of key contracts;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC and overseas tax authorities in the jurisdictions in which the Group operates; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and the Parent Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company Financial Statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Other matters

Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the Board on 14 June 2011 to audit the Financial Statements for the year ending 31 December 2011 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 8 years, covering the years ending 31 December 2011 to 31 December 2018.

Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Stephen Griggs (Senior statutory auditor)

For and on behalf of Deloitte LLP
Statutory Auditor
London
28 February 2019

Group Income Statement

For the year ended 31 December 2018

	Note	Normalised result 2018 £m	Separately disclosed items 2018 £m	Total 2018 £m	Normalised result 2017 £m	Separately disclosed items 2017 £m	Total 2017 £m
Continuing operations							
Revenue	4	2,450.7	–	2,450.7	2,321.2	–	2,321.2
Operating costs before UK restructuring		(2,193.0)	(42.3)	(2,235.3)	(2,079.7)	(38.0)	(2,117.7)
UK restructuring		–	–	–	–	(5.6)	(5.6)
Operating costs	5	(2,193.0)	(42.3)	(2,235.3)	(2,079.7)	(43.6)	(2,123.3)
Group operating profit		257.7	(42.3)	215.4	241.5	(43.6)	197.9
Share of results from associates and joint ventures	18	0.9	–	0.9	(3.5)	–	(3.5)
Finance income	9	9.8	–	9.8	10.0	–	10.0
Finance costs	9	(48.4)	–	(48.4)	(48.0)	–	(48.0)
Profit before tax		220.0	(42.3)	177.7	200.0	(43.6)	156.4
Tax charge	10	(49.0)	10.0	(39.0)	(48.0)	20.0	(28.0)
Profit after tax for the year from continuing operations		171.0	(32.3)	138.7	152.0	(23.6)	128.4
Profit for the year from discontinued operations	11	–	–	–	–	5.9	5.9
Profit for the year		171.0	(32.3)	138.7	152.0	(17.7)	134.3
Profit attributable to equity shareholders		168.0	(32.3)	135.7	148.7	(17.7)	131.0
Profit attributable to non-controlling interests		3.0	–	3.0	3.3	–	3.3
		171.0	(32.3)	138.7	152.0	(17.7)	134.3
Earnings per share:							
– basic earnings per share	13			26.6p			25.7p
– diluted earnings per share				26.5p			25.5p
Normalised earnings per share:							
– basic earnings per share		32.9p			29.1p		
– diluted earnings per share		32.8p			29.0p		
Earnings per share from continuing operations:							
– basic earnings per share				26.6p			24.5p
– diluted earnings per share				26.5p			24.4p

Separately disclosed items includes intangible amortisation for acquired businesses, result for the year from discontinued operations and in the prior year, UK restructuring and US tax reform. 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 4.

Group Statement of Comprehensive Income

For the year ended 31 December 2018

	Note	2018 £m	2017 £m
Profit for the year		138.7	134.3
Items that will not be reclassified subsequently to profit or loss:			
Actuarial losses on defined benefit pension plans	34	(24.9)	(14.0)
Deferred tax on actuarial losses	10(b)	4.0	2.1
		(20.9)	(11.9)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on retranslation of foreign operations (net of hedging)		30.1	(15.2)
Cost of hedging		1.4	–
Exchange differences on retranslation of non-controlling interests		0.4	0.7
Loss on cash flow hedges		(6.3)	(18.5)
Reclassification adjustments for gains or losses included in profit		(11.5)	23.6
Tax on exchange differences	10(b)	(2.2)	1.0
Deferred tax on cash flow hedges	10(b)	3.1	(3.4)
		15.0	(11.8)
Comprehensive expenditure for the year		(5.9)	(23.7)
Total comprehensive income for the year		132.8	110.6
Total comprehensive income attributable to:			
Equity shareholders		129.4	106.6
Non-controlling interests		3.4	4.0
		132.8	110.6

Group Balance Sheet

At 31 December 2018

	Note	2018 £m	2017 £m
Non-current assets			
Intangible assets	14	1,797.5	1,633.4
Property, plant and equipment	15	1,054.8	968.2
Non-current financial assets	17	14.9	21.5
Deferred tax assets	27	42.7	41.4
Investments accounted for using the equity method	18	12.9	11.3
Trade and other receivables	20	3.0	20.1
Defined benefit pension assets	34	14.9	43.2
		2,940.7	2,739.1
Current assets			
Inventories	21	27.4	24.9
Trade and other receivables	22	408.6	356.3
Derivative financial instruments	17	7.9	15.4
Current tax assets		0.8	1.5
Cash and cash equivalents	23	117.5	314.3
Total current assets		562.2	712.4
Assets classified as held for sale	11	22.8	–
Total assets		3,525.7	3,451.5
Non-current liabilities			
Borrowings	28	(1,029.3)	(1,058.0)
Derivative financial instruments	28	(12.6)	(1.3)
Deferred tax liability	27	(63.0)	(60.0)
Other non-current liabilities	25	(25.2)	(36.0)
Defined benefit pension liabilities	34	(131.7)	(137.7)
Provisions	26	(49.2)	(65.4)
		(1,311.0)	(1,358.4)
Current liabilities			
Trade and other payables	24	(870.5)	(672.4)
Borrowings	28	(59.3)	(167.4)
Derivative financial instruments	28	(16.9)	(9.8)
Current tax liabilities		(8.4)	(11.6)
Provisions	26	(58.7)	(65.5)
Total current liabilities		(1,013.8)	(926.7)
Liabilities directly associated with assets classified as held for sale	11	(3.7)	–
Total liabilities		(2,328.5)	(2,285.1)
Net assets		1,197.2	1,166.4
Shareholders' equity			
Called-up share capital	32	25.6	25.6
Share premium account		532.7	532.7
Capital redemption reserve		0.2	0.2
Own shares		(7.0)	(6.0)
Other reserves	33	196.2	181.6
Retained earnings		426.6	410.9
Total shareholders' equity		1,174.3	1,145.0
Non-controlling interests in equity		22.9	21.4
Total equity		1,197.2	1,166.4

D FinchGroup Chief Executive
28 February 2019**C Davies**

Group Finance Director

Group Statement of Changes in Equity

For the year ended 31 December 2018

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Own shares (note 32) £m	Other reserves (note 33) £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
At 1 January 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 have been restated for the adoption of IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' (see note 2).

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Own shares (note 32) £m	Other reserves (note 33) £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
At 1 January 2017	25.6	532.7	0.2	(7.8)	194.1	362.0	1,106.8	18.7	1,125.5
Profit for the year	-	-	-	-	-	131.0	131.0	3.3	134.3
Comprehensive income for the year	-	-	-	-	(12.5)	(11.9)	(24.4)	0.7	(23.7)
Total comprehensive income	-	-	-	-	(12.5)	119.1	106.6	4.0	110.6
Shares purchased	-	-	-	(8.1)	-	-	(8.1)	-	(8.1)
Own shares released to satisfy employee share schemes	-	-	-	9.9	-	(9.9)	-	-	-
Share-based payments	-	-	-	-	-	6.3	6.3	-	6.3
Tax on share-based payments	-	-	-	-	-	(1.6)	(1.6)	-	(1.6)
Dividends	-	-	-	-	-	(64.7)	(64.7)	-	(64.7)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	(1.1)	(1.1)
Payments for equity in non-controlling interests	-	-	-	-	-	(0.3)	(0.3)	(0.2)	(0.5)
At 31 December 2017	25.6	532.7	0.2	(6.0)	181.6	410.9	1,145.0	21.4	1,166.4

Group Statement of Cash Flows

For the year ended 31 December 2018

	Note	2018 £m	2017 £m
Cash generated from operations	37	361.2	359.0
Tax paid		(21.1)	(14.1)
Interest paid		(43.0)	(62.5)
Interest received		9.7	13.1
Net cash flow from operating activities		306.8	295.5
Cash flows from investing activities			
Payments to acquire businesses, net of cash acquired	19	(107.4)	(48.2)
Deferred consideration for businesses acquired	19	(38.5)	(49.0)
Proceeds from the disposal of business, net of cash disposed	19	–	42.8
Purchase of property, plant and equipment		(160.6)	(124.6)
Proceeds from disposal of property, plant and equipment		48.9	17.9
Payments to acquire intangible assets		(5.8)	(11.9)
Proceeds from disposal of intangible assets		10.0	–
Receipts relating to associates and investments		1.1	–
Net cash flow from investing activities		(252.3)	(173.0)
Cash flows from financing activities			
Finance lease principal payments		(49.9)	(34.4)
Increase in borrowings		–	328.1
Repayment of borrowings		(94.4)	(356.7)
(Payments)/receipts for the maturity of foreign currency contracts		(27.6)	5.7
Purchase of own shares		(9.7)	(8.1)
Dividends paid to non-controlling interests		(0.6)	(1.1)
Payments for equity in non-controlling interests		–	(0.2)
Dividends paid to shareholders of the Company	12	(70.8)	(64.7)
Net cash flow from financing activities		(253.0)	(131.4)
Decrease in cash and cash equivalents		(198.5)	(8.9)
Opening cash and cash equivalents		314.3	324.4
Decrease in cash and cash equivalents		(198.5)	(8.9)
Foreign exchange		1.9	(1.2)
Closing cash and cash equivalents		117.7	314.3
Cash and cash equivalents in continuing operations	23	117.5	314.3
Cash and cash equivalents classified in assets held for sale	11	0.2	–
Closing cash and cash equivalents		117.7	314.3

Notes to the Consolidated Accounts

For the year ended 31 December 2018

1 Corporate information

The Consolidated Financial Statements of National Express Group PLC and its subsidiaries (the 'Group') for the year ended 31 December 2018 were authorised for issue in accordance with a resolution of the Directors on 28 February 2019. National Express Group PLC is a public limited company incorporated in England and Wales whose shares are publicly traded on the London Stock Exchange.

The principal activities of the Group are described in the Strategic Report that accompanies these Financial Statements.

2 Accounting policies

Accounting convention and basis of preparation

These Financial Statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') and interpretations of the International Financial Reporting Interpretations Committee ('IFRIC') as adopted by the European Union ('EU'), and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

These Financial Statements have been prepared on the going concern basis (see Group Finance Director's Review on page 17) under the historical cost convention, except for the recognition of derivative financial instruments and financial assets at fair value through other comprehensive income.

These Financial Statements are presented in pounds Sterling and all values are rounded to the nearest one hundred thousand pounds (£0.1m) except where otherwise indicated.

Changes in accounting policies and the adoption of new and revised standards

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

IFRS 9 and IFRS 15 came into effect on 1 January 2018 and have been applied by the Group for the first time. The nature and effect of the changes from adopting these new accounting standards are described below.

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the 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 9 'Financial Instruments'

This standard addresses the classification, measurement and derecognition of financial assets and liabilities. The standard also introduces new rules for hedge accounting and a new impairment model for financial assets.

Classification and measurement changes

The Group continued measuring at fair value all financial assets previously held at fair value under IAS 39. In addition, equity investments in non-listed companies, which have historically been recognised at cost less impairment, are now classified and measured as equity instruments designated at fair value through other comprehensive income. The Group elected to classify these investments under this category as it intends to hold these investments for the foreseeable future. On transition, the carrying value of the investments was reduced by £0.7m as a result of the change.

There are no changes in classification and measurement for the Group's financial liabilities.

Impairment

Under IFRS 9, the Group's accounting for impairment losses for financial assets has changed by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss approach. The Group has applied the simplified approach to measuring impairment losses and records lifetime expected losses on all trade receivables. At 1 January 2018 this resulted in an additional allowance for impairment of £16.7m and deferred tax asset of £3.9m. The change primarily relates to older dated contract receivables in ALSA and North America where perceived risk of default is considered greater due to ageing. However, the increase purely reflects the requirement under IFRS 9 to make a forward looking assessment of risk of future default on existing receivables and does not reflect an actual increase in incurred credit losses.

Hedge accounting

Hedge accounting for the year has been prepared in accordance with IFRS 9. There has been no financial impact to the opening position or any material impact to the movements in the year as a result of the new standard and our hedging relationships remain highly effective.

For additional information about the Group's accounting policies relating to financial instruments, see page 126.

2 Accounting policies continued

IFRS 15 'Revenue from contracts with customers'

IFRS 15 establishes the principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from customers. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to the customer.

The Group has applied the new rules prospectively from 1 January 2018, having performed a detailed assessment of the effects of applying the new standard. As part of the assessment, management identified a transitional reduction to receivables of £23.6m and deferred tax assets of £5.9m. The majority of this relates to variable consideration for certain transport contracts in ALSA. Under IAS 18, this revenue had been recognised on the basis that future receipt was considered probable. Under IFRS 15, the new variable consideration requirement of 'highly probable' led to a derecognition of the revenue and related receivable as at the date of transition. The remainder of the adjustment relates to long-term contract revenue for software goods and services in North America, where application of the standard has resulted in a greater deferral of revenue to match delivery of the performance obligation.

With the exception of the above, revenue has not been impacted by the new standard. Just over half of the Group's revenue is derived from documented contracts that cover periods of at least one year, and the significant remainder relate to ticket and other sales to travelling customers, and shorter-term contracts such as private hire.

For documented contracts, a detailed assessment was performed and management concluded that revenues are being appropriately recognised across the periods of the contract, as the services are transferred to the customer. Ticket sale revenue and private hire are also compliant with the new standard, with ticket sales recognised when the passenger makes the journey, or spread according to the term of the ticket, and private hire recognised in the period in which the service is provided to the customer.

For additional information about the Group's accounting policies relating to revenue recognition, see page 122.

With regard to the disclosure requirements of IFRS 15, a new numerical disaggregation of revenue has been presented in note 4.

Reconciliation of the opening Balance Sheet

For both IFRS 9 and IFRS 15, the Group has applied the exemptions to not restate prior year financial information. The impacts of the new standards have been recognised as transitional adjustments to the opening Balance Sheet and are summarised as follows:

	31 December 2017	IFRS 9 £m	IFRS 15 £m	1 January 2018
Non-current financial assets	8.1	(0.7)	–	7.4
Trade and other receivables	356.3	(16.7)	(23.6)	316.0
Net deferred tax liability	(18.6)	3.9	5.9	(8.8)
Total assets	3,451.5	(13.5)	(17.7)	3,420.3
Net assets	1,166.4	(13.5)	(17.7)	1,135.2
Retained earnings	410.9	(13.5)	(14.3)	383.1
Non-controlling interests in equity	21.4	–	(3.4)	18.0
Total equity	1,166.4	(13.5)	(17.7)	1,135.2

Critical accounting judgements and key sources of estimation uncertainty

The preparation of Financial Statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the Financial Statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge, actual results may ultimately differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods. No areas of critical accounting judgements or key sources of estimation uncertainty have been identified in relation to Brexit.

2 Accounting policies continued

(i) Critical accounting judgements

Pensions – defined benefit assets

Judgement is required regarding the application of IFRIC 14 and the extent to which the Group can recognise defined benefit assets. Changes in this judgement could significantly impact the value of defined benefit pension balances recognised.

National Express Group PLC operates a defined benefit scheme, which at year end was in a net surplus position as disclosed in note 34. Based on the terms and conditions of the scheme, and from consultation with independent advisers, the Group determined that an ultimate future economic benefit exists in the form of a refund or a reduction in future contributions. The surplus has therefore been recognised in full.

(ii) Key sources of estimation uncertainty

Insurance and other claims

The claims provision arises from estimated exposures at the year end for auto and general liability, workers' compensation and environmental claims, the majority of which will be utilised in the next five years. The estimation of the claims provision is based on an assessment of the expected settlement of known claims together with an estimate of settlements that will be made in respect of incidents occurring prior to the Balance Sheet date but for which claims have not been reported to the Group. The Group makes assumptions concerning these judgemental matters with the assistance of advice from independent qualified actuaries.

In certain rare cases, additional disclosure regarding these claims may unfairly prejudice the Group's position and consequently this disclosure is not provided. Given the differing types of claims, their size, the range of possible outcomes and the time involved in settling these claims, there is a reasonably possible chance that a material adjustment would be required to the carrying value of the claims provision in the next financial year. These different factors also make it impracticable to provide sensitivity analysis on one single measure and its potential impact on the overall claims provision.

Basis of consolidation

These Consolidated Financial Statements comprise the Financial Statements of National Express Group PLC and all its subsidiaries drawn up to 31 December each year. Adjustments are made to bring any dissimilar accounting policies that may exist into line with the Group's accounting policies.

The Consolidated Income Statement includes the results of subsidiaries and businesses purchased from the date control is assumed and excludes the results of disposed operations and businesses sold from the date of disposal.

Intra-Group transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated.

Non-controlling interests represent the portion of comprehensive income and equity in subsidiaries that is not attributable to the parent Company shareholders and is presented separately from parent shareholders' equity in the Consolidated Balance Sheet.

Summary of significant accounting policies

Subsidiaries

Subsidiaries are entities over which the Company has control. Control exists when the Company has power over an entity, exposure to variable returns from its involvement with an entity and the ability to use its power over the entity to affect its returns. The existence and effect of potential voting rights that are currently exercisable or convertible are also considered when assessing control.

2 Accounting policies continued

Interests in joint ventures

The Group has a number of contractual arrangements with other parties to share control of other entities which represent joint ventures. The Group recognises its interest in the entities' assets and liabilities using the equity method of accounting. The Group Balance Sheet includes the appropriate share of these joint ventures' net assets or liabilities and the Income Statement includes the appropriate share of their results after tax.

Financial statements of joint ventures are prepared for the same reporting period as the Group. Adjustments are made in the Group's Financial Statements to eliminate the Group's share of unrealised gains and losses on transactions between the Group and its joint ventures. The Group ceases to use the equity method from the date it no longer has joint control over the entity.

Interests in associates

Companies, other than subsidiaries and joint ventures, in which the Group has an investment representing not less than 20% of the voting rights and over which it exerts significant influence are treated as associates. The Consolidated Financial Statements include the appropriate share of these associates' results and net assets based on their latest financial statements under the equity method of accounting.

Foreign currencies

The trading results of foreign currency denominated subsidiaries, joint ventures and associates are translated into Sterling, the presentation currency of the Group and functional currency of the parent, using average rates of exchange for the year as a reasonable approximation to actual exchange rates at the dates of transactions.

The balance sheets of foreign currency denominated subsidiaries, joint ventures and associates are translated into Sterling at the rates of exchange prevailing at the year end and exchange differences arising are taken directly to the translation reserve in equity. On disposal of a foreign currency denominated subsidiary, the deferred cumulative amount recognised in the translation reserve (since 1 January 2004 under the transitional rules of IFRS 1) relating to that entity is recognised in the Income Statement. All other translation differences are taken to the Income Statement, with the exception of differences on foreign currency borrowings and forward foreign currency contracts which are used to provide a hedge against the Group net investments in foreign enterprises. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in the Income Statement.

Presentation of income statement and separately disclosed items

The Group Income Statement has been presented in a columnar format to enable users of the Financial Statements to view the normalised results of the Group. Normalised results are defined as the statutory results excluding intangible amortisation for acquired businesses, result for the year from discontinued operations and in the prior year, US tax reform and UK restructuring. The Board believes that this gives a more comparable year-on-year indication of the operating performance of the Group and allows the users of the Financial Statements to understand management's key performance measures. Further details relating to separately disclosed items are provided in note 4.

Revenue recognition

Revenue is measured based on the consideration specified in the contract with a customer and is recognised when the performance obligations of the contract have been fulfilled.

Contract revenues

For the purposes of disclosures, the Group has applied the term contract revenues to describe documented contracts that typically cover periods of at least one year, excluding concessions and subsidies. The contracts primarily relate to home to school and transit contracts in North America, urban bus contracts in Spain and coach contracts in the UK.

Revenues relating to the provision of transport services are recognised as the services are provided and in accordance with the terms of the contract. Revenue relating to any additional performance measures in the contract are recognised when the performance has been met and in accordance with the terms of the contract.

If the consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring services to the customer. The variable consideration is estimated at contract inception and constrained until the associated uncertainty is resolved and when it becomes highly probable that a significant revenue reversal will not occur.

2 Accounting policies continued

Passenger revenues

Passenger revenues primarily relate to ticket sales in the UK, German Rail, intercity coach services in Spain and urban bus services in Morocco.

Revenue is recognised by reference to the date of customer travel. Revenue from tickets that cover more than one day, for example monthly travel cards and season tickets, are initially deferred as a liability and released to the Income Statement over the period of the ticket.

Deferred income liability is reduced when an eligible cancellation arises. Also, where applicable, deferred income is reduced for ticket breakage, being the portion of future travel that is not expected to be exercised.

Booking fees are non-refundable and recognised at the point of sale, reflecting fulfilment of the performance. Other ancillary revenues relating to ticket sales are recognised at point of sale or, if material and related to a future performance period, recognised by reference to that period.

Loyalty points issued to customers are recorded and valued by management. Where material, the cumulative redeemable value of the points is deducted from the related revenue and deferred as a liability until the points are redeemed.

Passenger revenue in German Rail is allocated between the various transport providers in each region by the tariff authority responsible for that region, and is recognised based on passenger counts, tariff authority estimates and historical trends.

Grants and subsidies

Grants and subsidies relating to the provision of transport services are recognised as the services are provided and in accordance with the terms of the contract.

German Rail contracts are service concession arrangements and accounted for under IFRIC 12. In accordance with that standard, income received from the public transport authority ('PTA') is recognised in line with the requirements of IFRS 15. Subsidy income from the PTA is recognised over the life of the franchise and by using the input method to measure progress against the performance obligation. The amount recognised in each period is based on a percentage of completion, applying net costs incurred as a proportion of total expected net costs, which is what the subsidy is intended to compensate.

In accordance with IFRS 15, costs payable to the PTA are netted against subsidy income.

Private hire

Private hire operations are contracts provided in the UK, ALSA and North America divisions and are typically of a short duration. Revenue is recognised over the period in which the private hire is provided to the customer.

Other revenues

Other revenues primarily comprise non-passenger services in Spain, transit software income in North America and advertising revenues.

Revenues for non-passenger services are recognised when the performance of the service has been fulfilled and in accordance with the terms of the contract. Transit software income is recognised when the benefit of the software or service has been passed to the customer. Advertising revenue is recognised over the period of the advertising contract.

Taxes

Current tax

Current tax is provided on taxable profits earned according to the local tax rates applicable where the profits are earned. Income taxes are recognised in the Income Statement unless they relate to an item accounted for in Other Comprehensive Income or Equity, in which case the tax is recognised directly in Other Comprehensive Income or Equity. The tax rates and tax laws used to compute the current tax are those that are enacted or substantively enacted at the Balance Sheet date.

2 Accounting policies continued

Deferred tax

Deferred tax is provided in full in respect of all material temporary differences at the Balance Sheet date between the tax base and their carrying amounts for financial reporting purposes, apart from the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill;
- where an asset or liability is recognised in a transaction that is not a business combination and that at the time of the transaction affects neither accounting nor taxable profit or loss; and
- in respect of investment in subsidiaries, associates and joint ventures where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is measured on a non-discounted basis at tax rates that are expected to apply in the periods in which the temporary differences reverse based on tax rates and laws enacted or substantively enacted at the Balance Sheet date.

Deferred tax assets are recognised to the extent that it is considered more likely than not that future taxable profits will be available against which the underlying temporary differences can be deducted. For this purpose, forecasts of future taxable profits are considered by assessing the Group's forecast revenue and profit models, taking into account future growth predictions and operating cost assumptions. Accordingly, changes in assumptions to the Group's forecasts may have an impact on the amount of future taxable profits and therefore the period over which any deferred tax assets might be recovered.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and when the Group intends to settle its current tax assets and liabilities on a net basis.

Business combinations

On the acquisition of a business, identifiable assets and liabilities acquired are measured at their fair value. Contingent liabilities assumed are measured at fair value unless this cannot be measured reliably, in which case they are not recognised but are disclosed in the same manner as other contingent liabilities.

The cost of acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued. Any contingent consideration is recognised at fair value at the acquisition date and subsequently until it is settled.

The cost of the acquisition in excess of the Group's interest in the net fair value of the identifiable net assets acquired is recorded as goodwill. If the cost of the acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the Consolidated Income Statement.

Non-current assets held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction rather than continuing use. This condition is regarded as met only when the sale is highly probable, the asset (or disposal group) is available for immediate sale in its present condition, management is committed to the sale and when the sale is expected to complete within one year from the date of classification. They are stated at the lower of carrying amount and fair value less costs to sell.

A discontinued operation is a component of the Group that has been disposed of, or is classified as held for sale and either represents a separate major line of business or geographical area; is part of a plan to dispose of a separate major line of business or geographical area; or is a subsidiary acquired exclusively for resale.

Discontinued operations are excluded from the results of continuing operations and presented as a single amount after tax. Comparatives are also re-presented to reclassify the operation as discontinued.

Intangible assets

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the fair value of the Group's share of the identifiable assets and liabilities of the acquired subsidiary, associate or joint arrangement at the date of acquisition.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses and is not amortised.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. A cash-generating unit is identified at the lowest aggregation of assets that generate largely independent cash inflows, and which is reviewed by management for monitoring and managing the Group's business operations.

On disposal of a cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

2 Accounting policies continued

Other intangible assets

Customer contracts

Customer contracts acquired as part of a business combination are initially recorded at the fair value attributed to those contracts on acquisition.

Contract mobilisation costs

Costs associated with securing significant new franchises or contracts are expensed as incurred up to the point when a bid is awarded. From this point in time, appropriate costs are recognised as an asset and amortised to the Income Statement over the life of the contract. Costs associated with the commencement of all other new contracts are expensed as incurred.

Software

Acquired and internally developed software is capitalised on the basis of the costs incurred to acquire and bring to use the specific software or fair value if acquired as part of a business combination. Computer software that is integral to a tangible fixed asset is recognised within property, plant and equipment.

Amortisation is charged on a straight-line basis over the expected useful lives of the assets as follows:

Customer contracts	– over the life of the contract (between 1 and 33 years)
Contract mobilisation costs	– over the life of the franchise (15 years)
Software	– over the estimated useful life (3 to 7 years)

The useful lives are examined on an annual basis and adjustments, where applicable, are made on a prospective basis. Intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Property, plant and equipment

All property, plant and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses.

Repairs and maintenance costs are expensed as incurred.

Freehold land is not depreciated. All other property, plant and equipment is depreciated on a straight-line basis over their estimated useful lives as follow:

Freehold buildings	– 30 to 50 years
Long leasehold property improvements	– 15 to 40 years
Public service vehicles	– 8 to 20 years
Plant and equipment, fixtures and fittings	– 3 to 15 years

Useful lives and residual values are reviewed annually and adjustments, where applicable, are made on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset, with any gain or loss arising included in the Income Statement in the period of derecognition.

Government grants relating to property, plant and equipment are included in liabilities as deferred income and are credited to the Income Statement over the expected useful economic life of the assets concerned.

Impairment

Intangible assets with definite useful lives, and property, plant and equipment are tested for impairment when events or circumstances indicate that their carrying value may not be recoverable. Goodwill is subject to an impairment test on an annual basis or more frequently if there are indicators of impairment. Assets that do not generate independent cash flows are combined into cash-generating units.

The impairment testing of individual assets or cash-generating units requires an assessment of the recoverable amount of the asset or cash-generating unit. If the carrying value of the asset or cash-generating unit exceeds its estimated recoverable amount, the asset or cash-generating unit is written down to its recoverable amount. Recoverable amount is the greater of fair value less costs of disposal and value in use. Value in use is assessed based on estimated future cash flows discounted to their present value using a pre-tax discount rate that is based on the country-specific weighted average cost of capital ('WACC'). The outcome of such an assessment is subjective, and the result sensitive to the assumed future cash flows to be generated by the cash-generating units or assets, the growth rate used to extrapolate the cash flows beyond the three-year period and discount rates applied in calculating the value in use.

Impairment losses relating to goodwill cannot be subsequently reversed.

2 Accounting policies continued

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The Group determines the classification of its financial instruments at initial recognition.

Financial assets

From 1 January 2018, financial assets are classified at initial recognition as (i) subsequently measured at amortised cost, (ii) fair value through other comprehensive income (OCI) or (iii) fair value through profit or loss. The classification depends on the purpose for which the financial assets were acquired.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the Income Statement within finance costs. Transaction costs arising on initial recognition are expensed in the Income Statement.

Financial assets at fair value through other comprehensive income

The Group has elected to recognise its non-listed equity investments at fair value through other comprehensive income. Gains and losses on these financial assets are never recycled to the Income Statement. Dividends are recognised as other income in the Income Statement when the right of payment has been established. Where there is no active market for the Group's investments, fair value is determined using valuation techniques including recent commercial transactions and discounted cash flow analyses. Equity instruments designated at fair value through other comprehensive income are not subject to impairment assessment.

Financial assets at amortised cost

Financial assets at amortised costs are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost include 'trade and other receivables' and 'cash and cash equivalents' in the Balance Sheet.

Financial liabilities

Financial liabilities are classified at initial recognition as (i) financial liabilities at fair value through profit or loss, (ii) loans and borrowings, (iii) payables or (iv) derivatives designated as hedging instruments, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, and derivative financial instruments. Subsequent measurement depends on its classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading. Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the Income Statement when the liabilities are derecognised. Amortisation is included as finance costs in the Income Statement. This category applies to interest-bearing loans and borrowings.

2 Accounting policies continued

Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments such as fuel derivatives, interest rate derivatives, foreign exchange forward contracts and cross currency interest rate swaps to hedge its risks associated with fuel price, interest rate fluctuations and foreign currency. Such derivative financial instruments are initially recognised at fair value and subsequently remeasured to fair value for the reported Balance Sheet. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. The fair value of the derivatives is calculated by reference to market exchange rates, interest rates and fuel prices at the period end.

The Group designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges);
- hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges); or
- hedges of a net investment in a foreign operation (net investment hedges).

At inception of designated hedging relationships, the Group documents the risk management objective and strategy for undertaking the hedge. The Group also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedged item and hedging instrument are expected to offset each other.

The Group's fuel derivatives are designated as cash flow hedges. The gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in equity. The gains or losses deferred in equity in this way are recycled through the Income Statement in the same period in which the hedged underlying transaction or firm commitment is recognised in the Income Statement.

The Group's interest rate derivatives are designated as fair value hedges. The gain or loss on the hedging instrument is recognised immediately in the Income Statement. The carrying amount of the hedged item is adjusted through the Income Statement for the gain or loss on the hedged item attributable to the hedged risk, in this case movements in the risk-free interest rate.

Foreign exchange forward contracts and cross currency interest rate swaps are used to hedge the Group's net investment in foreign currency denominated operations, and to the extent they are designated and effective as net investment hedges are matched in equity against foreign exchange exposure in the related assets and liabilities. Gains and losses accumulated in equity are included in the Income Statement when the foreign operation is partially disposed of or sold.

The Group also uses foreign exchange forward contracts to hedge certain transactional exposures. These contracts are not hedge accounted and all gains and losses are taken directly to the Income Statement.

For derivatives that do not qualify for hedge accounting, gains or losses are taken directly to the Income Statement in the period. Similarly, any material ineffective portion of the Group's cash flow and net investment hedges is recognised in the Income Statement.

Costs of hedging for cash flow and net investment hedges are initially recognised in equity and disclosed separately and amortised to the Income Statement over the term of the instrument.

Hedge accounting is discontinued when the hedging instrument expires, is sold, terminated, exercised, or no longer qualifies for hedge accounting.

Inventories

Inventories are valued at the lower of cost and net realisable value on a first in-first out basis, after making due allowance for obsolete or slow moving items.

Trade and other receivables

Trade and other receivables are recognised and carried at the transaction price determined under IFRS 15, less provision for impairment.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for trade receivables. The Group uses provision matrices based on historical ageing of receivables and credit loss experience, adjusted as necessary for any forward-looking factors specific to the debtors and economic environment.

Trade receivables are derecognised where the Group enters into factoring arrangements without recourse and the risks and rewards have been fully transferred. The group classifies the cash flows from factoring arrangements within cash from operating activities in the Statement of Cash Flows.

Cash and cash equivalents

Cash and cash equivalents as defined for the Statement of Cash Flows comprise cash in hand, cash held at bank with immediate access, other short-term investments and bank deposits with maturities of three months or less from the date of inception, and bank overdrafts. In the Consolidated Balance Sheet, cash and cash equivalents are presented net of bank overdrafts where there is a legal right of set-off, otherwise are included within borrowings in current liabilities.

2 Accounting policies continued

Trade and other payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the Balance Sheet date, and are discounted to present value where the effect is material using a pre-tax discount rate. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Contingent liabilities are obligations that arise from past events that are dependent on future events. They are disclosed in the notes to the Financial Statements where the expected future outflow is not probable.

Insurance

The Group's policy is to not insure low value, high frequency claims within the businesses. To provide protection against these types of losses, the Group purchases insurance cover from a selection of proven and financially strong insurers. Liabilities in respect of claims risk include projected settlements for known and incurred but not reported claims. Projected settlements are estimated based on historical trends and actuarial data and are discounted to take account of the expected timing of future cash settlements. To the extent insurance liabilities are insured and awaiting settlement, a separate asset is recognised in other receivables.

Leases

Assets held under finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease, with a corresponding liability being recognised for the fair value of the leased asset or, if lower, the present value of the minimum lease payments. Lease payments are apportioned between the reduction of the lease liability and finance charges in the Income Statement so as to achieve a constant rate of interest on the remaining balance of the liability. Property, plant and equipment held under finance leases are depreciated over the shorter of the estimated useful life of the asset and the lease term.

Leases of property, plant and equipment where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating lease rentals are charged to the Income Statement on a straight-line basis over the term of the lease. Incentives received under operating leases and initial direct costs in negotiating the lease are amortised to the Income Statement on a straight-line basis over the term of the lease.

Retirement benefits

Defined contribution schemes

Payments to defined contribution schemes are charged to the Income Statement as they fall due. The Group has no legal or constructive obligation to pay further contributions into a defined contribution scheme if the fund has insufficient assets to pay all employees benefits relating to employee service in the current and prior periods.

Defined benefit schemes

Plan assets, including qualifying insurance policies, are measured at fair value and plan liabilities are measured on an actuarial basis, using the projected unit credit method and discounting at an interest rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the plan liabilities. The difference between the value of plan assets and liabilities at the period-end date is the amount of surplus or deficit recorded in the statement of financial position as an asset or liability. An asset is recognised when the employer has an unconditional right to use the surplus at some point during the life of the plan or on its wind-up.

Current service costs are recognised within operating costs in the Income Statement. Past service costs and gains, which are the change in the present value of the defined benefit obligation for employee service in prior periods resulting from plan amendments, are recognised immediately the plan amendment occurs. Net interest is calculated by applying a discount rate to the net defined benefit liability or asset and is recognised within finance costs.

Re-measurements comprise actuarial gains and losses and the return on plan assets (excluding amounts included in net interest). Actuarial gains and losses may result from: differences between the actuarial assumptions underlying the plan liabilities and actual experience during the year or changes in the actuarial assumptions used in the valuation of the plan liabilities. Re-measurement gains and losses, and taxation thereon, are recognised in Other Comprehensive Income and are not reclassified to profit or loss in subsequent periods.

Full actuarial valuations are carried out triennially and are updated for material transactions and other material changes in circumstances up to the end of the reporting period.

2 Accounting policies continued

Share-based payments

The Group awards equity-settled share-based payments to certain employees, under which the Group receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted, excluding the impact of any non-market service and performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the Group over a specified time period). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each Balance Sheet date, the Group revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the Income Statement, with a corresponding adjustment to equity.

Share capital, share premium and dividends

Where either the Company or employee share trusts purchase the Company's equity share capital, the consideration paid, including any transaction costs, is deducted from total shareholders' equity as own shares until they are cancelled or re-issued. Any consideration subsequently received on sale or re-issue is included in shareholders' equity.

Dividend distributions to the Company's shareholders are recognised as a liability in the Group's Financial Statements on the date when dividends are approved by the Company's shareholders. Interim dividends are recognised in the period they are paid.

New standards and interpretations not applied

At the date of authorisation of these Financial Statements, the Group has not applied the following standards that have been issued but are not yet effective:

Title of standard	IFRS 16 Leases
Nature of change	<p>IFRS 16 will result in an increase in the number of leases being recognised on the balance sheet as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals will be recognised. The income statement will also be affected, with the operating lease expense being replaced by a combination of depreciation on the right of use asset and interest on the financial liability.</p> <p>Short-term and low value leases can be made exempt. Under this option the leases continue to be charged to the income statement on a straight-line basis over the term of the lease.</p>
Impact	<p>During 2018, the Group has performed a detailed impact assessment of IFRS 16. This assessment focused on all of the Group's existing lease portfolio, as well as considering other contractual arrangements to determine if they constituted a lease under the definitions of the new standard. As at the reporting date, the Group has non-cancellable operating lease commitments of £690m, as per note 35. However, of these commitments, £436m relates to German Rail rolling stock assets that do not meet the definition of a lease under IFRS 16. This reflects the fact that the lessor, not the Group, directs how and for what purpose the assets are used and, in the case of one contract, that the lessor also has the substantive right to substitute the assets. This is consistent with our application of IFRIC 12, where we have service concession arrangements and do not have control of the assets. In addition, approximately £15m of commitments relate to low value leases, which the Group will elect to exempt and continue to expense on a straight-line basis in the Income Statement.</p> <p>For the remaining lease commitments, and after taking into account discounting to present value, on 1 January 2019 the Group expects to recognise right-of-use assets and lease liabilities in the range of £190.0m to £210.0m.</p> <p>Our review of other contractual arrangements across the Group is substantively complete, and no arrangements have been identified that meet the definition of a lease under IFRS 16. This review has included an assessment of the UK coach operations where vehicles are provided by third party operators. Management concluded that for the majority of these arrangements the third party operators have a substantive right to substitute vehicles over the term of the agreement and therefore a lease arrangement does not exist. The remaining UK coach operator contracts were determined to be leases but are short-term in nature and therefore exempted.</p> <p>By way of indication, management has estimated that had IFRS 16 be adopted for 2018 the effect on profit before tax would be negligible.</p> <p>Under the new standard, statutory operating cash flow would have been approximately £53m higher and financing cash flows lower by the same amount, reflecting the re-classification of principal lease repayments into cash flows from financing activities.</p>
Date of adoption	IFRS 16 will be adopted on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

The following amended standards and interpretations are not expected to have a significant impact on the Group's Consolidated Financial Statements:

- IFRIC 23 uncertainty over tax treatments.
- Prepayment features with negative compensation (amendments to IFRS 9).
- Long-term interests in associates and joint ventures (amendments to IAS 28).
- Plan amendment, curtailment or settlement (amendments to IAS 19).
- Annual improvements to IFRS standards 2015–2017 cycle – various standards.
- Amendments to references to conceptual framework in IFRS standards.
- IFRS 17 insurance contracts.

3 Exchange rates

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

	2018 Closing rate	2018 Average rate	2017 Closing rate	2017 Average rate
US Dollar	1.28	1.34	1.35	1.29
Canadian Dollar	1.74	1.73	1.70	1.67
Euro	1.11	1.13	1.13	1.14

If the results for the year to 31 December 2017 had been retranslated at the average exchange rates for the year to 31 December 2018, North America would have achieved normalised operating profit of £91.1m on revenue of £982.1m, compared with normalised operating profit of £94.3m on revenue of £1,017.2m as reported, and ALSA would have achieved a normalised operating profit of £95.8m on revenue of £670.1m, compared with normalised operating profit of £94.9m on revenue of £663.5m as reported.

4 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 and transit bus operations

Further details on the activities of each segment are described in the Strategic Report.

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:

Analysis by class and reportable segment	2018					Total £m
	Contract revenues £m	Passenger revenues £m	Grants and subsidies £m	Private hire £m	Other revenues £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	430.3	10.2	62.8	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	934.3	82.5	155.6	91.9	2,450.7
Analysis by major service type:						
Passenger transport	1,186.4	934.3	82.5	155.6	13.7	2,372.5
Other products and services	–	–	–	–	78.2	78.2
Total revenue from continuing operations	1,186.4	934.3	82.5	155.6	91.9	2,450.7

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 and disclosed in note 24.

4 Segmental analysis continued

	2017					
	Contract revenues £m	Passenger revenues £m	Grants and subsidies £m	Private hire £m	Other revenues £m	Total £m
Analysis by class and reportable segment:						
UK	26.7	443.4	58.6	9.2	23.6	561.5
German Rail	–	42.3	34.9	–	1.8	79.0
ALSA	183.9	405.2	17.9	33.5	23.0	663.5
North America	924.2	–	–	78.3	14.7	1,017.2
Central functions	–	–	–	–	–	–
Total revenue from continuing operations	1,134.8	890.9	111.4	121.0	63.1	2,321.2
Analysis by major service type:						
Passenger transport	1,134.8	890.9	111.4	121.0	17.5	2,275.6
Other products and services	–	–	–	–	45.6	45.6
Total revenue from continuing operations	1,134.8	890.9	111.4	121.0	63.1	2,321.2

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

Operating profit

Operating profit is analysed by reportable segment as follows:

	Normalised operating profit 2018 £m	Intangible amortisation for acquired businesses 2018 £m	Segment result 2018 £m	Normalised operating profit 2017 £m	Intangible amortisation for acquired businesses 2017 £m	UK restructuring 2017 £m	Segment result 2017 £m
UK	79.9	(1.0)	78.9	70.9	(0.7)	(5.6)	64.6
German Rail	3.0	(0.9)	2.1	5.2	(1.0)	–	4.2
ALSA	105.3	(11.1)	94.2	94.9	(10.0)	–	84.9
North America	96.9	(29.3)	67.6	94.3	(26.3)	–	68.0
Central functions	(27.4)	–	(27.4)	(23.8)	–	–	(23.8)
Operating profit from continuing operations	257.7	(42.3)	215.4	241.5	(38.0)	(5.6)	197.9
Share of results from associates and joint ventures	0.9	–	0.9	(3.5)	–	–	(3.5)
Net finance costs	(38.6)	–	(38.6)	(38.0)	–	–	(38.0)
Profit before tax	220.0	(42.3)	177.7	200.0	(38.0)	(5.6)	156.4
Tax charge			(39.0)				(28.0)
Profit after tax for the year from continuing operations			138.7				128.4
Profit for the year from discontinued operations			–				5.9
Profit for the year			138.7				134.3

In February 2017 the Group disposed of its final UK rail franchise, c2c, as part of a broader UK strategic review in which the Group discontinued all activity in UK Rail. Consequent on this exit and given the simplified UK footprint, the Group also reorganised its UK management structure to reduce costs and facilitate better, clearer decision-making. The cost relating to this restructuring was £5.6m. Further details are provided in note 11.

4 Segmental analysis continued

Depreciation

Depreciation is analysed by reportable segment as follows:

	2018 £m	2017 £m
UK	19.7	21.8
German Rail	0.6	0.2
ALSA	44.0	39.3
North America	68.8	73.6
Central functions	0.7	0.7
	133.8	135.6

Non-current assets

Non-current assets and additions are analysed by reportable segment as follows:

	Intangible assets 2018 £m	Property, plant and equipment 2018 £m	Total non-current assets 2018 £m	Non-current asset additions 2018 £m	Intangible assets 2017 £m	Property, plant and equipment 2017 £m	Total non-current assets 2017 £m	Non-current asset additions 2017 £m
UK	30.6	190.2	220.8	38.2	21.8	191.8	213.6	29.2
Central functions	8.0	2.4	10.4	1.4	7.9	2.2	10.1	1.0
Total UK	38.6	192.6	231.2	39.6	29.7	194.0	223.7	30.2
German Rail	18.0	2.0	20.0	5.3	15.4	0.7	16.1	2.4
ALSA	921.7	353.2	1,274.9	64.9	866.2	321.2	1,187.4	49.8
North America	819.2	507.0	1,326.2	116.5	722.1	452.3	1,174.4	97.0
Total overseas	1,758.9	862.2	2,621.1	186.7	1,603.7	774.2	2,377.9	149.2
Total	1,797.5	1,054.8	2,852.3	226.3	1,633.4	968.2	2,601.6	179.4

Geographical information

	Revenue from external customers		Non-current assets	
	2018 £m	2017 £m	2018 £m	2017 £m
UK	577.0	561.5	231.2	223.7
Germany	67.8	79.0	20.0	16.1
Spain	683.9	610.5	1,245.4	1,152.7
Morocco	48.9	45.7	19.8	22.5
Switzerland	12.3	7.3	9.7	12.2
USA	982.3	934.1	1,195.2	1,039.4
Canada	78.5	83.1	131.0	135.0
	2,450.7	2,321.2	2,852.3	2,601.6

Due to the nature of the Group's businesses, the origin and destination of revenue is the same.

No single external customer amounts to 10% or more of the total revenue.

Information reported to the Group Executive Committee does not regularly include an analysis of assets and liabilities by segment.

5 Operating costs

	2018 £m	2017 £m
Cost of inventories recognised in expense	86.1	81.2
Staff costs	1,260.9	1,161.6
Depreciation – Owned assets	112.5	107.8
– Leased assets	21.3	27.8
Intangible asset amortisation	47.0	41.6
Gain on disposal of property, plant and equipment	8.4	5.4
Gain on disposal of intangible assets	8.3	–
Amortisation of fixed asset grants	(0.5)	(1.0)
Operating lease charges		
Rolling stock	13.2	13.2
Public service vehicles	27.8	21.9
Other	5.4	5.4
– Plant and equipment	46.4	40.5
– Land and buildings	28.6	29.0
Foreign exchange differences	–	(0.1)
Other charges	616.3	629.5
Total operating costs	2,235.3	2,123.3

6 Auditor's remuneration

An analysis of fees paid to the Group's auditor is provided below:

	2018 £m	2017 £m
Audit of the Financial Statements ¹	0.4	0.4
Audit of subsidiaries	0.9	0.8
Audit-related assurance services	0.1	0.1
	1.4	1.3

¹ Includes £0.1m of additional fees for specific procedures performed in relation to the implementation of new accounting standards.

7 Employee benefit costs**(a) Staff costs**

	2018 £m	2017 £m
Wages and salaries	1,093.2	1,010.8
Social security costs	151.0	136.8
Pension costs (note 34)	10.3	8.7
Share-based payment (note 8)	6.4	5.3
	1,260.9	1,161.6

The average number of employees, including Executive Directors, during the year was as follows:

	2018	2017
Managerial and administrative	4,415	4,347
Operational	42,288	41,917
	46,703	46,264

Included in the above are the following costs related to the Group's key management personnel who comprise the Executive Directors of the parent Company. Further details are disclosed in the Directors' Remuneration Report:

	2018 £m	2017 £m
Basic salaries	1.3	1.2
Benefits	0.9	0.8
Performance-related bonuses	1.9	2.0
Share-based payment	2.8	2.1
	6.9	6.1

(b) Share schemes

Details of options or awards outstanding at the end of the year under the Group's share schemes are as follows:

	Number of share options 2018	Number of share options 2017	Exercise price	Future exercise periods
Long-Term Incentive Plan	5,909,026	6,162,640	nil	2019-2023
WMT Long Service Option Scheme	155,521	183,883	129p-392p	2019-2028
Executive Deferred Bonus Plan	181,668	123,341	nil	2019
	6,246,215	6,469,864		

7 Employee benefit costs continued

(b) Share schemes continued

(i) Long-Term Incentive Plan ('LTIP')

The LTIP is open to Executive Directors and senior management with awards made at the discretion of the Remuneration Committee, normally on an annual basis and in the form of a nil cost option over a certain number of shares in the Company. The vesting of shares on the third anniversary of grant is subject to the Company's achievement against specific performance conditions and growth targets set at the date of grant which: (i) relate to earnings per share ('EPS'), return on capital employed ('ROCE') and the relative total shareholder return ('TSR') of the Company against a comparator group of companies and the FTSE 250 Index, and (ii) are measured over the three-year financial period commencing with the year of grant. Unvested shares automatically lapse.

An accrual entitlement in respect of dividends paid by the Company during the vesting period attaches to vested shares and is paid to participants on vesting. Similarly, dividends are payable on unexercised vested shares held by Executive Directors during their compulsory two-year holding period which runs from the date of vesting (in parallel with the two-year exercise period).

The LTIP allows for the grant to UK participants of an HMRC approved share option over shares with a market value of up to a maximum of £30,000 outstanding at any time. These are awarded at the same time as, and with the same performance conditions as, the LTIP awards and work by way of set-off versus the vested LTIP share value on exercise with the excess LTIP option award being forfeited.

In each of the years 2012 to 2014 inclusive, a supplementary nil cost option LTIP award was granted to the Group Chief Executive. The vesting of these shares on the fifth anniversary of grant is subject to the Company's achievement against specific performance conditions and growth targets set at each date of grant which; (i) relate to EPS and the relative TSR of the Company against a comparator group of companies and/or the FTSE 250 Index, and (ii) are measured over the five-year financial period commencing with the year of grant. Unvested shares automatically lapse and no dividend accrual entitlement exists. The exercise vesting period is one year and no compulsory holding period applies.

Vested shares for all LTIP awards are normally delivered in the form of market purchased shares held in the Company's Employee Benefit Trust ('EBT'). No cash settlement alternative is available at present.

(ii) Executive Deferred Bonus Plan ('EDBP')

The delivery of the annual bonus award for Executive Directors is structured in two distinct parts, an initial cash payment under the annual bonus plan and a one-year deferred payment award in the form of forfeitable shares in the Company granted under the EDBP. Release of the shares on the first anniversary of grant is not subject to any additional performance condition, save for continuing employment. Participants are entitled to receive any dividends paid by the Company on the shares while they are held in the EBT during the deferred period.

(iii) West Midlands Travel Long Service Option Scheme ('WMT LSOS')

The WMT LSOS is used to reward WMT employees who attain 25 years' service. The market-value option award over a certain number of shares in the Company is exercisable between the third and tenth anniversary of grant. There are no performance conditions and shares are delivered on exercise through the EBT. No cash settlement alternative is available.

(iv) Travel West Midland Share Incentive Plan ('TWM SIP')

The TWM SIP exists for the benefit of WMT employees. However, the plan is closed to new entrants and no awards have been granted under it since May 2008. At 31 December 2018, 1,079 (2017: 1,079) shares in the Company were held by the Trustee for the benefit of existing participants. No cash settlement alternative is available.

8 Share-based payments

The charge in respect of share-based payment transactions included in the Group's Income Statement for the year is as follows:

	2018	2017
	£m	£m
Expense arising from share and share option plans – continuing operations	6.4	5.3

During the year ended 31 December 2018, the Group had four share-based payment arrangements, which are described in note 7(b).

For the following disclosure, share options with a nil exercise price have been disclosed separately to avoid distorting the weighted average exercise prices. The number of share options in existence during the year was as follows:

	2018		2017	
	Number of share options	Weighted average exercise price p	Number of share options	Weighted average exercise price p
Options without a nil exercise price:				
At 1 January	183,883	295	215,367	323
Granted during the year	27,000	392	12,600	364
Forfeited during the year	(16,649)	283	(4,693)	284
Exercised during the year	(27,811)	272	(13,789)	249
Expired during the year	(10,902)	594	(25,602)	583
Outstanding at 31 December	155,521	298	183,883	295
Exercisable at 31 December	97,077	260	84,986	275
Options with a nil exercise price:				
At 1 January	6,285,981	nil	7,614,819	nil
Granted during the year	2,159,093	nil	2,205,273	nil
Forfeited during the year	–	nil	(606,359)	nil
Exercised during the year	(2,220,498)	nil	(2,759,291)	nil
Expired during the year	(133,882)	nil	(168,461)	nil
Outstanding at 31 December	6,090,694	nil	6,285,981	nil
Exercisable at 31 December	51,955	nil	–	nil
Total outstanding at 31 December	6,246,215		6,469,864	
Total exercisable at 31 December	149,032		84,986	

The options outstanding at 31 December 2018 had exercise prices that were between 129p and 392p (2017: between 129p and 590p) excluding options with a nil exercise price. The range of exercise prices for options was as follows:

Exercise price (p)	2018	2017
	Number	Number
100-300	74,196	95,718
301-350	44,625	65,404
351-600	36,700	22,761
	155,521	183,883

The options have a weighted average contractual life of one year (2017: one year). Options were exercised regularly throughout the year and the weighted average share price at exercise was 387p (2017: 361p).

8 Share-based payments continued

The weighted average fair value of the share options granted during the year was calculated using a stochastic model, with the following assumptions and inputs:

	Share options without nil exercise price		Share options with nil exercise price	
	2018	2017	2018	2017
Risk-free interest rate	1.04%	0.44%	0.85%	0.11%
Expected volatility	21%	25%	20%	22%
Peer group volatility	–	–	27%-29%	28%-29%
Expected option life in years	5 years	5 years	3 years	3 years
Expected dividend yield	3.50%	3.42%	0.0%	0.0%
Weighted average share price at grant date	386p	359p	387p	359p
Weighted average exercise price at grant date	392p	364p	nil	nil
Weighted average fair value of options at grant date	43p	49p	342p	291p

Experience to date has shown that approximately 24% (2017: 24%) of options are exercised early, principally due to leavers. This has been incorporated into the calculation of the expected option life for the share options without nil exercise price.

Expected volatility in the table above was determined from historical volatility over the last eight years, adjusted for one-off events that were not considered to be reflective of the volatility of the share price going forward. The expected dividend yield represents the dividends declared in the 12 months preceding the date of the grant divided by the average share price in the month preceding the date of the grant.

For share options granted during the year under the LTIP, the TSR targets have been reflected in the calculation of the fair value of the options above.

9 Net finance costs

	2018 £m	2017 £m
Bond and bank interest payable	(36.8)	(38.0)
Finance lease interest payable	(4.4)	(3.9)
Other interest payable	(3.8)	(2.7)
Unwind of provision discounting	(1.2)	(1.3)
Net interest cost on defined benefit pension obligations	(2.2)	(2.1)
Finance costs	(48.4)	(48.0)
Other financial income	9.8	10.0
Net finance costs	(38.6)	(38.0)
Of which, from financial instruments:		
Financial liabilities measured at amortised cost	(40.6)	(40.7)
Derivatives	9.3	9.3
Loan fee amortisation	(1.5)	(1.2)

10 Taxation**(a) Analysis of taxation charge in the year**

	2018 £m	2017 £m
Current taxation:		
UK corporation tax	2.9	5.0
Overseas taxation	16.0	14.5
Current income tax charge	18.9	19.5
Adjustments with respect to prior years – UK and overseas	(0.1)	1.2
Total current income tax charge	18.8	20.7
Deferred taxation (note 27):		
Origination and reversal of temporary differences – continuing operations	17.7	19.5
Adjustments with respect to prior years – UK and overseas	0.8	(13.7)
Deferred tax charge	18.5	5.8
Total tax charge for the Group	37.3	26.5
Amounts relating to discontinued items	1.7	1.5
Total tax charge for the continuing Group	39.0	28.0

The tax charge for the continuing Group is disclosed as follows:

Tax charge on profit before separately disclosed items	49.0	48.0
Tax credit on separately disclosed items	(10.0)	(20.0)
	39.0	28.0

In the current year, the tax credit on separately disclosed items of £10.0m relates to tax relief on intangible amortisation and is determined by reference to the tax rates in the jurisdiction to which the intangible amortisation relates. The effective tax rate relating to intangible amortisation is significantly higher than the UK tax rate of 19.0% due to the weighting of intangibles in jurisdictions with higher tax rates than the UK, specifically the US (26%) and Spain (25%).

In the prior year, the tax credit on separately disclosed items of £20.0m comprised an £11.4m tax credit on intangibles, a £7.5m net credit in relation to the tax rate reduction and a tax credit of £1.1m on other items.

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

	2018 £m	2017 £m
Current taxation:		
Credit on exchange movements offset in reserves	0.5	1.0
	0.5	1.0
Deferred taxation:		
Deferred tax credit on actuarial losses	4.0	2.1
Deferred tax charge on cash flow hedges	3.1	(3.4)
Deferred tax credit on foreign exchange differences	(2.7)	–
Deferred tax charge on share-based payments	1.2	(1.6)
	5.6	(2.9)

10 Taxation continued

(c) Reconciliation of the total tax charge

	2018 £m	2017 £m
Profit before income tax – continuing Group	177.7	156.4
Notional charge at UK corporation tax rate of 19.00% (2017: 19.25%)	33.8	30.1
Recurring items:		
Non-deductible goodwill impairment	1.6	1.6
Non-deductible intangible amortisation	0.6	0.1
Effect of overseas tax rates	9.1	11.0
Tax incentives	(4.2)	(4.9)
State taxes	0.6	–
Non-recurring items:		
Overseas financing deductions	–	(3.0)
Adjustments to prior years within current and deferred tax (excluding movements in tax provisions)	0.7	(2.1)
Release of tax provisions	(0.7)	(0.8)
Effect of reduction in tax rates	(0.4)	(7.5)
Non-deductible expenditure	1.0	2.6
Indexation in relation to property disposals	(2.2)	–
Non-creditable withholding tax	–	1.0
Utilisation of a deferred tax asset for previously unrecognised tax losses	(0.9)	(0.1)
Total tax charge reported in the Income Statement (note 10(a))	39.0	28.0

Included within the tax reconciliation are a number of non-recurring items, the effect of a reduction in tax rates and the release of tax provisions. During the year, the UK business disposed of properties and land which benefited from indexation on the capital gain calculation resulting in a tax credit of £2.2m. Items expected to recur in the tax reconciliation for 2018 include the difference in rates between the UK and our overseas markets, tax incentives on re-investment credits and the merger of our Spanish businesses.

The UK corporation tax rate has reduced in the year from 19.25% to 19.0% due to a reduction in the UK statutory corporation tax rate from 20% to 19% from 1 April 2017. The difference in the corporation tax rate of 19.0% and deferred tax rate of 17.6% has resulted in a £0.4m credit during the year.

On 22 December 2017, the US Tax Cuts and Jobs Act of 2017 was signed into law. The main change was to reduce the US federal corporate income tax rate from 35% to 21% from 1 January 2018. At the Balance Sheet date, the 21% rate (2017: 21%) was substantively enacted. This change in rate has resulted in a net tax credit of £7.5m to the Income Statement in the prior year.

(d) Tax provisions

At 31 December 2018, the Group held tax provisions of £7.9m, representing a number of tax uncertainties such as the deductibility of interest expense in the UK and Spain and the Moroccan and US tax audits. All UK corporation tax returns up to 2017 have been submitted and agreed by HMRC. There has been a net decrease of £1.7m in tax provisions, which represents releases of tax reserves where the statute of limitation has closed (£0.7m) and in respect of a liability in our Moroccan business. Based on the experience of the Group Tax department and after discussions of the various tax uncertainties with our tax advisers, the year end tax provision represents management's best estimate of the tax uncertainties of which we are aware. The provision for the Group's tax uncertainties of £7.9m is included in current tax liabilities.

At 31 December 2017, the Group held tax provisions of £9.6m to cover tax uncertainties across our various markets. All UK corporation tax returns up to 2016 were submitted and agreed by HMRC except for one outstanding matter.

(e) Temporary differences associated with Group investments

No deferred tax (2017: £nil) is recognised on the unremitted earnings of subsidiaries, associates and joint ventures, as the Group has determined that these undistributed profits will not be distributed in the near future. As a result of changes to tax legislation in 2009, overseas dividends received on or after 1 July 2009 are generally exempt from UK corporation tax, but may be subject to withholding tax. There are no temporary differences (2017: £nil) associated with investments in subsidiaries, associates and joint ventures, for which a deferred tax liability has not been recognised but for which a tax liability may arise.

10 Taxation continued**(f) Unrecognised tax losses**

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit against future taxable profits is probable. Based on current forecasts, it is estimated that the losses recognised for deferred tax purposes will be utilised within three to four years. UK and overseas deferred tax assets that the Group has not recognised in the Financial Statements relate to gross losses of £17.6m (2017: £17.7m), which arise in tax jurisdictions where the Group does not expect to generate sufficient suitable future taxable profits. The majority of the unrecognised losses relates to UK entities where it is uncertain when, or if, the losses will be utilised.

(g) Deferred tax included in the Income Statement

	2018 £m	2017 £m
Accelerated capital allowances	10.5	(4.8)
Other short-term temporary differences	10.3	4.2
(Recognition)/utilisation of losses	(2.3)	6.4
Deferred tax charge (note 10(a))	18.5	5.8

Details on the Balance Sheet position of deferred tax are included in note 27.

(h) Factors that may affect future tax charges

There are no known significant factors that may affect future tax charges.

11 Discontinued operations and assets and liabilities held for sale**(a) 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 2017 Annual Report, along with the disposal of the Thameside 'c2c' franchise which was sold to Trenitalia.

Details of the discontinued operations are as follows:

	2018 £m	2017 £m
Revenue	5.1	29.7
Operating costs	(6.8)	(31.2)
Trading loss before tax	(1.7)	(1.5)
One-off costs relating to discontinued operations	-	(7.0)
Gross profit on disposal of discontinued operations	-	12.9
Net (loss)/profit from discontinued operations before tax	(1.7)	4.4
Attributable income tax credit	1.7	1.5
Net profit from discontinued operations attributable to equity shareholders	-	5.9

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:

	2018 £m	2017 £m
Cash inflow/(outflow) from operating activities	0.4	(14.8)
Cash outflow from investing activities	-	(0.5)
Net cash inflow/(outflow)	0.4	(15.3)

11 Discontinued operations and assets and liabilities held for sale continued

(b) Assets held for sale

Two subsidiaries and two buildings met the held for sale criteria of IFRS 5 at 31 December 2018.

The assets and liabilities of the subsidiaries and carrying value of the buildings have been classified as held for sale in the Balance Sheet and comprise the following:

	Subsidiaries 2018 £m	Buildings 2018 £m	Total 2018 £m
Property, plant and equipment	0.1	4.5	4.6
Intangible assets	12.8	-	12.8
Trade and other receivables	5.2	-	5.2
Cash and cash equivalents	0.2	-	0.2
Total assets held for sale	18.3	4.5	22.8
Trade and other payables	(1.1)	-	(1.1)
Non current deferred tax liability	(2.6)	-	(2.6)
Total liabilities held for sale	(3.7)	-	(3.7)
Net assets	14.6	4.5	19.1

12 Dividends paid and proposed

	2018 £m	2017 £m
Declared and paid during the year		
Ordinary final dividend for 2017 paid of 9.25p per share (2016: 8.41p)	47.3	42.9
Ordinary interim dividend for 2018 of 4.69p per share (2017: 4.26p)	23.5	21.8
	70.8	64.7
Proposed for approval (not recognised as a liability at 31 December)		
Ordinary final dividend for 2018 of 10.17p per share (2017: 9.25p per share)	51.9	47.3

13 Earnings per share

	2018	2017
Basic earnings per share	26.6p	25.7p
Normalised basic earnings per share	32.9p	29.1p
Basic earnings per share from continuing operations	26.6p	24.5p
Diluted earnings per share	26.5p	25.5p
Normalised diluted earnings per share	32.8p	29.0p
Diluted earnings per share from continuing operations	26.5p	24.4p

Basic EPS is calculated by dividing the earnings attributable to equity shareholders of £135.7m (2017: £131.0m) by the weighted average number of ordinary shares in issue during the year, excluding those held by the Group's Employee Benefit Trust (note 32) which are treated as cancelled.

Basic EPS for continuing operations is calculated by dividing the earnings from the continuing Group attributable to equity shareholders of £135.7m (2017: £125.1m). Basic and diluted EPS in the year for discontinued operations was nil (2017: 1.2p) and nil (2017: 1.1p) 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:

	2018	2017
Basic weighted average shares	510,682,902	510,407,865
Adjustment for dilutive potential ordinary shares	2,197,926	2,336,951
Diluted weighted average shares	512,880,828	512,744,816

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:

	2018			2017		
	£m	Basic EPS p	Diluted EPS p	£m	Basic EPS p	Diluted EPS p
Profit attributable to equity shareholders	135.7	26.6	26.5	131.0	25.7	25.5
Intangible amortisation for acquired businesses	42.3	8.3	8.2	38.0	7.4	7.4
UK restructuring costs	-	-	-	5.6	1.1	1.1
Separately disclosed tax	(10.0)	(2.0)	(1.9)	(20.0)	(3.9)	(3.9)
Profit for the year from discontinued operations	-	-	-	(5.9)	(1.2)	(1.1)
Normalised profit attributable to equity shareholders	168.0	32.9	32.8	148.7	29.1	29.0

14 Intangible assets

	Customer contracts £m	Software £m	Contract mobilisation costs £m	Total finite life assets £m	Goodwill £m	Total £m
Cost:						
At 1 January 2018	767.1	98.3	17.8	883.2	1,358.0	2,241.2
Acquisitions	55.8	–	–	55.8	105.5	161.3
Additions	0.9	11.9	3.4	16.2	–	16.2
Disposals	(1.7)	(4.4)	–	(6.1)	–	(6.1)
Reclassifications	0.2	(5.0)	–	(4.8)	–	(4.8)
Assets reclassified as held for sale (note 11)	(7.9)	(7.8)	–	(15.7)	–	(15.7)
Foreign exchange	22.0	3.8	0.3	26.1	39.2	65.3
At 31 December 2018	836.4	96.8	21.5	954.7	1,502.7	2,457.4
Amortisation and impairment:						
At 1 January 2018	501.1	64.4	1.9	567.4	40.4	607.8
Charge for year	37.5	8.5	1.0	47.0	–	47.0
Disposals	–	(4.4)	–	(4.4)	–	(4.4)
Reclassifications	–	(2.8)	–	(2.8)	–	(2.8)
Assets reclassified as held for sale (note 11)	(2.0)	(0.9)	–	(2.9)	–	(2.9)
Foreign exchange	11.0	2.4	0.1	13.5	1.7	15.2
At 31 December 2018	547.6	67.2	3.0	617.8	42.1	659.9
Net book value:						
At 31 December 2018	288.8	29.6	18.5	336.9	1,460.6	1,797.5
At 1 January 2018	266.0	33.9	15.9	315.8	1,317.6	1,633.4

	Customer contracts £m	Software £m	Contract mobilisation costs £m	Total finite life assets £m	Goodwill £m	Total £m
Cost:						
At 1 January 2017	708.7	71.7	16.3	796.7	1,349.4	2,146.1
Acquisitions	59.6	–	–	59.6	64.5	124.1
Additions	1.2	8.8	1.7	11.7	–	11.7
Disposals	(2.9)	(1.1)	–	(4.0)	(46.1)	(50.1)
Reclassifications	5.2	23.2	(0.9)	27.5	–	27.5
Foreign exchange	(4.7)	(4.3)	0.7	(8.3)	(9.8)	(18.1)
At 31 December 2017	767.1	98.3	17.8	883.2	1,358.0	2,241.2
Amortisation and impairment:						
At 1 January 2017	462.7	49.5	0.8	513.0	84.5	597.5
Charge for year	32.2	8.4	1.0	41.6	–	41.6
Disposals	(2.9)	(1.3)	–	(4.2)	(46.2)	(50.4)
Reclassifications	1.8	10.5	–	12.3	0.3	12.6
Foreign exchange	7.3	(2.7)	0.1	4.7	1.8	6.5
At 31 December 2017	501.1	64.4	1.9	567.4	40.4	607.8
Net book value:						
At 31 December 2017	266.0	33.9	15.9	315.8	1,317.6	1,633.4
At 1 January 2017	246.0	22.2	15.5	283.7	1,264.9	1,548.6

14 Intangible assets continued

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

	2018 £m	2017 £m
UK	27.6	16.7
North America	620.7	518.0
ALSA	812.3	782.9
	1,460.6	1,317.6

The calculation of value in use for each group of cash-generating units is most sensitive to the assumptions over discount rates and the growth rate used to extrapolate cash flows beyond the three-year period of the management plan.

The key assumptions used for the cash-generating units are as follows:

	Pre-tax discount rate applied to cash flow projections		Growth rate used to extrapolate cash flows beyond three-year period of management plan	
	2018	2017	2018	2017
UK	7.7%	7.5%	2.6%	2.6%
North America	7.6%	7.5%	2.8%	2.8%
ALSA	8.6%	8.6%	2.8%	2.8%

The growth rates used to extrapolate cash flow projections are derived from financial budgets and forecasts approved by senior management covering a three-year period. The assumptions in these forecasts, which include growth rates and operating margins, are based on historical experience and detailed budget plans as well as management's assessment of current market and economic conditions. Long-term growth rates take into account any known events which would impact cash flows outside of the three-year planning period and are set with reference to long-term CPI rates and projected GDP growth. The cash flows are discounted using pre-tax rates that are calculated from country-specific weighted average cost of capital ('WACC').

The value in use of the North America division exceeds its carrying amount by £419.3m (2017: £557.3m).

The value in use of the ALSA division exceeds its carrying amount by £139.5m (2017: £189.7m).

Sensitivities to key and other assumptions

The sensitivity analysis below has been presented in the interests of transparency and consistency only. It is not believed that any reasonably possible movement in key and other assumptions will lead to an impairment.

Sensitivity analysis has been completed on each key assumption in isolation. This indicates that the value in use of the North America division will be equal to its carrying value with an increase in the pre-tax discount rate of 1.5% (2017: 2.3%) or a reduction in the growth rates used to extrapolate cash flows beyond the three-year period of the management plan of 1.6% (2017: 2.5%).

In addition, for North America, a reduction in operating profit margin of 1.6% (2017: 2.5%) will result in the value in use of the division being equal to its carrying amount. North America's operating profit margin for 2018 was 9.1% (2017: 9.3%).

For ALSA, sensitivity analysis on each key assumption indicates that the value in use will be equal to its carrying amount following an increase in the pre-tax discount rate of 1.1% (2017: 0.9%) or a reduction in growth rates used to extrapolate cash flows beyond the three-year period of the management plan of 0.6% (2017: 0.9%).

A reduction in ALSA's operating profit margin of 1.0% (2017: 1.5%) will result in the value in use of the division being equal to its carrying amount. ALSA's operating profit margin for 2018 was 14.1% (2017: 14.3%).

The Directors consider the assumptions used to be consistent with the historical performance of each cash-generating unit and to be realistically achievable in light of economic and industry measures and forecasts and therefore that goodwill is not impaired.

15 Property, plant and equipment

	Freehold land and buildings £m	Long leasehold property improvements £m	Public service vehicles £m	Plant and equipment, fixtures and fittings £m	Total £m
Cost:					
At 1 January 2018	112.9	15.4	1,667.8	204.5	2,000.6
Acquisitions	5.3	–	21.2	0.6	27.1
Additions	0.9	6.0	188.7	14.5	210.1
Disposals	(14.1)	(4.7)	(99.5)	(64.0)	(182.3)
Reclassifications	(0.2)	–	–	5.0	4.8
Assets reclassified as held for sale (note 11)	–	(4.5)	–	(0.2)	(4.7)
Foreign exchange	1.2	0.6	57.2	2.7	61.7
At 31 December 2018	106.0	12.8	1,835.4	163.1	2,117.3
Depreciation:					
At 1 January 2018	30.8	8.9	833.8	158.9	1,032.4
Charge for the year	2.7	0.4	119.9	10.8	133.8
Disposals	(7.0)	(4.7)	(71.6)	(55.8)	(139.1)
Reclassifications	–	–	–	2.8	2.8
Assets reclassified as held for sale (note 11)	–	–	–	(0.1)	(0.1)
Foreign exchange	0.3	0.2	30.1	2.1	32.7
At 31 December 2018	26.8	4.8	912.2	118.7	1,062.5
Net book value:					
At 31 December 2018	79.2	8.0	923.2	44.4	1,054.8
At 1 January 2018	82.1	6.5	834.0	45.6	968.2

	Freehold land and buildings £m	Long leasehold property improvements £m	Public service vehicles £m	Plant and equipment, fixtures and fittings £m	Total £m
Cost:					
At 1 January 2017	113.3	11.8	1,649.2	212.3	1,986.6
Acquisitions	–	–	10.4	0.2	10.6
Additions	1.3	3.3	136.4	26.7	167.7
Disposals	(4.5)	–	(67.8)	(5.7)	(78.0)
Reclassifications	–	–	–	(30.4)	(30.4)
Foreign exchange	2.8	0.3	(60.4)	1.4	(55.9)
At 31 December 2017	112.9	15.4	1,667.8	204.5	2,000.6
Depreciation:					
At 1 January 2017	29.4	7.8	800.0	165.8	1,003.0
Charge for the year	2.5	0.4	123.0	9.7	135.6
Disposals	(1.7)	–	(57.7)	(5.5)	(64.9)
Reclassifications	–	–	–	(12.5)	(12.5)
Foreign exchange	0.6	0.7	(31.5)	1.4	(28.8)
At 31 December 2017	30.8	8.9	833.8	158.9	1,032.4
Net book value:					
At 31 December 2017	82.1	6.5	834.0	45.6	968.2
At 1 January 2017	83.9	4.0	849.2	46.5	983.6

15 Property, plant and equipment continued

Property, plant and equipment held under finance lease agreements are analysed as follows:

		2018 £m	2017 £m
Public service vehicles	– cost	314.4	341.5
	– depreciation	(160.3)	(157.9)
Total net book value		154.1	183.6

Assets held under finance lease agreements are pledged as security for the related finance lease and hire purchase liabilities.

16 Subsidiaries

The companies listed below include all those which principally affect the results and net assets of the Group. A full list of subsidiaries, joint ventures and associates is disclosed in note 39, along with the addresses of their registered offices. The principal country of operation in respect of the companies below is the country in which they are incorporated.

National Express Group PLC is the beneficial owner of all the equity share capital, either itself or through subsidiaries, of the companies.

Incorporated in England and Wales

National Express Limited	Administration and marketing of express coach services in Great Britain
The Kings Ferry Limited	Operation of coach services
West Midlands Travel Limited	Operation of bus services

Incorporated in Scotland

Tayside Public Transport Co Limited (trading as Travel Dundee)	Operation of bus services
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Incorporated in the US

Durham School Services LP	Operation of school bus services
Petermann Ltd	Operation of school bus services
National Express Transit Corporation	Operation of transit bus services
National Express Transit Services Corporation	Operation of transit bus services

Incorporated in Canada

Stock Transportation Limited	Operation of school bus services
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Incorporated in Spain

NEX Continental Holdings S.L. ¹	Holding company for operating companies
Tury Express S.A. ¹	Holding company for operating companies
General Tecnica Industrial S.L.U. ¹	Holding company for operating companies

Incorporated in Morocco

Groupe Alsa Transport S.A.	Operation of bus services
Transport de Voyageurs en Autocar Maroc S.A.	Operation of bus services
Alsa Tanger S.A.	Operation of bus services
Alsa City Agadir S.A.	Operation of bus services

Incorporated in Germany

National Express Rail GmbH	Operation of train passenger services
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¹ The main holding companies of the ALSA Group.

The Group has no material non-controlling interests that require separate disclosure.

17 Non-current financial assets

	2018 £m	2017 £m
Financial assets at fair value through other comprehensive income – Unlisted ordinary shares	6.7	8.1
Derivative financial instruments – Fuel derivatives	1.5	2.5
Derivative financial instruments – Interest rate derivatives	6.7	10.0
Derivative financial instruments – Cross currency swaps	–	0.9
Derivative financial instruments included in non-current assets	8.2	13.4
Total non-current financial instruments	14.9	21.5
Derivative financial instruments – Fuel derivatives	0.4	7.9
Derivative financial instruments – Interest rate derivatives	3.9	4.2
Derivative financial instruments – Foreign exchange derivatives	3.6	3.3
Derivative financial instruments included in current assets	7.9	15.4

Further information on the Group's use of derivatives is included in note 31.

Financial assets at fair value through other comprehensive income

	2018 £m	2017 £m
Fair value:		
At 1 January	8.1	7.8
Change in accounting policies ¹	(0.7)	–
At 1 January (restated)	7.4	7.8
Disposals in the year	(0.8)	–
Foreign exchange	0.1	0.3
At 31 December	6.7	8.1

¹ Opening balances have been restated for the adoption of IFRS 9 'Financial Instruments' (see note 2).

The principal financial assets at fair value through other comprehensive income are as follows:

Name	Country of registration	Class of share	2018 Proportion held %	2017 Proportion held %
Metros Ligeros de Madrid, S.A. (MLM)	Spain	Ordinary shares	15	15
Other small investments within ALSA	Spain	Ordinary shares	1-16	1-16

Financial assets at fair value through other comprehensive income comprise holdings in equity shares of non-listed companies. The Group elected to designate the non-listed equity investments at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.

18 Investments accounted for using the equity method

Investments accounted for using the equity method are as follows:

	2018 £m	2017 £m
Joint ventures	10.2	8.5
Associates	2.7	2.8
Total investments accounted for under the equity method	12.9	11.3

The Group's share of post-tax results from associates and joint ventures accounted for using the equity method is as follows:

	2018 £m	2017 £m
Ibero-Eurosur S.L.	-	(3.6)
Bahrain Public Transport Company W.L.L.	1.1	0.9
Share of joint ventures' profit/(loss)	1.1	(2.7)
Share of associates' loss	(0.2)	(0.8)
Total share of results from associates and joint ventures	0.9	(3.5)

(a) Investments in joint ventures

The Group's interests in joint ventures are as follows:

Name	Country of registration	Activity	Proportion held %
Ibero-Eurosur S.L.	Spain	Holding company of Deutsche Touring	20
Bahrain Public Transport Company W.L.L.	Kingdom of Bahrain	Operation of bus services	50

The summarised financial information for individually immaterial joint ventures is set out below:

	Ibero-Eurosur S.L.		Bahrain Public Transport Company W.L.L.	
	2018 £m	2017 £m	2018 £m	2017 £m
Share of the joint ventures' balance sheets and results				
Non-current assets	0.2	0.2	16.4	16.9
Current assets	-	-	7.0	5.9
Share of gross assets	0.2	0.2	23.4	22.8
Non-current liabilities	(0.2)	(0.2)	(6.8)	(9.6)
Current liabilities	-	-	(6.4)	(4.7)
Share of gross liabilities	(0.2)	(0.2)	(13.2)	(14.3)
Net assets	-	-	10.2	8.5
Revenue	-	-	6.0	6.4
Operating profit/(loss)	-	(3.6)	0.7	0.7
Profit/(loss) after tax	-	(3.6)	1.1	0.9
Profit/(loss) for the year and total comprehensive income	-	(3.6)	1.7	0.2
Dividends received from the joint ventures during the year	-	-	-	-

A reconciliation of the above summarised information to the carrying amount in the Consolidated Financial Statements is as follows:

	Ibero-Eurosur S.L.		Bahrain Public Transport Company W.L.L.	
	2018 £m	2017 £m	2018 £m	2017 £m
Net assets of the joint venture	-	-	20.4	17.0
Proportion of interest belonging to joint venture partners	-	-	(10.2)	(8.5)
Group share of net assets	-	-	10.2	8.5

18 Investments accounted for using the equity method continued

(b) Investments in associates

The Group's interests in associates are as follows:

Name	Country of registration	Proportion held %
ALSA associates	Spain	17-80

ALSA's associates are generally involved in the operation of coach and bus services, management of bus stations and similar operations.

The summarised aggregated financial information for individually immaterial associates is set out below:

	2018 £m	2017 £m
Share of operating loss	(0.2)	(0.8)
Share of loss for the year and total comprehensive income and expenditure	(0.2)	(0.8)
Group share of net assets	2.7	2.8

The carrying amount of the investment in associates equals the Group's share of the net assets.

19 Business combinations, disposals and assets held for sale

(a) Acquisitions – North America

During the year, the North America division acquired 100% control of seven businesses in the US, none of which are individually material:

- Quality Bus Service LLC – school bus and charter bus services in Sparrowbush, NY
- Aristocrat Limousine & Bus Company – charter bus services in Parsippany, NJ
- A&S Transportation Inc. – school bus transportation services in Naples, FL
- A1A Transportation Inc. – school bus transportation services in Davie, FL
- Wise Coaches, Inc. – motor coach and charter bus services in Nashville, TN
- Kiessling Transit, Inc. – paratransit bus services in Norfolk, MA
- Wehrle Bus Service – school bus transportation services in Cliffwood, NJ

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	21.9
Property, plant and equipment	8.1
Trade and other receivables	6.3
Cash overdraft	(2.4)
Trade and other payables	(22.7)
Provisions	(17.4)
Deferred tax assets	8.9
Net assets acquired	2.7
Goodwill	74.7
Total consideration	77.4
Represented by:	
Cash consideration	56.6
Overdraft acquired in the businesses	(2.4)
Deferred consideration	23.2
	77.4

Given the proximity of acquisitions to the year end, and as permitted by IFRS 3 'Business Combinations', the fair value of acquired identifiable assets and liabilities have been presented on a provisional basis.

Trade and other receivables had a gross contractual value of £6.9m and fair value of £6.3m. At the acquisition date, the best estimate of the contractual cash flows not to be collected was £0.6m.

Goodwill of £74.7m arising from the acquisitions consists of certain intangible benefits that cannot be separately identified and measured due to their nature. This includes control over the acquired businesses and increased scale in our North American operations, along with synergy benefits expected to be achieved. The amount of goodwill that is expected to be deductible for income tax purposes is £19.7m.

19 Business combinations, disposals and assets held for sale continued

Included in the deferred consideration shown above is contingent consideration of £16.8m relating to seven acquisitions. For these acquisitions, the Group is required to pay an indemnity contingent on the performance of sellers' indemnification obligations or other post-closing obligations under the acquisition agreements. The payments are dependent on meeting the respective conditions, with a minimum expected undiscounted payment of £nil and maximum expected undiscounted payment of £16.8m. 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 £35.5m of revenue and £9.6m to the Group's profit for the periods between the dates of control and the Balance Sheet date. Had the acquisitions been completed on the first day of the financial year, the Group's continuing revenue for the year would have been £2,476.5m and the Group's continuing operating profit would have been £216.0m.

(b) Acquisitions – ALSA

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

- Argabus S.A. (100%) – commuter urban and charter bus services in Madrid area, Spain
- BC Tours (75%) – tourist charter, other transportation services and coastal trade in Palma de Mallorca, Spain
- Autos Cal Pita S.A. (97%) – regional and charter bus services in Galicia, Spain

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

	£m
Intangible assets	33.9
Property, plant and equipment	13.0
Trade and other receivables	4.3
Cash and cash equivalents	23.6
Debt and debt equivalents	(1.8)
Trade and other payables	(11.9)
Deferred tax liabilities	(8.6)
Minority interests	(2.1)
Net assets acquired	50.4
Goodwill	19.9
Total consideration	70.3
Represented by:	
Cash consideration	44.1
Payments for cash acquired in the businesses	23.6
Deferred consideration	2.6
	70.3

Trade and other receivables had a fair value and a gross contractual value of £4.3m. The best estimate at acquisition date of the contractual cash flows not to be collected was £nil.

Goodwill of £19.9m arising from the acquisitions consists of certain intangible benefits that cannot be separately identified and measured due to their nature. This includes control over the acquired businesses and increased scale in our operations in Spain, 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 £2.6m relating to Autos Cal Pita S.A.. The Group is required to pay consideration on renewal of contracts on a one-year to two-year basis. The payment is dependent on meeting the respective conditions, with a minimum expected undiscounted payment of £nil and maximum expected undiscounted payment of £2.6m. 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 £34.2m of revenue and £6.5m to the Group's profit for the periods between the dates of acquisition and the Balance Sheet date. Had the acquisitions been completed on the first day of the financial year, the Group's continuing revenue for the year would have been £2,461.9m and the Group's continuing operating profit would have been £216.1m.

19 Business combinations, disposals and assets held for sale continued

(c) Acquisitions – UK

During the year, the UK division acquired 100% control of Stewarts Coach Group Limited.

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

	£m
Goodwill	0.2
Property, plant and equipment	6.0
Trade and other receivables	1.9
Cash and cash equivalents	1.5
Debt and debt equivalents	(6.6)
Trade and other payables	(2.6)
Provisions	(1.3)
Deferred tax liabilities	(0.6)
Net liabilities acquired	(1.5)
Goodwill	10.7
Total consideration	9.2
Represented by:	
Cash consideration	6.7
Payments for cash acquired in the businesses	1.5
Deferred consideration	1.0
	9.2

Trade and other receivables had a fair value and a gross contractual value of £1.9m. The best estimate at acquisition date of the contractual cash flows not to be collected was £nil.

Goodwill of £10.7m arising from the acquisitions consists of certain intangible benefits that cannot be separately identified and measured due to their nature. This includes control over the acquired business and 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 £1.0m. The Group is required to pay consideration contingent on pre-determined revenue and EBIT thresholds being met for the period to 31 March 2019. The payment is dependent on meeting the respective conditions, with a minimum expected undiscounted payment of £nil and maximum expected undiscounted payment of £1.0m. 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 £4.0m of revenue and £1.1m to the Group's profit for the periods between the dates of acquisition and the Balance Sheet date. Had the acquisitions been completed on the first day of the financial year, the Group's continuing revenue for the year would have been £2,455.1m and the Group's continuing operating profit would have been £215.2m.

(d) Acquisitions – further information

Deferred consideration of £38.3m 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 £94.9m, comprising consideration for current year acquisitions of £54.2m and deferred consideration of £38.3m, plus overdraft acquired in the businesses of £2.4m.

In addition, for North America, during the year there was a reduction to the provisional fair values of businesses acquired in the prior year of £12.5m, with a resultant increase in goodwill.

Deferred consideration of £0.2m 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 £44.3m, comprising consideration of £67.7m and deferred consideration of £0.2m, less cash acquired in the businesses of £23.6m.

Total cash outflow in the year from acquisitions in the UK division was £6.7m, comprising consideration of £8.2m, less cash acquired in the businesses of £1.5m.

Total acquisition transaction costs of £2.2m were incurred in the year to 31 December 2018.

19 Business combinations, disposals and assets held for sale continued**(e) Disposals**

On 10 February 2017, the Group disposed of the National Express Essex Thameside 'c2c' franchise to Trenitalia. The consideration received was £71.8m. Cash in the business on disposal was £14.9m and cash outflows relating to costs of disposal were £14.1m, therefore the net cash inflow in the prior year from the disposal was £42.8m.

Further details of this disposal are disclosed in note 11.

20 Non-current assets – trade and other receivables

	2018 £m	2017 £m
Prepayments	0.3	0.5
Other receivables	2.7	19.6
	3.0	20.1

Other receivables in 2017 includes amounts relating to insurance claims awaiting settlement.

21 Inventories

	2018 £m	2017 £m
Raw materials and consumables	27.4	24.9

The movement on the provision for slow moving and obsolete inventory is immaterial.

22 Current assets – trade and other receivables

	2018 £m	2017 £m
Trade receivables	233.4	202.5
Grants and subsidies receivable	65.2	49.8
Amounts due from associates and joint ventures (note 36)	2.5	1.6
Amounts due from other related parties (note 36)	0.5	0.7
Trade and grant receivables	301.6	254.6
Less: provision for impairment of receivables	(29.4)	(13.5)
Trade and grant receivables – net (note 30)	272.2	241.1
Other receivables	70.7	63.4
Prepayments	36.7	28.6
Accrued income	29.0	23.2
	408.6	356.3

Information about the credit risk exposure of the Group's trade receivables is shown in note 30.

Trade receivables excludes £45.0m (2017: £49.1m) that was subject to factoring arrangements without recourse.

Certain amounts included within current and non-current other receivables are in relation to insurance claims awaiting settlement. Additional disclosure regarding these claims may unfairly prejudice the Group's position and consequently this disclosure is not provided. None of the remaining amounts within other receivables are individually material.

The Directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value.

23 Cash and cash equivalents

	2018 £m	2017 £m
Cash at bank and in hand	74.6	100.7
Overnight deposits	1.9	4.9
Other short-term deposits	41.2	208.7
	117.7	314.3
Less: amounts included within assets classified as held for sale	(0.2)	–
Cash and cash equivalents	117.5	314.3

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

24 Current liabilities – trade and other payables

	2018 £m	2017 £m
Trade payables	325.3	258.5
Amounts owed to associates and joint ventures (note 36)	1.0	1.0
Amounts owed to other related parties (note 36)	1.6	1.3
Other tax and social security payable	25.8	27.3
Accruals and deferred income	258.0	197.7
Other payables	258.8	186.6
	870.5	672.4

Trade payables are normally settled on 30 to 60 day terms and other payables have an average term of four months.

Accruals and deferred income includes £28.6m (£26.3m) of deferred income. This primarily relates to season ticket revenue where we expect to fulfil the performance obligation within one year.

Other payables includes £160.3m (2017: £101.7m) for the purchase of property, plant and equipment where increased payment terms have been agreed with the supplier due to the nature of the payable. The Group settles these amounts in accordance with the suppliers' standard payment terms; however, the supplier has the option to receive payment earlier from a bank at a discount to the invoice price.

Other payables also includes deferred fixed asset grants from government or other public bodies of £0.5m (2017: £0.7m), advance payments for factoring of divisional revenues of £43.7m (2017: £12.5m) and £45.9m (2017: £54.0m) of deferred consideration for businesses acquired, of which £8.5m (2017: £49.2m) relates to businesses acquired in the year (note 19).

25 Other non-current liabilities

	2018 £m	2017 £m
Deferred fixed asset grants	3.2	2.8
Other payables	22.0	33.2
	25.2	36.0

Other payables includes £21.2m (2017: £32.5m) of deferred consideration for businesses acquired, of which £18.3m (2017: £25.8m) relates to businesses acquired in the year (note 19).

26 Provisions

	Claims Provision £m	Other £m	Total £m
At 1 January 2018	114.1	16.8	130.9
Charged to the Income Statement	27.8	3.5	31.3
Amounts settled through insurers	(25.5)	-	(25.5)
Utilised in the year	(44.8)	(9.5)	(54.3)
Unwinding of discount	1.2	-	1.2
Acquired in business combinations	17.4	1.3	18.7
Exchange difference	5.4	0.2	5.6
At 31 December 2018	95.6	12.3	107.9
Current 31 December 2018	49.2	9.5	58.7
Non-current 31 December 2018	46.4	2.8	49.2
	95.6	12.3	107.9
Current 31 December 2017	54.3	11.2	65.5
Non-current 31 December 2017	59.8	5.6	65.4
	114.1	16.8	130.9

The claims provision arises from estimated exposures at the year end for auto and general liability, workers' compensation and environmental claims, the majority of which will be utilised in the next five years. It comprises provisions for claims arising in the UK and North America.

Other primarily relates to a potential reclaim of subsidies in ALSA. The majority will be utilised within one year, with the remainder expected to be utilised within the next five years.

When the effect is material, the provisions are discounted to their net present value.

27 Deferred tax

	2018 £m	2017 £m
At 1 January	(18.6)	(34.6)
Change in accounting policies ¹	9.8	–
At 1 January (restated)	(8.8)	(34.6)
Charge to the Income Statement	(18.5)	(5.8)
Credit/(charge) to Other Comprehensive Income or Equity	5.6	(4.1)
Exchange differences	(0.9)	1.3
Acquired in business combinations	(0.3)	24.6
	(22.9)	(18.6)
Less: amounts reclassified as held for sale	2.6	–
Net deferred tax liability at 31 December	(20.3)	(18.6)

¹ Opening balances have been restated for the adoption of IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from contracts with customers' (see note 2).

Based on current capital investment plans, the Group expects to be able to claim capital allowances in excess of depreciation in future years at a similar level to the current year.

Deferred tax assets	2018 £m	2017 £m
Accelerated tax depreciation	(1.3)	4.6
Losses carried forward	33.5	30.7
Pensions	19.5	15.9
Intangibles and deductible goodwill	(13.6)	(10.6)
Other short-term temporary differences	4.6	0.8
	42.7	41.4

Deferred tax liabilities	2018 £m	2017 £m
Accelerated tax depreciation	(212.4)	(178.2)
Losses carried forward	60.0	43.4
Intangibles and deductible goodwill	80.3	73.6
Taxation credits	1.8	1.6
Other short-term temporary differences	4.7	(0.4)
	(65.6)	(60.0)
Less: amounts included within liabilities classified as held for sale	2.6	–
	(63.0)	(60.0)

Deferred tax assets and liabilities within the same jurisdiction have been offset, with deferred tax assets of £42.7m arising in our UK and German businesses and deferred tax liabilities of £65.6m arising in our Spanish, US and Canadian businesses.

The deferred tax assets relating to losses carried forward are £93.5m (2017: £74.1m). This comprises £33.5m (2017: £30.7m) within deferred tax assets and £60.0m (2017: £43.4m) within deferred tax liabilities.

Deferred tax assets relating to other short-term temporary differences of £4.6m (2017: £0.8m) comprises timing differences on share-based payments, fair value of hedging and other smaller items.

The Group has recognised deferred tax assets across the UK, US, Spanish and German businesses amounting to £204.4m that are considered to be able to be offset against the Group's future taxable profits. Management has based its assessment on the latest forecast budget approved by the Board which reflects improved trading performance across all divisions largely due to the expansion of the business.

28 Borrowings and derivative financial liabilities

	2018 £m	2017 £m
Non-current		
Bank loans	8.6	8.4
Bonds	852.4	851.9
Finance lease obligations	94.6	124.1
Other debt payable	73.7	73.6
Non-current borrowings	1,029.3	1,058.0
Fuel derivatives	8.2	1.3
Cross currency swaps	4.4	-
Non-current derivative financial instruments	12.6	1.3
Non-current borrowings and derivative financial liabilities	1,041.9	1,059.3
Current		
Bank loans	0.4	107.2
Finance lease obligations	48.0	49.0
Accrued interest on borrowings	10.9	11.2
Current borrowings	59.3	167.4
Fuel derivatives	6.4	3.9
Cross currency swaps	-	4.1
Foreign exchange derivatives	10.5	1.8
Current derivative financial instruments	16.9	9.8
Current borrowings and derivative financial liabilities	76.2	177.2

An analysis of interest-bearing loans and borrowings is provided in note 29. Further information on derivative financial instruments is provided in note 31.

29 Interest-bearing borrowings

The effective interest rates on loans and borrowings at the Balance Sheet date were as follows:

	2018 £m	Maturity	Effective interest rate	2017 £m	Maturity	Effective interest rate
10-year Sterling bond	227.9	June 2020	6.85%	230.4	June 2020	6.85%
7-year Sterling bond	400.3	November 2023	2.54%	400.2	November 2023	2.54%
2.5-year Euro floating rate note	224.2	May 2020	EURIBOR + 0.40%	221.3	May 2020	EURIBOR + 0.40%
Bonds	852.4			851.9		
European bank loans	2.8	2019-2024	EURIBOR + 0.90%	2.8	2018	EURIBOR + 1.26%
Moroccan bank loans	6.2	2019-2023	4.66%-4.85%	11.5	2018-2020	4.75%
US bank loans	-	-	-	96.2	April 2018	USD LIBOR +0.75%
Other short-term bank loans	-	-	-	5.1	-	-
Bank loans	9.0			115.6		
US Dollar finance leases at fixed rate	119.9	2019-2024	3.23%	156.9	various	2.72%
European finance leases at fixed rate	9.1	2019-2023	3.02%	6.8	2018-2023	3.02%
European finance leases at floating rate	9.0	2019-2022	EURIBOR + 1.10%	8.5	2018-2022	EURIBOR + 1.61%
Sterling finance leases at fixed rate	4.6	2019-2024	2.71%	0.9	2018	4.08%
Finance leases	142.6			173.1		
Euro Private Placement	73.7	August 2021	4.55%	73.6	August 2021	4.55%
Other debt payable	73.7			73.6		
Accrued interest – Bonds	9.7			9.5		
Accrued interest – Private Placement	1.2			1.2		
Accrued interest – US bank loans	-			0.5		
Accrued interest on borrowings	10.9			11.2		
Total	1,088.6			1,225.4		

The Group currently has £527.0m of unsecured committed revolving credit facilities, which mature in April 2023. At 31 December 2018, there was £nil (2017: £nil) drawn down on the facilities, with £2.6m of capitalised deal fees remaining.

Details of the Group's interest rate risk management strategy and associated interest rate derivatives are included in notes 30 and 31.

The Group is subject to a number of financial covenants in relation to its syndicated credit facilities which, if contravened, could result in its borrowings under those facilities becoming immediately repayable. These covenants specify maximum net debt to EBITDA and minimum EBITDA to net interest payable.

29 Interest-bearing borrowings continued

The following table sets out the carrying amount, by maturity, of the Group's interest-bearing borrowings and deposits:

As at 31 December 2018	< 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	> 5 years £m	Total £m
Fixed rate							
Bank loans	(0.1)	(2.1)	-	(1.8)	(2.2)	-	(6.2)
Bonds	-	(227.9)	-	-	(400.3)	-	(628.2)
Finance leases	(45.2)	(30.3)	(20.0)	(19.1)	(12.2)	(6.8)	(133.6)
Other debt payable	-	-	(73.7)	-	-	-	(73.7)
Floating rate							
Cash assets	117.7	-	-	-	-	-	117.7
Other debt receivables	2.1	-	-	-	-	-	2.1
Bank loans	(0.3)	-	(2.4)	-	-	(0.1)	(2.8)
Bonds	-	(224.2)	-	-	-	-	(224.2)
Finance leases	(2.8)	(2.2)	(1.6)	(1.2)	(0.8)	(0.4)	(9.0)
As at 31 December 2017							
	< 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	> 5 years £m	Total £m
Fixed rate							
Bank loans	(102.0)	(2.0)	(4.1)	(1.6)	(0.2)	(0.1)	(110.0)
Bonds	-	-	(230.4)	-	-	(400.2)	(630.6)
Finance leases	(45.8)	(38.2)	(25.5)	(17.8)	(17.6)	(19.7)	(164.6)
Other debt payable	-	-	-	(73.6)	-	-	(73.6)
Floating rate							
Cash assets	314.3	-	-	-	-	-	314.3
Other debt receivables	0.7	-	-	-	-	-	0.7
Bank loans	(5.2)	(0.4)	-	-	-	-	(5.6)
Bonds	-	-	(221.3)	-	-	-	(221.3)
Finance leases	(3.2)	(2.6)	(1.2)	(0.9)	(0.5)	(0.1)	(8.5)

30 Financial risk management objectives and policies

Financial risk factors and management

The Group is exposed to risks relating to fuel prices, foreign currency exchange rates, interest rates and the availability of funding at reasonable margins. The Group has in place a risk management programme that seeks to manage the impact of these risks on the financial performance of the Group by using financial instruments including borrowings, committed facilities and forward foreign exchange, fuel and interest rate derivatives.

The Board of Directors has delegated the responsibility for implementing the financial risk management policies laid down by the Board to the Group Finance Director and the Group Treasurer. The policies are implemented by the Group Treasury department with regular reporting to the Group Finance Director and the Audit Committee on its activities.

Foreign currency

The Group has major foreign operations in the USA, Canada, Spain and Morocco and as a result is exposed to the movements in foreign currency exchange rates on the translation of these foreign currency denominated net assets.

The Group seeks to reduce this foreign currency exchange movement risk by using a combination of foreign currency borrowings and entering into derivative financial instruments such as cross currency interest rate swaps and foreign exchange forward contracts. At the year end, the Group had outstanding foreign exchange derivatives for net investment purposes of €54.0m, USD \$82.8m and CAD \$55.2m, and cross currency interest rate swaps of €222.7m.

The foreign exchange forward contracts and cross currency interest rate swaps are derivative financial instruments designated as net investment hedges of foreign currency assets. The effective portion of the gain or loss on the hedge is recognised in the Group Statement of Comprehensive Income and recycled to the Income Statement at the same time as the underlying hedged net assets affect the Income Statement. Any material ineffectiveness is taken to the Income Statement.

The table below demonstrates the sensitivity of the Group's financial instruments to a reasonably possible change in foreign exchange rates, with all other variables held constant. This would affect the Group's profit before tax and translation reserve. The effect on the translation reserve represents the movement in the translated value of the foreign currency denominated loans and change in fair value of the derivative contracts. These movements would be offset by an opposite movement in the translated value of the related portion of the Group's overseas net investments. It is estimated that a 10% change in the corresponding exchange rates would result in an exchange gain or loss in the translation reserve of £56.5m.

As at 31 December	Strengthening/ (weakening) in currency	2018		2017	
		Effect on profit before tax £m	Effect on translation reserve £m	Effect on profit before tax £m	Effect on translation reserve £m
US Dollar	10%	-	(14.1)	-	(23.0)
Euro	10%	-	(39.4)	-	(39.2)
Canadian Dollar	10%	-	(3.0)	-	(4.9)
US Dollar	(10)%	-	14.1	-	23.0
Euro	(10)%	-	39.4	-	39.2
Canadian Dollar	(10)%	-	3.0	-	4.9

30 Financial risk management objectives and policies continued

Interest rate risk

The Group is exposed to movements in interest rates on both interest-bearing assets and liabilities. It is the Group's policy to maintain an appropriate balance between fixed and floating interest rates on borrowings in order to provide a level of certainty to interest expense in the short term and to reduce the year-on-year impact of interest rate fluctuations over the medium term. To achieve the desired fixed:floating ratio, the Group has entered into a series of interest rate swaps that have the effect of converting fixed rate debt to floating rate debt. The net effect of these transactions was that as at 31 December 2018 the proportion of the Group's gross debt at floating rates was 37% (2017: 43%).

The table below demonstrates the sensitivity of the Group's financial instruments to a reasonably possible change in interest rates, with all other variables held constant, on the Group's profit before tax and on the Group's hedging reserve.

The sensitivity analysis covers all floating rate financial instruments, including the interest rate swaps. If the interest rates applicable to floating rate instruments were increased by 100 basis points it is estimated that the Group's profit before taxation would decrease by approximately £0.5m relating to Sterling, £2.8m relating to the Euro and increase £0.3m relating to the US Dollar. The analysis assumes that the amount and mix of floating rate debt, including finance leases, remains unchanged from that in place at 31 December 2018.

	Increase/ (decrease) in basis points	2018		2017	
		Effect on profit before tax £m	Effect on reserves £m	Effect on profit before tax £m	Effect on reserves £m
As at 31 December					
Sterling	100	(0.5)	–	1.6	–
US Dollar	100	0.3	–	0.2	–
Euro	100	(2.8)	–	(2.8)	–
Sterling	(100)	0.5	–	(1.6)	–
US Dollar	(100)	(0.3)	–	(0.2)	–
Euro	(100)	2.8	–	2.8	–

Commodity prices

The Group is exposed to movements in commodity prices as a result of its fuel usage. It is the Group's policy to hedge this exposure in order to provide a level of certainty as to its cost in the short term and to reduce the year-on-year impact of price fluctuations over the medium term. This is achieved by entering into fuel derivatives. At 31 December 2018, the Group had hedged approximately 96% of its 2019 expected usage, 68% of its expected usage in 2020 and 23% of its expected usage in 2021 (see the Group Finance Director's review for further details).

The table below demonstrates the effect of a reasonably possible variation in fuel prices, with all other variables held constant, on the fair value of the Group's financial instruments and accordingly on the Group's profit before tax and on the Group's hedging reserve.

The sensitivity analysis includes all fuel derivatives. The effect on the hedging reserve arises through movements on the fair value of the Group's fuel derivatives. For these derivative contracts the sensitivity of the net fair value to an immediate 10% increase or decrease in all prices would have been £14.9m at 31 December 2018. The figure does not include any corresponding economic advantage or disadvantage that would arise from the natural business exposure which would be expected to offset the gain or loss on the derivatives.

	Increase/ (decrease) in price	2018		2017	
		Effect on profit before tax £m	Effect on hedging reserve £m	Effect on profit before tax £m	Effect on hedging reserve £m
As at 31 December					
Sterling denominated diesel	10%	–	5.2	–	6.0
US Dollar denominated diesel	10%	–	2.8	–	3.2
US Dollar denominated gasoline	10%	–	1.6	–	1.0
Euro denominated diesel	10%	–	5.3	–	5.3
Sterling denominated diesel	(10)%	–	(5.2)	–	(6.0)
US Dollar denominated diesel	(10)%	–	(2.8)	–	(3.2)
US Dollar denominated gasoline	(10)%	–	(1.6)	–	(1.0)
Euro denominated diesel	(10)%	–	(5.3)	–	(5.3)

30 Financial risk management objectives and policies continued**Credit risk****(i) Risk management**

The maximum credit risk exposure of the Group is the gross carrying value of each of its financial assets. This risk is mitigated by a number of factors. Many of the Group's principal customers, suppliers and financial institutions with which it conducts business are local public (or quasi-public) bodies, including school boards in North America, municipal authorities in Spain and Morocco and the West Midlands Combined Authority in the UK, and regional authorities in Germany. The Group does not consider these counterparties to pose a significant credit risk. Outside of this, the Group does not consider it has significant concentrations of credit risk. The Group has implemented policies that require appropriate credit checks on potential customers before sales commence.

(ii) Impairment of financial assets

The Group applies the IFRS 9 simplified approach to measuring expected credit losses for all trade receivables at each reporting date. Provision matrices are used to measure expected losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns, such as geographical region, service type, and customer type and rating. The calculation reflects the probability-weighted outcome and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

The table below shows the credit risk exposure on the Group's trade receivables as at 31 December 2018:

	Carrying amount £m	Current £m	Days past due			
			Less than 30 days £m	Between 30 and 60 days £m	Between 61 and 90 days £m	Over 90 days £m
31 December 2018						
Expected loss rate	9.7%	0.9%	3.4%	3.9%	9.7%	27.5%
Gross carrying amount – trade and grant receivables	301.6	158.4	25.2	13.6	11.5	92.9
Loss allowance	29.4	1.4	0.9	0.5	1.1	25.5

Trade receivables over 90 days primarily comprise amounts due from public authorities in ALSA, along with receivables for school bus services in North America where amounts are settled on approval from the local governing bodies at the end of the school period. A loss provision of £25.5m is in place against these receivables. Given that these are predominantly ongoing contractual relationships and with public bodies, the Directors believe that the remaining amounts will be collected.

In the prior year, the impairment of trade receivables was assessed based on the incurred loss model in accordance with IAS 39. Trade receivables were assessed collectively to determine whether there was objective evidence that an impairment had been incurred but not yet been identified.

30 Financial risk management objectives and policies continued

The closing loss allowance for trade receivables as at 31 December 2018 reconciles to the opening loss allowance as follows:

	2018 £m	2017 £m
At 31 December (calculated under IAS 39)	(13.5)	(12.9)
Amounts restated through opening retained earnings for IFRS 9 ¹	(16.7)	–
Opening loss allowance as at 1 January	(30.2)	(12.9)
Increase in loss allowance recognised in Income Statement during the year	(3.0)	(0.8)
Utilised in the year	4.8	0.6
Arising on acquisitions	(0.6)	–
Exchange difference	(0.4)	(0.4)
At 31 December	(29.4)	(13.5)

¹ Opening balances have been restated for the adoption of IFRS 9 'Financial Instruments' (see note 2).

Trade receivables are written off when there is no reasonable expectation of recovery.

Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same item.

Impairment provisions in respect of cash and cash equivalents are also subject to the requirements of IFRS 9 and at the reporting date no impairment loss was identified.

Liquidity risk

Funding for the Group is coordinated centrally by the treasury function and comprises committed bilateral facilities with a syndicate of banks, and a series of medium-term notes. The level of facilities is maintained such that facilities and term loans exceed the forecast peak gross debt of the Group over a rolling 12-month view by an appropriate amount taking into account market conditions and corporate activity, including acquisitions and organic growth plans.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2018 based on the contractual undiscounted cash flows including interest cash flows. As such, the amounts in this table will not agree to the carrying amounts disclosed in the Balance Sheet or other notes. The table includes cash flows associated with derivative hedging instruments. Their amounts reflect the maturity profile of the fair value liability where the instrument will be settled net, and the gross settlement amount where the pay leg of a derivative will be settled separately to the receive leg.

Year ended 31 December 2018	< 1 year £m	1-5 years £m	> 5 years £m	Total £m
Bank loans	3.0	8.5	0.1	11.6
Bonds	25.1	904.7	–	929.8
Finance lease obligations	49.1	94.9	8.4	152.4
Other debt payable	3.2	77.0	–	80.2
Trade and other payables	870.0	22.0	–	892.0
	950.4	1,107.1	8.5	2,066.0
Foreign exchange derivatives	10.5	–	–	10.5
Interest rate derivatives	3.7	6.9	–	10.6
Cross currency interest rate swaps	2.0	7.6	–	9.6
Fuel derivatives	5.7	7.3	–	13.0
	21.9	21.8	–	43.7

30 Financial risk management objectives and policies continued

Year ended 31 December 2017	< 1 year £m	1-5 years £m	> 5 years £m	Total £m
Bank loans	107.3	8.3	–	115.6
Bonds	25.1	517.2	410.0	952.3
Finance lease obligations	53.5	112.5	20.5	186.5
Other debt payable	3.2	79.3	–	82.5
Trade and other payables	671.7	33.2	–	704.9
	860.8	750.5	430.5	2,041.8
Foreign exchange derivatives	1.5	–	–	1.5
Interest rate derivatives	4.0	10.2	–	14.2
Cross currency interest rate swaps	(2.7)	8.0	4.1	9.4
Fuel derivatives	3.8	1.5	–	5.3
	6.6	19.7	4.1	30.4

Capital risk management

The Group's capital structure consists of equity (refer to the Group Statement of Changes in Equity) and net debt (refer to note 37).

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group's debt is monitored on the basis of a gearing ratio, being net debt divided by EBITDA, further details of which are provided in the Group Finance Director's review.

The Group also uses return on capital employed (ROCE) as a measure of its ability to drive better returns on the capital invested in the Group's operations, further details of which are provided in the Group Finance Director's review.

31 Financial instruments (including cash, trade receivables and payables)**Fair values**

Financial assets at amortised cost are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and include trade and other receivables and cash and cash equivalents. They are measured at amortised cost using the effective interest rate method. The fair value of these instruments approximates their carrying amounts largely due to the short-term maturities.

Financial assets at fair value through other comprehensive income relates to the Group's non-listed equity investments. Previously under IAS 39 these investments were carried at cost, however under IFRS 9 are now carried at fair value.

The Group's derivatives are measured at fair value. Derivatives, other than those designated as effective hedging instruments, are classified as fair value through profit or loss and are carried on the Balance Sheet at their fair value with gains or losses recognised in the Income Statement. Derivatives designated as hedging instruments in an effective hedge are carried on the Balance Sheet at their fair value. For cash flow hedges and hedges of net investments in foreign operations, the effective portion of the gain or loss on the hedging instrument is recognised directly in Other Comprehensive Income, while the ineffective portion is recognised in the Income Statement. Amounts taken to Other Comprehensive Income are transferred to the Income Statement when the hedged transaction affects profit or loss or when the foreign operation is sold or partially disposed. For fair value hedges, all gains or losses are recognised in the Income Statement.

31 Financial instruments (including cash, trade receivables and payables) continued

Fair values continued

The fair value measurement of derivative instruments is categorised within Level 2 (ie the fair values are derived based on observable market inputs). The Group has no financial instruments with fair values that are determined by reference to significant unobservable inputs, ie those that would be classified as Level 3 in the fair value hierarchy, other than the deferred contingent consideration disclosed in note 19 and financial assets at fair value through other comprehensive income in note 17. There have not been any transfers of assets or liabilities between levels of the fair value hierarchy and there are no non-recurring fair value movements.

Certain Group bonds are held at a hybrid amortised cost with a fair value adjustment. After initial recognition at fair value, the bonds are measured at amortised cost using the effective interest rate method. A portion of the bonds is designated as the hedged item in an effective fair value hedging relationship. As such, the carrying value of this portion is adjusted for changes in fair value attributable to the risk being hedged. This net carrying value will differ to the fair value depending on movements in the Group's credit risk, movements in interest rates on the un-hedged portion and unamortised fees.

All other liabilities, including finance leases, bank loans, trade and other payables and other debt payable, are held at amortised cost. After initial fair value recognition, these instruments are measured at amortised cost using the effective interest rate method. The carrying value of these liabilities approximates to the fair value.

The following table illustrates the fair values of all financial assets and liabilities held by the Group at 31 December 2018.

Classification of financial instruments As at 31 December 2018	Assets and liabilities at amortised cost £m	At fair value through other comprehensive income £m	At fair value through profit or loss £m	Derivatives used for hedging £m	Total £m
Assets					
Investments	-	6.7	-	-	6.7
Fuel derivatives	-	-	-	1.9	1.9
Interest rate derivatives	-	-	10.6	-	10.6
Foreign exchange derivatives	-	-	-	3.6	3.6
Cash and cash equivalents	117.5	-	-	-	117.5
Trade and other receivables	345.6	-	-	-	345.6
	463.1	6.7	10.6	5.5	485.9
Liabilities					
Bank loans	(9.0)	-	-	-	(9.0)
Bonds	(862.1)	-	-	-	(862.1)
Finance lease obligations	(142.6)	-	-	-	(142.6)
Other debt payable	(74.9)	-	-	-	(74.9)
Fuel derivatives	-	-	-	(14.6)	(14.6)
Cross currency swaps	-	-	-	(4.4)	(4.4)
Foreign exchange derivatives	-	-	-	(10.5)	(10.5)
Trade and other payables	(892.0)	-	-	-	(892.0)
	(1,980.6)	-	-	(29.5)	(2,010.1)

31 Financial instruments (including cash, trade receivables and payables) continued

Classification of financial instruments As at 31 December 2017	Loans and receivables £m	Available- for-sale assets £m	Derivatives used for hedging £m	Liabilities measured at amortised cost £m	At fair value through profit or loss £m	Total £m
Assets						
Investments	-	8.1	-	-	-	8.1
Fuel derivatives	-	-	10.4	-	-	10.4
Interest rate derivatives	-	-	-	-	14.2	14.2
Cross currency swaps	-	-	0.9	-	-	0.9
Foreign exchange derivatives	-	-	3.3	-	-	3.3
Cash and cash equivalents	314.3	-	-	-	-	314.3
Trade and other receivables	324.1	-	-	-	-	324.1
	638.4	8.1	14.6	-	14.2	675.3
Liabilities						
Bank loans	-	-	-	(116.1)	-	(116.1)
Bonds	-	-	-	(861.4)	-	(861.4)
Finance lease obligations	-	-	-	(173.1)	-	(173.1)
Other debt payable	-	-	-	(74.8)	-	(74.8)
Fuel derivatives	-	-	(5.2)	-	-	(5.2)
Cross currency swaps	-	-	(4.1)	-	-	(4.1)
Foreign exchange derivatives	-	-	(1.8)	-	-	(1.8)
Trade and other payables	-	-	-	(704.9)	-	(704.9)
	-	-	(11.1)	(1,930.3)	-	(1,941.4)

Other receivables and other payables are to be settled in cash in the currency they are held in.

The Group assesses at each year end reporting date whether a financial asset or group of financial assets is impaired. In the financial year 2018, there was no objective evidence that would have necessitated the impairment of loans and receivables or available-for-sale assets except the provision for impairment of receivables (see note 22).

Embedded derivatives

In accordance with IFRS 9 'Financial Instruments', the Group has reviewed its contracts for embedded derivatives that are required to be separately accounted for. No embedded derivatives have been identified.

31 Financial instruments (including cash, trade receivables and payables) continued

Hedging activities

The Group uses derivative financial instruments to manage exposures to market risk, such as movements in foreign exchange rates, fuel prices and interest rates. Such derivative financial instruments are initially recognised at fair value and are subsequently re-measured at fair value at the end of each reporting period. In line with IFRS 9 the Group classifies hedges as (i) fair value hedges used to hedge exposure to changes in the fair value of a recognised asset or liability, (ii) cash flow hedges used to hedge exposure to variability in cash flows associated with a recognised asset or liability or a highly probable forecast transaction, and (iii) hedges of a net investment in a foreign operation.

In 2018, the Group applied cash flow hedge accounting to hedge floating fuel price risks in highly probable forecast purchase transactions and for hedging net investments in its North American and European foreign operations. The Group also applied fair value hedge accounting on £100m of the Group's fixed rate bonds and €78.5m Private Placement to hedge changes in fair value due to interest rate fluctuations.

The movement on derivative financial instruments is detailed below:

	Fuel swaps £m	Interest rate swaps £m	Cross currency swaps £m	Foreign exchange forward contracts £m	Total £m
Net asset/(liability) at 1 January 2018	5.2	14.2	(3.2)	1.5	17.7
Transfers to the Income Statement on cash flow hedges	(11.5)	-	-	-	(11.5)
Cash settlements	-	-	7.6	20.0	27.6
Revaluation through Income Statement	-	(3.6)	-	-	(3.6)
Revaluation through Other Comprehensive Income	(6.4)	-	-	-	(6.4)
Costs of hedging	-	-	1.4	-	1.4
Exchange differences	-	-	(10.2)	(28.4)	(38.6)
Net asset/(liability) at 31 December 2018	(12.7)	10.6	(4.4)	(6.9)	(13.4)

	Fuel swaps £m	Interest rate swaps £m	Cross currency swaps £m	Foreign exchange forward contracts £m	Total £m
Net asset/(liability) at 1 January 2017	(13.1)	22.7	8.2	(3.9)	13.9
Transfers to the Income Statement on cash flow hedges	23.6	-	-	-	23.6
Cash settlements	-	-	-	(5.7)	(5.7)
Revaluation through Income Statement	-	(9.6)	-	-	(9.6)
Revaluation through Other Comprehensive Income	(5.3)	-	-	-	(5.3)
Transfers	-	1.1	-	-	1.1
Exchange differences	-	-	(11.4)	11.1	(0.3)
Net asset/(liability) at 31 December 2017	5.2	14.2	(3.2)	1.5	17.7

The movement on the hedging reserve is detailed below:

	2018 £m	2017 £m
At 1 January	4.5	2.8
Transferred to Income Statement	(11.5)	23.6
Revaluation through Other Comprehensive Income	(6.4)	(5.3)
Exchange differences	0.1	(13.2)
Tax on revaluation	3.1	(3.4)
At 31 December	(10.2)	4.5

31 Financial instruments (including cash, trade receivables and payables) continued**Hedge of net investments in foreign entities**

The Group uses foreign currency borrowings and derivative financial instruments to hedge the net investment in material foreign currency net assets of the Group, which are used to reduce the exposure to foreign exchange rate movements. At 31 December 2018, the Group had designated €54.0m of foreign exchange forward contracts, €222.7m of cross currency interest rate swaps, a €250.0m floating rate note and a €78.5m Private Placement as net investment hedges of the net assets of the Group's European subsidiaries. Similarly, USD \$82.8m and CAD \$55.2m of foreign exchange forward contracts were designated as a hedge of the net assets of the Group's North America subsidiaries. No material ineffectiveness was recognised in relation to these hedges.

Fuel derivatives

The Group has a number of fuel derivatives in place to hedge the different types of fuel used in each division. Fuel swaps are used to match the timing, type of fuel and currency in which the domestic physical fuel is purchased as closely as possible, with hedges currently in place from 2019 through to 2021.

During the year, £6.4m of fair value losses (2017: £5.3m losses) have been transferred to the hedging reserve due to movements in market fuel prices. A fair value gain of £11.5m (2017: £23.6m loss) has been transferred from the hedging reserve to the Income Statement following settlement of fuel trades, of which a £4.0m gain was in the hedging reserve at 1 January 2018 and the remainder was generated during the year due to movements in market fuel prices. No material ineffectiveness was recognised in relation to these hedges.

Fuel derivatives can be analysed as follows:

	31 December 2018	31 December 2017	31 December 2018	31 December 2017
	Fair value	Fair value	Volume	Volume
	£m	£m	million litres	million litres
Hedge fuel derivatives				
Sterling denominated – UK	(1.0)	0.7	74.5	74.6
Euro denominated – ALSA	(2.8)	0.8	80.1	76.0
US Dollar and Canadian Dollar denominated – North America	(2.3)	2.5	62.1	52.4
Fuel derivatives included in current assets/(liabilities)	(6.1)	4.0	216.7	203.0
Sterling denominated – UK	(0.7)	(0.1)	79.1	97.2
Euro denominated – ALSA	(2.3)	(0.5)	81.4	77.1
US Dollar and Canadian Dollar denominated – North America	(3.6)	1.8	73.6	63.1
Fuel derivatives included in non-current assets/(liabilities)	(6.6)	1.2	234.1	237.4
Total hedge fuel derivatives	(12.7)	5.2	450.8	440.4

Interest rate swaps at fair value through profit or loss

In July 2010, the Group entered into two £50m interest rate swaps that pay floating interest (LIBOR + margin) semi-annually and receive fixed interest annually. These are designated as fair value hedges of interest rate risk with maturities matching the Group's £225m Sterling bonds maturing in June 2020. These swaps are measured at fair value through profit or loss, with any gains or losses being taken immediately to the Income Statement to offset any fair value gains or losses due to changes in the risk-free interest rate on the swapped portion of the bonds. A fair value loss of £3.0m was recognised in the Income Statement during the year in relation to these swaps. This was offset by a fair value gain of £3.0m on the underlying hedged item, being the change in fair value on £100m of the Group's £225m bonds due to changes in the risk-free interest rate.

In September 2012, the Group entered into two €39.25m denominated interest rate swaps equal in value to the Euro Private Placement. These interest rate swaps all pay floating interest (EURIBOR + margin) semi-annually, receive fixed interest semi-annually with maturities matching the Euro Private Placement and are designated as a fair value hedge of the interest rate risk on the Private Placement. These swaps are measured at fair value through profit and loss, with any gains or losses being taken immediately to the Income Statement to offset any fair value gains or losses due to changes in the risk-free rate on the Euro Private Placement. A fair value loss of £0.7m was recognised in the Income Statement during the year in relation to these swaps. This was offset by a fair value gain of £0.7m on the underlying hedged item, in this case changes in fair value of the Euro Private Placement due to changes in the risk-free interest rate.

32 Called-up share capital

	2018 £m	2017 £m
At 31 December:		
Authorised:		
800,000,000 (2017: 800,000,000) ordinary shares of 5p each	40.0	40.0
Issued called-up and fully paid:		
511,738,648 (2017: 511,738,648) ordinary shares of 5p each	25.6	25.6

The total number of share options exercised in the year by employees of the Group was 2,248,309 (2017: 2,773,080) of which 1,910,086 (2017: 2,316,546) exercises were satisfied by transferring shares from the National Express Employee Benefit Trust. The remaining exercises were settled via a direct purchase of shares from the open market.

Own shares

Own shares comprises 1,758,660 (2017: 1,643,746) ordinary shares in the Company that have been purchased by the trustees of the National Express Employee Benefit Trust (the 'Trust'). During the year, the Trust purchased 2,025,000 (2017: 1,700,000) shares and 1,910,086 (2017: 2,316,546) shares were used to satisfy options granted under a number of the Company's share schemes. No shares (2017: nil) were sold during the year to the open market.

The market value of the shares held by the Trust at 31 December 2018 was £6.6m (2017: £6.3m). The dividends payable on 3,551,284 of these shares have been waived (2017: 1,520,405).

33 Other reserves

	Merger reserve £m	Hedging reserve £m	Translation reserve £m	Total £m
At 1 January 2018	15.4	4.5	161.7	181.6
Exchange differences, net of tax	-	-	27.9	27.9
Hedge movements, net of tax	-	(14.7)	-	(14.7)
Cost of hedging	-	-	1.4	1.4
At 31 December 2018	15.4	(10.2)	191.0	196.2
	Merger reserve £m	Hedging reserve £m	Translation reserve £m	Total £m
At 1 January 2017	15.4	2.8	175.9	194.1
Hedge movements, net of tax	-	1.7	-	1.7
Exchange differences, net of tax	-	-	(14.2)	(14.2)
At 31 December 2017	15.4	4.5	161.7	181.6

The nature and purpose of the other reserves are as follows:

- The merger reserve included the premium on shares issued to satisfy the purchase of Prism Rail PLC in 2000.
- The hedging reserve records the movements on designated hedging items, offset by any movements recognised in equity on underlying hedged items.
- The translation reserve records exchange differences arising from the translation of the accounts of foreign currency denominated subsidiaries offset by the movements on loans and derivatives used to hedge the net investment in foreign subsidiaries.

34 Pensions and other post-employment benefits

(a) Summary of pension benefits and assumptions

The UK division ('UK') and National Express Group PLC (the 'Company') 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 Rothersey 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 2019.

The total pension cost charged to operating profit in the year for the Group was £10.3m (2017: £8.7m), of which £4.9m (2017: £3.9m) relates to the defined contribution schemes.

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

	2018 £m	2017 £m
Company	14.9	43.2
Pension assets	14.9	43.2
UK	(127.3)	(133.8)
Other	(4.4)	(3.9)
Pension liabilities	(131.7)	(137.7)
Total	(116.8)	(94.5)

Through its defined benefit plans, the Group is exposed to a number of risks, the most significant of which relate to the UK and are detailed below. The Company scheme has a low level of risk due to the buy-in policy, whereby the present value of the scheme liabilities is fully matched by the fair value of the insurance asset.

Investment risk

The present values of scheme liabilities are calculated using a discount rate set with reference to corporate bond yields; if the return on scheme assets is below this yield, it will create a deficit. The UK scheme holds a significant proportion of return-seeking assets (equities and diversified growth funds) which, though expected to outperform corporate bonds in the long term, create volatility and risk in the short term.

Interest risk

A decrease in bond interest rates will increase scheme liabilities but this will be partially offset by an increase in the returns on the scheme assets.

Inflation risk

A significant proportion of the schemes' obligations are linked to inflation, and higher inflation will lead to higher liabilities. The Group has some inflation linking in its revenue streams, which helps to offset this risk. In addition, the UK scheme holds a small proportion of index-linked bonds which will help to protect against this risk.

34 Pensions and other post-employment benefits continued

(a) Summary of pension benefits and assumptions continued

Longevity risk

The majority of the obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the liabilities. The UK scheme includes a buy-in policy covering part of the pensioner members' liabilities, which partly helps to mitigate longevity risk. The Company scheme is fully covered by a buy-in policy.

Legislative risk

Future legislative changes are uncertain. In the past these have led to both increases in obligations; for example, reduced investment return through the ability to reclaim Advance Corporation Tax, and decreases in obligations; for example, through the ability to use CPI inflation instead of RPI to set pension increase rates. For the UK scheme the Group receives professional advice on the impact of legislative changes.

The valuations conducted for financial reporting purposes are based on the triennial actuarial valuations. A summary of the latest triennial actuarial valuations for the principal schemes, and assumptions made, is as follows:

	UK	Company
	31 March 2016	5 April 2016
Date of actuarial valuation		
Rate of investment returns per annum	4.5%	0%-2.1%
Increase in earnings per annum	2.3%	–%
Scheme assets taken at market value	£449.1m	£114.8m
Funding level	81%	97%

The most recent triennial valuations are then updated by independent professionally qualified actuaries for financial reporting purposes, in accordance with IAS 19. The main actuarial assumptions underlying the IAS 19 valuations are:

	2018		2017	
	UK	Company	UK	Company
Rate of increase in salaries	2.5%	–	2.5%	2.5%
Rate of increase of pensions in payment	2.2%	3.2%	2.2%	3.2%
Discount rate	2.8%	2.9%	2.5%	2.5%
Inflation assumption (RPI)	3.2%	3.2%	3.2%	3.2%
Inflation assumption (CPI)	2.2%	2.2%	2.2%	2.2%
Post-retirement mortality in years:				
Current pensioners at 65 – male	21.2	22.7	21.5	23.1
Future pensioners at 65 – male	22.6	24.1	23.2	24.8
Current pensioners at 65 – female	23.1	25.4	23.5	25.9
Future pensioners at 65 – female	24.7	26.9	25.4	27.8

The demographic assumptions reflect those adopted in the most recent triennial actuarial valuation.

34 Pensions and other post-employment benefits continued**(a) Summary of pension benefits and assumptions continued**

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

	UK 2018 £m	Company 2018 £m	UK 2017 £m	Company 2017 £m
(Increase)/decrease in the defined benefit obligation				
Effect of a 0.1% increase in pensions in payment	(6.0)	–	(7.6)	(0.9)
Effect of a 0.1% increase in the discount rate	6.4	–	9.8	2.0
Effect of a 0.1% increase in inflation	(6.7)	–	(8.4)	(1.6)
Effect of a 0.1 year increase in mortality rates	(1.3)	–	(2.2)	(0.3)

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

Scheme assets are stated at their market values at the respective Balance Sheet dates. The expected rate of return on scheme assets is determined based on market returns on each category of scheme assets.

(b) Financial results for pension benefits

The amounts charged to the Group Income Statement and Group Statement of Comprehensive Income for the years ended 31 December 2018 and 2017 are set out in the following tables:

	UK 2018 £m	Company 2018 £m	Other 2018 £m	Total 2018 £m
Group Income Statement				
Amounts (charged)/credited:				
Current service cost	(4.0)	–	–	(4.0)
Past service cost	–	(0.9)	–	(0.9)
Net interest (expense)/income	(3.2)	1.1	(0.1)	(2.2)
Total (charge)/credit to Income Statement	(7.2)	0.2	(0.1)	(7.1)

In addition, during the year £0.5m (2017: £0.5m) of administrative expenses were incurred. The past service cost in the Company relates to Guaranteed Minimum Pension equalisation recognised in the year.

The net interest expense has been included within Finance Costs (see note 9).

	UK 2018 £m	Company 2018 £m	Other* 2018 £m	Total 2018 £m
Group Statement of Comprehensive Income				
Actuarial gain during the period from obligations	33.8	7.3	0.2	41.3
Expected return on plan assets greater/less than discount rate	(30.0)	(35.6)	–	(65.6)
Net actuarial loss	3.8	(28.3)	0.2	(24.3)

The Company actuarial loss of £35.6m includes £26.5m representing the difference between the costs of the insurance policy and the accounting value of the liabilities secured through the buy-in transaction described above.

In addition to the above actuarial movements, the Statement of Comprehensive Income also includes a £0.6m loss for investment advice that was incurred directly by the Company, primarily in relation to the buy-in transaction.

	UK 2017 £m	Company 2017 £m	Other 2017 £m	Total 2017 £m
Group Income Statement				
Amounts (charged)/credited:				
Current service cost	(4.3)	–	–	(4.3)
Net interest (expense)/income	(3.1)	1.2	(0.2)	(2.1)
Total (charge)/credit to Income Statement	(7.4)	1.2	(0.2)	(6.4)

34 Pensions and other post-employment benefits continued

(b) Financial results for pension benefits continued

Group Statement of Comprehensive Income	UK 2017 £m	Company 2017 £m	Other* 2017 £m	Total 2017 £m
Actuarial loss during the period from obligations	(22.7)	(1.9)	(5.7)	(30.3)
Expected return on plan assets greater/less than discount rate	20.2	(0.4)	0.2	20.0
Net actuarial loss prior to transfers	(2.5)	(2.3)	(5.5)	(10.3)
Transfers out – Tayside Transport Fund	(3.7)	–	–	(3.7)
Net actuarial loss	(6.2)	(2.3)	(5.5)	(14.0)

* includes £6.0m actuarial loss in the NXET Trains Limited Section of the RPS prior to disposal.

The amounts recognised in the Balance Sheet at 31 December are:

As at 31 December 2018	UK 2018 £m	Company 2018 £m	Other 2018 £m	Total 2018 £m
Equities	63.0	–	1.8	64.8
Bonds and multi-asset credit	78.4	–	0.8	79.2
Insurance policy	220.2	83.7	–	303.9
Diversified growth fund	90.6	–	–	90.6
Other	0.8	14.9	0.1	15.8
Fair value of scheme assets	453.0	98.6	2.7	554.3
Present value of liabilities and defined benefit obligation	(580.3)	(83.7)	(7.1)	(671.1)
Defined benefit pension (deficit)/surplus	(127.3)	14.9	(4.4)	(116.8)

As at 31 December 2017	UK 2017 £m	Company 2017 £m	Other 2017 £m	Total 2017 £m
Equities	101.6	–	1.8	103.4
Bonds	52.5	185.3	0.8	238.6
Insurance policy	237.7	–	–	237.7
Diversified growth fund	93.8	–	–	93.8
Other	0.6	(51.3)	0.2	(50.5)
Fair value of scheme assets	486.2	134.0	2.8	623.0
Present value of liabilities and defined benefit obligation	(620.0)	(90.8)	(6.7)	(717.5)
Defined benefit pension (deficit)/surplus	(133.8)	43.2	(3.9)	(94.5)

The movement in the present value of the defined benefit obligation in the year is as stated overleaf.

The Group's defined benefit obligation comprises £668.4m (2017: £714.7m) arising from plans that are wholly or partly funded and £2.7m (2017: £2.8m) from unfunded plans.

Based on the terms and conditions of the Company scheme, and from consultation with independent advisers, the Group determined that an ultimate future economic benefit exists in the form of a refund or a reduction in future contributions. Therefore, in accordance with IFRIC 14, the closing defined benefit surplus of this scheme has been recognised.

34 Pensions and other post-employment benefits continued**(b) Financial results for pension benefits continued**

The movement in the defined benefit obligations is as follows:

	UK £m	Company £m	Other £m	Total £m
Defined benefit obligation at 1 January 2018	(620.0)	(90.8)	(6.7)	(717.5)
Current service cost	(4.0)	–	–	(4.0)
Past service cost	–	(0.9)	–	(0.9)
Benefits paid	25.5	2.9	0.1	28.5
Contributions by employees	(0.7)	–	–	(0.7)
Finance charge	(14.9)	(2.2)	(0.1)	(17.2)
Actuarial gain from changes in financial assumptions	26.4	7.4	0.2	34.0
Actuarial gain arising from changes in demographics	8.5	2.2	–	10.7
Actuarial loss arising from experience adjustments	(1.1)	(2.3)	–	(3.4)
Foreign exchange	–	–	(0.6)	(0.6)
Defined benefit obligation at 31 December 2018	(580.3)	(83.7)	(7.1)	(671.1)

	UK £m	Company £m	Other £m	Total £m
Defined benefit obligation at 1 January 2017	(658.1)	(89.7)	(6.8)	(754.6)
Current service cost	(4.3)	–	–	(4.3)
Benefits paid	27.8	3.1	0.1	31.0
Contributions by employees	(0.8)	–	–	(0.8)
Finance charge	(16.4)	(2.3)	(0.3)	(19.0)
Actuarial (loss)/gain from changes in financial assumptions	(6.9)	(1.9)	0.2	(8.6)
Actuarial loss arising from changes in demographics	(11.5)	–	0.1	(11.4)
Actuarial loss arising from experience adjustments	(4.3)	–	–	(4.3)
Transfers out – Tayside Transport Fund	54.5	–	–	54.5
Defined benefit obligation at 31 December 2017	(620.0)	(90.8)	(6.7)	(717.5)

The movement in the fair value of scheme assets is as follows:

	UK £m	Company £m	Other £m	Total £m
Fair value of scheme assets at 1 January 2018	486.2	134.0	2.8	623.0
Expected return on plan assets	11.7	3.3	–	15.0
Expected return on plan assets greater/less than discount rate	(30.0)	(35.6)	–	(65.6)
Cash contributions – employer	10.1	–	0.1	10.2
Administrative expenses	(0.2)	(0.2)	(0.1)	(0.5)
Cash contributions – employee	0.7	–	–	0.7
Benefits paid	(25.5)	(2.9)	(0.1)	(28.5)
Fair value of scheme assets at 31 December 2018	453.0	98.6	2.7	554.3

	UK £m	Company £m	Other £m	Total £m
Fair value of scheme assets at 1 January 2017	542.4	134.2	2.6	679.2
Expected return on plan assets	13.3	3.5	0.1	16.9
Expected return on plan assets greater/less than discount rate	20.2	(0.4)	0.2	20.0
Cash contributions – employer	8.2	–	0.1	8.3
Administrative expenses	(0.2)	(0.2)	(0.1)	(0.5)
Cash contributions – employee	0.8	–	–	0.8
Benefits paid	(27.8)	(3.1)	(0.1)	(31.0)
Transfers out – Tayside Transport Fund	(70.7)	–	–	(70.7)
Fair value of scheme assets at 31 December 2017	486.2	134.0	2.8	623.0

34 Pensions and other post-employment benefits continued

(b) Financial results for pension benefits continued

History of experience gains and losses:	2018 £m	2017 £m	2016 £m	2015 £m	2014 £m
UK					
Fair value of scheme assets	453.0	486.2	542.4	484.2	493.4
Present value of defined benefit obligation	(580.3)	(620.0)	(658.1)	(529.4)	(544.0)
Asset ceiling	–	–	(12.8)	(15.2)	–
Deficit in the scheme	(127.3)	(133.8)	(128.5)	(60.4)	(50.6)
Experience adjustments arising on liabilities	(1.1)	(4.3)	1.3	3.2	(4.5)
Experience adjustments arising on assets	(30.0)	20.2	57.8	(7.9)	32.7
Company					
Fair value of scheme assets	98.6	134.0	134.2	105.1	101.8
Present value of defined benefit obligation	(83.7)	(90.8)	(89.7)	(70.2)	(71.2)
Surplus in the scheme	14.9	43.2	44.5	34.9	30.6
Experience adjustments arising on liabilities	(2.3)	–	(0.3)	–	–
Experience adjustments arising on assets	(35.6)	(0.4)	28.1	(2.2)	22.6
Other					
Fair value of scheme assets	2.7	2.8	2.6	89.7	84.4
Present value of defined benefit obligation	(7.1)	(6.7)	(6.8)	(90.4)	(89.6)
Members' share of deficit	–	–	–	13.6	13.3
(Deficit)/surplus in the scheme	(4.4)	(3.9)	(4.2)	12.9	8.1
Experience adjustments arising on liabilities	–	–	0.1	4.2	3.5
Experience adjustments arising on assets	–	0.2	0.3	1.1	3.1

The cumulative amount of actuarial gains and losses recognised in the Statement of Comprehensive Income since 1 January 2004 is a £153.1m loss (2017: £128.2m loss). The Directors are unable to determine how much of the pension scheme deficit recognised on transition to IFRSs and taken directly to equity of £51.9m is attributable to actuarial gains and losses since inception of those pension schemes. Consequently the Directors are unable to determine the amount of actuarial gains and losses that would have been recognised in the Statement of Comprehensive Income before 1 January 2004.

35 Commitments and contingencies**Operating lease commitments**

The Group's total operating lease commitments are as follows:

	2018 £m	2017 £m
Future minimum rentals payable under non-cancellable operating leases:		
Within one year:		
Land and buildings	25.7	24.0
Public service vehicles	25.4	16.1
Rolling stock	16.8	13.1
Plant and equipment	5.2	2.0
	73.1	55.2
After one year but not more than five years:		
Land and buildings	57.6	49.0
Public service vehicles	52.5	24.9
Rolling stock	129.9	129.9
Plant and equipment	8.9	1.4
	248.9	205.2
More than five years:		
Land and buildings	61.2	40.7
Public service vehicles	10.3	1.9
Rolling stock	294.3	300.9
Plant and equipment	2.4	–
	368.2	343.5
	690.2	603.9

The average remaining life of operating lease commitments is 13.8 years (2017: 4.7 years) for land and buildings, 5.0 years (2017: 2.8 years) for public service vehicles, 13.8 (2017: 14.8 years) for rolling stock and 5.0 years (2017: 1.7 years) for other plant and equipment.

35 Commitments and contingencies continued

Finance lease commitments

The Group has finance leases for public service vehicles and various items of plant and equipment. These leases have terms of renewal but no purchase options and escalation clauses. Renewals are at the option of the specific entity that holds the lease.

	2018		2017	
	Minimum payments £m	Present value of payments £m	Minimum payments £m	Present value of payments £m
Within one year	49.1	48.0	53.5	49.0
After one year but not more than five years	94.9	87.4	112.5	104.3
More than five years	8.4	7.2	20.5	19.8
Total minimum lease payments	152.4	142.6	186.5	173.1
Less future financing charges	(9.8)	–	(13.4)	–
Present value of minimum lease payments	142.6	142.6	173.1	173.1

Capital commitments

	2018 £m	2017 £m
Contracted	62.6	32.7

The Group is committed to vehicle purchases and various land and buildings improvements.

Contingent liabilities

Guarantees

The Group has guaranteed credit facilities totalling £21.4m (2017: £24.7m) of certain joint ventures.

Bonds and letters of credit

In the ordinary course of business, the Group is required to issue counter-indemnities in support of its operations. As at 31 December 2018, the Group has performance bonds in respect of businesses in the US of £172.3m (2017: £148.3m), in Spain of £46.0m (2017: £41.9m), in Germany of £11.3m (2017: £6.3m) and in the Middle East of £6.3m (2017: £5.9m). Letters of credit have been issued to support insurance retentions of £118.2m (2017: £91.9m).

Tax

Tax authorities in the markets in which we operate (UK, Spain, Germany, USA, Canada and Morocco) carry out tax audits from time to time. As was detailed in note 10(d) Tax provisions, the current ongoing tax audits relate to our Moroccan business.

The Directors are satisfied that, based on current knowledge, adequate tax provisions are held to cover any tax uncertainties. The Group has tax provisions at 31 December 2018 of £7.9m (2017: £9.6m). There are no material contingent liabilities relating to tax.

36 Related party transactions

	Amount of transactions		Amounts due from related parties		Amounts due to related parties	
	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m
Joint ventures						
Bahrain Public Transport Company W.L.L.	0.5	0.7	0.5	0.7	-	-
ALSA joint venture	-	-	0.2	0.2	-	-
Total joint ventures	0.5	0.7	0.7	0.9	-	-
Associates						
ALSA associates	4.7	0.9	2.3	1.4	(1.0)	(1.0)
Trade investments						
ALSA trade investments	6.1	5.3	0.1	0.2	(0.9)	(0.9)
Property transactions						
ALSA	5.5	3.8	0.4	0.5	(0.7)	(0.4)
Total other related parties	11.6	9.1	0.5	0.7	(1.6)	(1.3)
Total	16.8	10.7	3.5	3.0	(2.6)	(2.3)

A number of Spanish companies have leased properties from companies related to the Cosmen family. Jorge Cosmen is a Non-Executive Director of the Group and was appointed as Deputy Chairman in October 2008. These leases were in place before the Group's acquisition of ALSA and are at appropriate market rates.

The details of the post-employment benefit plans operated for the benefit of employees of the Group are disclosed in note 34.

Compensation of key management personnel of the Group

	2018 £m	2017 £m
Total compensation paid to key management personnel (note 7)	6.9	6.1

37 Cash flow statement

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

	2018 £m	2017 £m
Total operations		
Profit before tax from continuing operations	177.7	156.4
Loss before tax from discontinued operations (note 11)	(1.7)	(1.5)
Total profit before tax	176.0	154.9
Net finance costs	38.6	38.0
Share of results from associates and joint ventures	(0.9)	3.5
Depreciation of property, plant and equipment	133.8	135.6
Intangible asset amortisation	47.0	41.6
Amortisation of fixed asset grants	(0.5)	(1.0)
Gain on disposal of property, plant and equipment	(8.4)	(5.4)
Gain on disposal of intangible assets	(8.3)	-
Share-based payments	6.4	5.3
Increase in inventories	(1.4)	(0.5)
Increase in receivables	(57.7)	(52.7)
Increase in payables	86.3	62.5
Decrease in provisions	(49.7)	(22.8)
Cash generated from operations	361.2	359.0

(b) Analysis of changes in net debt

	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	(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)
Finance lease obligations	(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 debt¹	(887.9)	(69.3)	14.3	(2.9)	(5.7)	(951.5)

¹ Excludes accrued interest on long-term borrowings.

For the purpose of calculating the Group's financial covenants, net debt is retranslated using the average exchange rates for the year to 31 December 2018, resulting in adjusted net debt of £939.8m (2017: £892.6m).

37 Cash flow statement continued**(b) Analysis of changes in net debt continued**

Short-term deposits included within liquid resources relate to term deposits repayable within three months.

Borrowings include non-current interest-bearing borrowings of £1,029.3m (2017: £1,058.0m) as disclosed in note 28.

Other non-cash movements in net debt include finance lease additions of £5.4m (2017: £60.4m) and a £0.3m net reduction from the amortisation of loan and bond arrangement fees (2017: £1.2m). A £3.7m decrease to the fair value of the hedging derivatives is offset by opposite movements in the fair value of the related hedged borrowings. This comprises a £3.0m fair value increase in bonds and a £0.7m fair value increase in other debt payable.

	At 1 January 2017 £m	Cash flow £m	Acquisitions and disposals £m	Exchange differences £m	Other movements £m	At 31 December 2017 £m
Components of financing activities:						
Bank and other loans	(13.3)	(98.7)	(3.7)	0.8	(0.7)	(115.6)
Bonds	(983.2)	126.8	–	1.9	2.6	(851.9)
Fair value of interest rate derivatives	14.4	–	–	–	(4.1)	10.3
Fair value of foreign exchange swaps	(3.9)	(5.7)	–	11.1	–	1.5
Cross currency swaps	11.1	–	–	(10.1)	–	1.0
Finance lease obligations	(159.5)	34.4	(0.6)	13.0	(60.4)	(173.1)
Other debt payable	(72.4)	0.5	–	(2.8)	1.1	(73.6)
Total components of financing activities	(1,206.8)	57.3	(4.3)	13.9	(61.5)	(1,201.4)
Cash	72.3	38.7	(9.1)	(1.2)	–	100.7
Overnight deposits	3.5	1.4	–	–	–	4.9
Other short-term deposits	248.6	(39.9)	–	–	–	208.7
Cash and cash equivalents	324.4	0.2	(9.1)	(1.2)	–	314.3
Other debt receivables	0.5	0.2	–	–	–	0.7
Remove: Fair value of foreign exchange swaps	3.9	5.7	–	(11.1)	–	(1.5)
Net debt¹	(878.0)	63.4	(13.4)	1.6	(61.5)	(887.9)

¹ Excludes accrued interest on long-term borrowings.

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

	2018 £m	2017 £m
(Decrease)/increase in cash and cash equivalents in the year	(198.5)	(8.9)
Cash inflow/(outflow) from movement in other debt receivables	1.4	0.2
Cash inflow/(outflow) from movement in debt and finance leases	142.1	58.7
Change in net debt resulting from cash flows	(55.0)	50.0
Change in net debt resulting from non-cash movements	(8.6)	(59.9)
Movement in net debt in the year	(63.6)	(9.9)
Opening net debt	(887.9)	(878.0)
Net debt	(951.5)	(887.9)

38 Post Balance Sheet events

In January 2019, the Group entered into a £500 million bridging-to-bond facility in anticipation of the refinancing of the Group's €250 million floating rate note maturing in May 2020 and £225 million bond maturing in June 2020. The facility is for an initial period of 18 months and includes committed options to extend the maturity date until January 2022.

39 Subsidiary undertakings and other significant holdings

A full list of subsidiaries, joint ventures and companies in which National Express Group PLC has a controlling interest as at 31 December 2018 is shown below, along with the country of incorporation and the effective percentage of equity owned.

Name and country of incorporation	% equity interest	Name and country of incorporation	% equity interest
United Kingdom		United Kingdom continued	
Airlinks The Airport Coach Company Limited, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100	National Express Operations (Stansted) Limited, <i>Heathrow Coach Centre, Sipson Road, West Drayton, Middlesex, UB7 0HN</i>	100
Altram LRT Limited, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100	National Express Operations Limited, <i>Heathrow Coach Centre, Sipson Road, West Drayton, Middlesex, UB7 0HN</i>	100
Brooke Management Limited, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100	National Express Petermann UK Limited (07855188)*, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100
Central Trains Limited, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100	National Express Rail Replacement Limited, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100
E Clarke & Son (Coaches) Limited, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100	National Express Services Limited, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100
Eurolines (UK) Limited, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100	National Express Spanish Holdings Limited, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100
Helium Miracle 236 Limited, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100	National Express Trains Limited, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100
Inter-Capital and Regional Rail Limited, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100	National Express Transport Holdings Limited (04338163)*, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100
London Eastern Railway Limited, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	40	National Express UK Limited, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100
Maintrain Limited, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100	NE Canada Limited (08596333)*, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100
Midland Main Line Limited, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100	NE Durham UK Limited (08270480)*, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100
National Express East Anglia Trains Limited, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100	NE Europe Finance Limited (07876047)*, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100
National Express European Holdings Limited (05652775)*, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100	NE No.1 Ltd, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100
National Express Finance Company Limited, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100	NE No.2 Ltd, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100
National Express Group Holdings Limited (04339932)*, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100	NE No. 3 Limited, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100
National Express Holdings Limited (02156473)*, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100	NE Trains South Limited, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100
National Express Intermediate Holdings Limited, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100	NX Bahrain Bus Company Plc, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100
National Express International Limited, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100	NX Crossrail Limited, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100
National Express Limited, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100	NX Services Limited, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100
National Express Manchester Metrolink Limited, <i>51 Bordesley Green, Birmingham, B9 4BZ</i>	100	NXEA Trains Limited, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100
National Express North America Holdings Limited (07855182)*, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100	NXEC Trains Limited, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100

39 Subsidiary undertakings and other significant holdings continued

Name and country of incorporation	% equity interest	Name and country of incorporation	% equity interest
United Kingdom continued		United Kingdom continued	
NXSR Trains Limited, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100	WM Ventures Limited, <i>51 Bordesley Green, Birmingham, B9 4BZ</i>	100
PTI Website Limited, <i>50 Eastbourne Terrace, Paddington, London, W2 6LG</i>	20	Woods Coaches Limited, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100
Scotrail Railways Limited, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100	Woods Reisen Limited, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100
Silverlink Train Services Limited, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100	Canada	
Speedlink Airport Services Limited, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100	National Express Canada (Holdings) Ltd., <i>155 University Avenue, Suite 700, Toronto, Ontario, Canada, M5H 3B7</i>	100
Stewarts Coach Group Limited, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100	National Express Canada Transit Ltd., <i>155 University Avenue, Suite 700, Toronto, Ontario, Canada, M5H 3B7</i>	100
Stewarts Coaches Limited, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100	Stock Transportation Ltd., <i>155 University Avenue, Suite 700, Toronto, Ontario, Canada, M5H 3B7</i>	100
Taybus Holdings Limited, <i>44/48 East Dock Street, Dundee, DD1 3JS</i>	100	US	
Tayside Public Transport Co. Limited, <i>44/48 East Dock Street, Dundee, DD1 3JS</i>	100	"The Provider" Enterprises, Inc., <i>9 Capitol Street, Concord, NH 03301</i>	100
The Kings Ferry Limited, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100	A1A Transportation, Inc., <i>1200 Pine Island Road, Plantation, FL 33324</i>	100
Travel Birmingham Limited, <i>51 Bordesley Green, Birmingham, B9 4BZ</i>	100	Aristocrat Limousine and Bus, Inc., <i>820 Bear Tavern Road, West Trenton, NJ 08628</i>	100
Travel Coventry Limited, <i>51 Bordesley Green, Birmingham, B9 4BZ</i>	100	A&S Transportation Incorporated, <i>1200 Pine Island Road, Plantation, FL 33324</i>	100
Travel Dundee Limited, <i>44/48 East Dock Street, Dundee, DD1 3JS</i>	100	Atlantic & Southern Transportation, <i>289 Culver Street, Lawrenceville, GA 30046; 3867 Plaza Tower Drive, Baton Rouge, LA 70816; 50 Market Street, Suite 800, Indianapolis, IN 46204</i>	100
Travel Merryhill Limited, <i>51 Bordesley Green, Birmingham, B9 4BZ</i>	100	Beck Bus Transportation Corp., <i>208 S. LaSalle Street, Chicago, County of Cook, IL 60604</i>	100
Travel West Midlands Limited, <i>51 Bordesley Green, Birmingham, B9 4BZ</i>	100	Beck Bus Transportation III, LLC, <i>208 S. LaSalle Street, Chicago, County of Cook, IL 60604</i>	100
Travel WM Limited, <i>51 Bordesley Green, Birmingham, B9 4BZ</i>	100	Beck Bus Transportation IV, LLC, <i>208 S. LaSalle Street, Chicago, County of Cook, IL 60604</i>	100
Travel Yourbus Limited, <i>51 Bordesley Green, Birmingham, B9 4BZ</i>	100	Beck Bus Transportation, LLC, <i>208 S. LaSalle Street, Chicago, County of Cook, IL 60604</i>	100
West Anglia Great Northern Railway Limited, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100	Bus Co., Inc., <i>208 S. LaSalle Street, Chicago, County of Cook, IL 60604</i>	100
West Midlands Transport Information Services Limited, <i>Unit 8 – Pendeford Place, pendeford Business Park, Wobaston Road, Wolverhampton, WV9 5HD</i>	20	Caravan Leasing Vehicles LLC, <i>8020 Excelsior Drive, Suite 200, Madison, WI 53717</i>	100
West Midlands Travel Limited, <i>51 Bordesley Green, Birmingham, B9 4BZ</i>	100	Carrier Management Corporation, <i>600 N. 2nd Street, Suite 401, Harrisburg, PA 17101-1071</i>	100
WM Card Systems Limited, <i>51 Bordesley Green, Birmingham, B9 4BZ</i>	100	Chicagoland Coach Lines LLC, <i>1209 Orange Street, Corporation Trust Center, New Castle County, Wilmington, DE 19801-1120</i>	100
WM Property Holdings Limited, <i>51 Bordesley Green, Birmingham, B9 4BZ</i>	100	Community Transportation, Inc., <i>600 N. 2nd Street, Suite 401, Harrisburg, PA 17101-1071</i>	100
WM Travel Limited, <i>51 Bordesley Green, Birmingham, B9 4BZ</i>	100	Cook-DuPage Transportation Company, Inc., <i>208 S. LaSalle Street, Chicago, IL 60604</i>	100

39 Subsidiary undertakings and other significant holdings continued

Name and country of incorporation	% equity interest	Name and country of incorporation	% equity interest
US continued		US continued	
Diamond Transportation Services, Inc., 4701 Cox Road, Glen Allen, County of Henrico, VA 23060	100	New Dawn Transit LLC, 111 Eighth Avenue, New York, New York, 10011	100
Durham D&M LLC, 1209 Orange Street, Corporation Trust Center, New Castle County, Wilmington, DE 19801-1120	100	Nu Express LLC, 1209 Orange Street, Corporation Trust Center, New Castle County, Wilmington, DE 19801-1120	100
Durham Holding I, LLC, 1209 Orange Street, Corporation Trust Center, New Castle County, Wilmington, DE 19801-1120	100	Petermann Acquisition Co., LLC, 1209 Orange Street, Corporation Trust Center, New Castle County, Wilmington, DE 19801-1120	100
Durham Holding II, LLC, 1209 Orange Street, Corporation Trust Center, New Castle County, Wilmington, DE 19801-1120	100	Petermann Acquisition Corporation, 1209 Orange Street, Corporation Trust Center, New Castle County, Wilmington, DE 19801-1120	100
Durham School Services, L.P., 1209 Orange Street, Corporation Trust Center, New Castle County, Wilmington, DE 19801-1120	100	Petermann Holding Co., LLC, 1209 Orange Street, Corporation Trust Center, New Castle County, Wilmington, DE 19801-1120	100
Ecolane USA, Inc., 1209 Orange Street, Corporation Trust Center, New Castle County, Wilmington, DE 19801-1120	100	Petermann Ltd., 4400 Easton Commons Way, Columbus, County of Franklin, OH 43219	100
Greensburg Yellow Cab Co., 600 N. 2 nd Street, Suite 401, Harrisburg, PA 17101-1071	100	Petermann Northeast, LLC, 4400 Easton Commons Way, Columbus, County of Franklin, OH 43219	100
Haid Acquisitions LLC, 1242 Garden Circle, Wyoming, OH 45215	100	Petermann Northwest, LLC, 1209 Orange Street, Corporation Trust Center, New Castle County, Wilmington, DE 19801-1120	100
JNC Leasing, Inc., 40600 Ann Arbor Road E., Suite 201, Plymouth, MI 48170-4675	100	Petermann Partners, Inc., 1209 Orange Street, Corporation Trust Center, New Castle County, Wilmington, DE 19801-1120	100
Kiessling Transit, Inc., 194 Dedham Street, Norfolk, MA 02056	100	Petermann Southwest, LLC, 1209 Orange Street, Corporation Trust Center, New Castle County, Wilmington, DE 19801-1120	100
Meda-Care Vans of Waukesha, Inc., 301 S. Bedford St., Suite 1, Madison, WI 53703	100	Petermann STS, LLC, 1209 Orange Street, Corporation Trust Center, New Castle County, Wilmington, DE 19801-1120	100
MF Petermann Investment Corporation, 1209 Orange Street, Corporation Trust Center, New Castle County, Wilmington, DE 19801-1120	100	Petermann STSA, LLC, 1209 Orange Street, Corporation Trust Center, New Castle County, Wilmington, DE 19801-1120	100
Monroe School Transportation, Inc., 111 Eighth Avenue, New York, NY 10011	100	PM2 Co. LLC, 1209 Orange Street, Corporation Trust Center, New Castle County, Wilmington, DE 19801-1120	100
MV Student Transportation, Inc., 40 West Lawrence, Suite A, Helena, Montana 59601	100	Quality Bus Service, LLC., 111 Eighth Avenue, New York, New York, 10011	100
National Express Acquisition Corporation, 1209 Orange Street, Corporation Trust Center, New Castle County, Wilmington, DE 19801-1120	100	Queen City Transportation, LLC, 1242 Garden Circle, Wyoming, OH 45215	100
National Express Durham Holding Corporation, 1209 Orange Street, Corporation Trust Center, New Castle County, Wilmington, DE 19801-1120	100	Rainbow Management Service, Inc., 111 Eighth Avenue, New York, New York, 10011	100
National Express Leasing Company LLC, 1209 Orange Street, Corporation Trust Center, New Castle County, Wilmington, DE 19801-1120	100	Safeway Training and Transportation Services, Inc., 9 Capitol Street, Concord, NH 03301	100
National Express LLC, 1209 Orange Street, Corporation Trust Center, New Castle County, Wilmington, DE 19801-1120	100	Septran, Inc., 150 West Market Street, Suite 800, Indianapolis, IN 46204	100
National Express Transit Corporation, 1209 Orange Street, Corporation Trust Center, New Castle County, Wilmington, DE 19801-1120	100	Smith Bus Service, Inc., 2405 York Road, Ste. 201, Lutherville Timonium, MD 21093-2264	100
National Express Transit Services Corporation, 1209 Orange Street, Corporation Trust Center, New Castle County, Wilmington, DE 19801-1120	100	Suburban Paratransit Services, Inc., 111 Eighth Avenue, New York, New York, 10011	100
		Trans Express, Inc., 111 Eighth Avenue, New York, New York, 10011	100
		Transit Express, Inc., 301 S. Bedford St., Suite 1, Madison, WI 53703	100
		Transit Express Services, Inc., 301 S. Bedford St., Suite 1, Madison, WI 53703	100
		Trinity, Inc., 40600 Ann Arbor Road E., Suite 201, Plymouth, MI 48170-4675	100
		Trinity Cars, Inc., 40600 Ann Arbor Road E., Suite 201, Plymouth, MI 48170-4675	100

39 Subsidiary undertakings and other significant holdings continued

Name and country of incorporation	% equity interest	Name and country of incorporation	% equity interest
US continued		Portugal	
Trinity Coach LLC, 40600 Ann Arbor Road E., Suite 201, Plymouth, MI 48170-4675	100	Alsa Metropolitano do Porto, Lda, Avenida das Forças Armadas, N 125, 12 Lisboa	100
Trinity Management Services Co. LLC, 4624 13th St., Wyandotte, MI 48192	100	Tiac Viagens e Turismo Lda, Rua de Pedro Numes, 39, Lisboa	100
Trinity Student Delivery LLC, 40600 Ann Arbor Road E., Suite 201, Plymouth, MI 48170-4675	100	Slovakia	
TWB Transport, LLC, 208 S. LaSalle Street, Chicago, County of Cook, IL 60604	100	Efc Spol s.r.o., Tehelná 23 83103, Bratislava – Nové Mesto	80
White Plains Bus Co., Inc., 111 Eighth Avenue, New York, New York, 10011	100	Spain	
Whitetail Bid Co., LLC, 1209 Orange Street, Corporation Trust Center, New Castle County, Wilmington, DE 19801-1120	100	Alianza Bus, S.L.U., C/ Alcalá, 478, Madrid (28027)	100
Wise Coaches, Inc., 1312 Central Avenue, Hermitage, TN 37076	100	Almeria-Murcia Bus, S.L., Avda Juan Pablo II, 33, Granada	100
Andorra		Alsa Atlántica, S.L.U., C/ Miguel Fleta, 4, Madrid (28037)	100
Estació 2017, S.A. Carrer de la Cúria, s/n, Andorra la Vella	11	Alsa Ferrocarril, S.A.U., C/ Miguel Fleta, 4, Madrid (28037)	100
Estació d'Autobusos d'Andorra, Av. de Tarragona, 42, AD500 Andorra la Vella	100	Alsa Granada Airport S.L., Avda Juan Pablo II, 33, Granada	100
Transports Dels Pirineus, Av. de Tarragona, 42, AD500 Andorra la Vella	100	Alsa Grupo Intercontinental, S.L.U., C/ Miguel Fleta, 4, Madrid (28037)	100
France		Alsa Grupo, S.L.U., C/ Miguel Fleta, 4, Madrid (28037)	100
Iberolines, 41 Boulevard Poniatowski, 75012, Paris	46	Alsa Internacional, S.L.U., C/ Miguel Fleta, 4, Madrid (28037)	100
SARL Chameexpress.com, 498 Avenue des Algapes, 74310 Les Houches	100	Alsa Internacional, S.L.U. y Otros U.T.E., C/ Alcalá, 478, Madrid (28027)	100
Morocco		Alsa Metropolitana, S.A.U., C/ Alcalá, 478, Madrid (28027)	100
Alsa City Agadir S.A., 153, Quartier Industriel Sidi Ghanem, Marrakech	100	Alsa Rail, S.L.U., C/ Miguel Fleta, 4, Madrid (28037)	100
Alsa City Sightseeing Maroc, Ahwaz, Ferme Ahzib Achayech Ferkat Ain Dada, Askedjour, Jamaat Et Kiadat Saada, Marrakech	100	Aplic. y Sist. Integrales Para el Transporte, S.A., Pol. San Mateo, Ctra Coll D' En Rabassa, Palma de Mallorca (07002)	100
Alsa City Tour S.A.R.L., Ahwaz, Ferme Ahzib Achayech Ferkat Ain Dada, Askedjour, Jamaat Et Kiadat Saada, Marrakech	95	Aragonesa de Estacion de Autobuses, S.A., Urbanización Plaza de Roma, F-1, Zaragoza	23
Alsa Education a la Sécurité Routière S.A.R.L., Ahwaz, Ferme Ahzib Achayech Ferkat Ain Dada, Askedjour, Jamaat Et Kiadat Saada, Marrakech	98	Argabus, S.A., C/ Real 116 – Arganda del Rey (Madrid)	100
Alsa Khouribga S.A., N° 22 Rue Meknes Hay Haboub, Khouribga	100	Argantours, S.A., C/ Real 116 – Arganda del Rey (Madrid)	100
Alsa Tanger S.A., 37 Rue Omar Ibn Khattab, Inmeuble Maspalomas 2, Tanger	100	Asturies Berlinas de Luxu, S.L., C/Jorge Juan, 19- 2º Izquierda, Madrid (28001)	100
Centre de Formation Techn. Profes. Transport S.A.R.L., Ahwaz, Ferme Ahzib Achayech Ferkat Ain Dada, Askedjour, Jamaat Et Kiadat Saada, Marrakech	99	Autedia, S.L., Avda Juan Pablo II, 33, Granada	50
Groupe Alsa Transport S.A., Rue Tehran, s/n, Quartier Industriel, Agadir (MR-80000)	100	Autobuses Urbanos de Arganda, S.A., Avda. del Mediterráneo 50 - Madrid	100
Immeubles,Vehicules Accessoires Maroc S.A.R.L., 153, Quartier Industriel Sidi Ghanem, Marrakech	80	Autobuses Urbanos de Bilbao, S.A., C/ Tellaetxebidea 3, Bilbao	75
Interprovincial Maroc S.A.R.L., Ahwaz, Ferme Ahzib Achayech Ferkat Ain Dada, Askedjour, Jamaat Et Kiadat Saada, Marrakech	100	Autobuses Urbanos de León, S.A.U., Pol. Ind. Vilecha Oeste, León (24192)	100
Transport de Voyageurs en Autocar Maroc S.A., 153, Quartier Industriel Sidi Ghanem, Marrakech	100	Autocares Castilla-León, S.A.U., Estación de Autobuses, Av Ingeniero Saenz de Miera, León (24009)	100
		Autocares Discrecionales del Norte, S.L.U., Alameda de Urquijo, n o 85, 1o -Dcha., Bilbao- Vizaya (48013)	100
		Automóviles Luarca, S.A.U., Magnus Blikstad 2, Gijón (33207)	100
		Automóviles Sigras Carral, S.A., Ctra. El Burgo-Los Pelamios s/n Culleredo – A Coruña	100

39 Subsidiary undertakings and other significant holdings continued

Name and country of incorporation	% equity interest	Name and country of incorporation	% equity interest
Spain continued		Spain continued	
Autos Cal Pita, S.A., <i>Ctra. El Burgo-Los Pelamios s/n Culleredo – A Coruña</i>	97	Estación Autobuses de Ponferrada, S.A., <i>Ctra de Asturias, Ponferrada</i>	49
Autos Pelayo, S.A.U., <i>C/ Miguel Fleta, 4, Madrid (28037)</i>	100	Estación Central de Autobuses de Zaragoza, S.A., <i>Avda de Navarra, 80 (Estación Central de Autobuses), Zaragoza (50011)</i>	19
Baleares Business Cars, S.L., <i>C/ Jorge Juan, 19- 2º Izquierda, Madrid (28001)</i>	100	Estación de Autobuses de Siero, S.L., <i>C/ Ramón y Cajal, Pola de Siero</i>	50
Berlinas de Asturias, S.L., <i>C/ Jorge Juan, 19-2º Izquierda, Madrid (28001)</i>	100	Estación de Autobuses Aguilar de Campoo, S.L., <i>Avda de Ronda 52 Bis, Aguilar de Campoo (Palencia)</i>	67
Berlinas de Extremadura, S.L., <i>C/ Jorge Juan, 19-2º Izquierda, Madrid (28001)</i>	100	Estación de Autobuses Chamartin, S.A., <i>Pº de la Castellana, 216, Madrid</i>	49
Berlinas Calecar, S.L.U., <i>Avenida Ingeniero Saenz de Miera, s/n (Estación de Autobuses), León (24009)</i>	100	Estación de Autobuses de Aranda de Duero, S.L., <i>Avda Valladolid, Aranda de Duero (Burgos)</i>	43
Berlinas de Canarias, S.L., <i>C/ Jorge Juan, 19-2º Izquierda, Madrid (28001)</i>	100	Estación de Autobuses de Astorga, S.L., <i>Avda Las Murallas, nº 52, Astorga-León (24700)</i>	79
Berlinas de Toledo, S.L., <i>C/ Jorge Juan, 19-2º Izquierda, Madrid (28001)</i>	100	Estación de Autobuses de Aviles S.L., <i>C/ Los Telares (Estación de Autobuses) Aviles (33400)</i>	100
Berlinas Tibus, S.L.U., <i>C/ Alcalá, 478, Madrid (28027)</i>	100	Estación de Autobuses de Benavente, S.L., <i>Avda Primo de Rivera, Benavente</i>	23
Berlinas VTC de Cantabria, S.L.U., <i>Avenida de Candina, nº 35, Santander (39011)</i>	100	Estación de Autobuses de León, S.A., <i>Estación de Autobuses, Avda Ingeniero Saenz de Miera, León (24009)</i>	89
Buses de Palencia, S.L., <i>C/ Campaneros, 4, 1º Dcha, Palencia (34003)</i>	100	Estación de Autobuses de Plasencia, S.A., <i>C/ Tomavacas, 2, Plasencia</i>	52
Bus Metropolitano de Granada, S.L., <i>Avenida Juan Pablo II, 33 (Estación de Autobuses), Granada (18013)</i>	50	Estación de Autobuses de Ribadeo, S.L., <i>Avda Rosalía de Castro, Ribadeo</i>	50
Busturialdea Lea Artibai Bus, S.A., <i>Centro de Transportes de Vizcaya, Barrio el Juncal, Naves 3 y 4 (Valle de Trápaga-Trapagrán), Vizcaya (48510)</i>	65	Estación de Autobuses de Vitoria, S.L., <i>C/ Los Herran, 50 (Estación de Autobuses), Alava (Vitoria)</i>	32
Canary Business Cars, S.L., <i>C/ Jorge Juan, 19-2º Izquierda, Madrid (28001)</i>	100	Estación de Lineas Regulares, S.L., <i>Plaza de las Estaciones, Santander (Cantabria)</i>	46
Cataluña Business Cars, S.L., <i>C/ Jorge Juan, 19-2º Izquierda, Madrid (28001)</i>	100	Estaciones Terminales de Autobuses, S.A., <i>Avda Menéndez Pidal, nº 13 (Estación de Autobuses), Valencia (46009)</i>	79
Center Bus, S.L., <i>Paseo de Moret, 7, Madrid</i>	90	Euska Alsa, S.L.U., <i>Alameda de Urquijo, nº 85, 1º -Dcha., Bilbao- Vizaya (48013)</i>	100
Cetralsa Formación, S.L.U., <i>C/ Miguel Fleta, 4, Madrid (28037)</i>	100	Extremadura Business Limousines, S.L., <i>C/ Jorge Juan, 19-2º Izquierda, Madrid (28001)</i>	100
Cía. del Tranvía Eléctrico de Aviles, S.A., <i>Avda Conde de Guadalhorce 123, Aviles (33400)</i>	87	Ezkerraldea-Meatzaldea Bus, S.A., <i>Centro de Transportes de Vizcaya, Barrio el Juncal, Naves 3 y 4 (Valle de Trápaga-Trapagrán), Vizcaya (48510)</i>	65
Compañía Navarra de Autobuses, S.A., <i>C/ Yanguas y Miranda, 2 (Estación de Autobuses), Pamplona</i>	50	Gal Bus, S.L., <i>Ctra, El Burgo-Los Pelamios s/n Culleredo – A Coruña</i>	100
Compostelana, S.A.U., <i>Plaza San Cayetano, s/n. Estación Autobuses Taq. 10, Santiago de Compostela (La Coruña)</i>	100	G.S. Carretera, <i>Plaza de la Constitución, Estación de Autobuses, 2ª Planta, Oficina 26, Lugo</i>	25
Concesionario Estación Autobuses Logroño, S.A., <i>Avda de España, 1, Logroño- La Rioja</i>	21	General Técnica Industrial, S.L.U., <i>C/ Miguel Fleta, 4, Madrid (28037)</i>	100
Dainco, S.A.U., <i>Avda Filiberto Villalobos, nº 71, Salamanca</i>	50	Gorbea Representaciones, S.L., <i>Alameda de Urquijo, nº 85, 1º -Dcha., Bilbao- Vizaya (48013)</i>	100
Ebrobus, S.L.U., <i>C/ Miguel Fleta, 4, Madrid (28037)</i>	100		
Eme Asociation Business, S.A., <i>Avda. del Mediterráneo 50 - Madrid</i>	100		
Estación Autobuses de Cartagena, S.A., <i>Avda Trovero Marín. Nº 3, (Estación Autobuses), Cartagena (30202)</i>	54		

39 Subsidiary undertakings and other significant holdings continued

Name and country of incorporation	% equity interest	Name and country of incorporation	% equity interest
Spain continued		Spain continued	
Grupo Enatcar, S.A., C/ Alcalá, 478, Madrid (28027)	100	Servicios Auxiliares del Transporte C.B., C/Mendez Álvaro (Estación de Autobuses), Madrid	100
Ibero-Euro Sur, S.L., C/ Alcalá, 478, Madrid (28027)	20	Servicios El Temple, S.L., Ctra. El Burgo-Los Pelamios s/n Culleredo - A Coruña	100
Inforcyl, S.A.U., C/ Miguel Fleta, 4, Madrid (28037)	100	Servicios Empresariales Especiales, S.L.U., Alameda de Urquijo, no 85, 1o -Dcha., Bilbao- Vizaya (48013)	100
Informática, Comunicaciones y Logística, S.L.U., Alameda de Urquijo, no 85, 1o -Dcha., Bilbao- Vizaya (48013)	100	Servicios Generales de Automoción, S.A.U., Alameda de Urquijo, no 85, 1o -Dcha., Bilbao- Vizaya (48013)	100
Intercambiadores Europeos, S.L., C/ Miguel Fleta, 4, Madrid (28037)	60	Servicios VTC Tibus, S.L.U., C/ Alcalá, 478, Madrid (28027)	100
International Business Limousines, S.A.U., Pol. Ind. Las Fronteras. C/Limite, Torrejón de Ardoz (Madrid)	100	Setra Ventas y Servicios, S.A.U., Pol. Ind. Las Fronteras. C/ Limite, Torrejón de Ardoz (Madrid)	100
Interurbana de Autocares, S.A.U., C/ Miguel Fleta, 4, Madrid (28037)	100	Sociedad Anónima Unipersonal Alsina Graells de A.T., C/ Ali Bei, 80 (Estación de Autobuses), Barcelona (08013)	100
Irubus, S.A.U., C/ Alcalá, 478, Madrid (28027)	100	Técnicas en Vehículos Automóviles, S.L.U., C/ Alcalá, 478, Madrid (28027)	100
Jimenez Lopera, S.A.U., Pol. Ind. Las Fronteras. C/ Limite, Torrejón de Ardoz (Madrid)	100	Tecnologías Formativas en Simuladores, S.L., Newton, 6, Edificio 6, Nave, 6.P, Leganés, Madrid (28914)	50
Julia Travel S.A., Automoviles Luarda S.A.U., Transportes Bacoma S.A.U. U.T.E., C/ Puerto Used, 20, Madrid	50	Terminal de Autobuses de Garellano, S.L., Alameda de Mazarredo, 21, Bilbao	41
Julia Travel y Automoviles Luarda Sa Ute, Avda Sancho El Sabio, 31, Donostia	50	Tibus, S.A., C/ Ali Bei, 80 (Estación de Autobuses), Barcelona (08013)	60
La Tafallesa, S.A.U., C/ Yanguas y Miranda, 2 (Estación de Autobuses), Pamplona	50	Tibus Berlines de Luxe, S.L.U., C/ Ali Bei, 80 (Estación de Autobuses), Barcelona (08013)	100
La Unión Alavesa, S.L., C/ Los Herran, 50 (Estación de Autobuses), Alava (Vitoria)	50	Tibus Business Cars, S.L.U., C/ Ali Bei, 80 (Estación de Autobuses) Barcelona, (08013)	100
La Unión de Benisa, S.A., C/ Comunicaciones, 10 (P. de Babel), Alicante (03008)	98	Tibus Business Limousines, S.L.U., C/ Alcalá, 478, Madrid (28027)	100
Lineas Europeas de Autobuses, S.A., C/Guillem de Castro, 77, Valencia	43	Tibus Luxury Services, S.L.U., C/ Ali Bei, 80 (Estación de Autobuses), Barcelona (08013)	100
Los Abades de la Gineta, S.L.U., C/ Alcalá, 478, Madrid (28027)	100	Transporte Colectivos, S.A.U., Gran Vía de D. Ingacio de Haro, 81, Bilbao	100
Mai Tours, S.L.U., Avenida de la Hispanidad O- Parking P12, Barajas, Madrid	100	Transportes Accesibles Peninsulares, S.L., C/ Pepe Cosmen, (Estación de Autobuses), Oviedo (33001)	100
Movelia Tecnologías, S.L., C/ Santa Leonor, 65 -Avalón Parque Empresarial, Edificio A, Madrid	78	Transportes Adaptados Andaluces, S.A.U., Plaza Coca Piñera, s/n (Estación de Autobuses), Jaén	100
Mundaka Consultoría, S.L.U., Alameda de Urquijo, no 85, 1o -Dcha., Bilbao- Vizaya (48013)	100	Transportes Adaptados Regionales, S.L.U., Estación de Autobuses, Av Ingeniero Saenz de Miera, León (24009)	100
NEX Continental Holdings, S.L.U., C/ Miguel Fleta, 4, Madrid (28037)	100	Transportes Adaptados Cantabros, S.A., Avda Candina, 35-37, Santander (39011)	98
NX Middle East, S.L.U., C/ Inglaterra, 20-22, Palencia (34004)	100	Transportes Bacoma, S.A.U., C/ Ali Bei, 80 (Estación de Autobuses), Barcelona (08013)	100
Proyectos Unificados, S.A.U., C/ Miguel Fleta, 4, Madrid (28037)	100	Transportes de Viajeros de Aragón, S.A., Avda de Navarra, 80 (Estación Central de Autobuses), Zaragoza (50011)	59
Rapid Aeroport, S.A.U., C/ Ali Bei, 80 (Estación de Autobuses), Barcelona (08013)	100	Transportes Santo Domingo, S.L.U. C/ Investigación. Nº 2 - Getafe (Madrid)	100
Representaciones Mecánica, S.A.U., Alameda de Urquijo, no 85, 1o -Dcha., Bilbao- Vizaya (48013)	100	Transportes Terrestres Cantabros, S.A., Avda Candina, 35-37, Santander (39011)	93
Rutas a Cataluña, S.A., C/ Musico Gustavo Freire, 1 -1º Dcha, Lugo (27001)	28	Transportes Unidos de Asturias, S.L., Pol. Ind. Espirtu Santo, Oviedo (33010)	100
Rutas del Cantábrico, S.L., Alameda de Urquijo, no 85, 1o -Dcha., Bilbao- Vizaya (48013)	95		
Semarvi, C/ Miguel Fleta, 4, Madrid (28037)	34		
Serviareas 2000, S.L.U., C/ Miguel Fleta, 4, Madrid (28037)	100		

39 Subsidiary undertakings and other significant holdings continued

Name and country of incorporation	% equity interest	Name and country of incorporation	% equity interest
Spain continued		Bahrain	
Transportes Unidos, S.L.U., <i>C/ Miguel Fleta, 4, Madrid (28037)</i>	100	Bahrain Public Transport Company W.L.L., <i>Garage 1087, Road 4025, Isa Town 840, Southern Governorate, Kingdom of Bahrain</i>	50
Transportes Urbanos de Cantabria, S.L.U., <i>Avda Candina, 35-37, Santander (39011)</i>	100	Czech Republic	
Transportes Urbanos de Cartagena, S.A., <i>Paraje de la Asomada, Cartagena (Murcia)</i>	97	National Express Cz s.r.o. (in liquidation), <i>Seifertova 327/85, 130 00 Praha, Zizkov, Czech Republic</i>	100
Tranvía de Velez, S.A.U., <i>Avda Juan Carlos I, s/n. Ronda del Ingeniero, Vélez Málaga (Málaga)</i>	100	Finland	
Transportes Urbanos de Guadalajara, S.L., <i>Polígono Industrial del Henares, Calle Livorno, 55, Marchamalo, Guadalajara (19180)</i>	100	Ecolane Finland Oy, <i>Metsanneidonkuja 4, Espoo, 02130</i>	100
Tranvías Metropolitanas de Granada, S.A.U., <i>Avenida de Cádiz, número 70, 1º-B, Granada</i>	100	Germany	
Tury Express, S.A., <i>Alameda de Urquijo, nº 85, 1º -Dcha., Bilbao- Vizaya (48013)</i>	100	National Express Germany GmbH, <i>Trakehner Strasse 7-9, 60487 Frankfurt am Main, Germany</i>	95
Ute Catamaranes Bahia Cadiz, <i>Avda José León de Carranza, nº 20, Cádiz</i>	23	National Express Holding GmbH, <i>Vogelsanger Weg 38, 40470 Düsseldorf, Germany</i>	100
Ute Ea Cordoba, <i>Glorieta de las Tres Culturas, Córdoba</i>	50	National Express Rail GmbH, <i>Maximinenstrasse 6, 50668 Cologne, Germany</i>	100
Ute Extremadura, <i>C/ Alcalá, 478, Madrid (28027)</i>	100	Süddeutsche Regionalbahn GmbH, <i>Vogelsanger Weg 38, 40470 Düsseldorf, Germany</i>	100
Ute Guadalajara, <i>C/ Miguel Fleta, 4, Madrid (28037)</i>	100	Netherlands	
Ute Mundiplan, <i>C/ Ruiz Perelló, 15, Madrid</i>	17	National Express Holdings LLC BV, <i>Dr Willem Dreesweg 2, 1st Fl. South Wing, 1185 VB Amstelveen, The Netherlands</i>	100
Ute Murcia City Tour, <i>Magnus Blikstad 2, Gijón (33207)</i>	50	Texan Partner BV, <i>Dr Willem Dreesweg 2, 1st Fl. South Wing, 1185 VB Amstelveen, The Netherlands</i>	100
Ute Ea Alicante, <i>Muelle de Poniente, Alicante</i>	50	* These subsidiaries are exempt from the requirements of the UK Companies Act 2006 relating to the audit of individual accounts by virtue of S479A of the Act. Outstanding liabilities of the exempt companies at the Balance Sheet date are guaranteed pursuant to Sections 479A-C of the Act.	
Viajes ALSA, S.A.U., <i>C/ Miguel Fleta, 4, Madrid (28037)</i>	100		
Viajes Por Carretera, S.A.U., <i>Alameda de Urquijo, nº 85, 1º -Dcha., Bilbao- Vizaya (48013)</i>	100		
Voramar el Gaucho S.L.U., <i>S' Hort den Serral (San Agustín) San Josep de sa Talaia, Illes Balears</i>	100		
Switzerland			
AlpyBus S.A.R.L., <i>8 Chemin de Morglas, 1214, Genève</i>	100		
Eggmann Frey, <i>Rue du Mont Blanc 14, 1201, Genève</i>	100		
GVA Transfers.com S.A.R.L., <i>8 Chemin de Morglas, 1214, Genève</i>	100		
Linien Abfertigung GmbH, <i>Rue du Mont Blanc 14, 1201, Genève</i>	80		
Odier Excursions, S.A., <i>Chemin Des Aulx 9 – Plan Les Quates - Switzerland</i>	100		

Company Balance Sheet

At 31 December 2018

	Note	2018 £m	2017 £m
Fixed assets			
Tangible assets	5	–	–
Investments in subsidiaries	6	1,720.4	1,700.9
Derivative financial instruments	7	6.7	10.9
Deferred tax assets	13	14.4	15.6
Defined benefit pension asset	16	14.9	43.2
		1,756.4	1,770.6
Current assets			
Debtors	8	223.1	87.6
Derivative financial instruments	7	7.5	7.5
Cash at bank and in hand	9	35.1	204.7
		265.7	299.8
Creditors: amounts falling due within one year	10	(299.3)	(240.1)
Derivative financial instruments	7	(10.5)	(5.9)
Provisions for liabilities and charges	12	(3.8)	(13.0)
Net current assets/(liabilities)		(47.9)	40.8
Total assets less current liabilities			
		1,708.5	1,811.4
Creditors: amounts falling due after more than one year	11	(926.1)	(925.5)
Derivative financial instruments	7	(4.4)	–
Deferred tax liability	13	(2.6)	(7.3)
Net assets		775.4	878.6
Shareholders' equity			
Called-up share capital	15	25.6	25.6
Share premium account		532.7	532.7
Capital redemption reserve		0.2	0.2
Own shares		(7.0)	(6.0)
Profit and loss account		223.9	326.1
Shareholders' equity		775.4	878.6

The Company reported a loss for the financial year ended 31 December 2018 of £0.8m (2017: profit of £55.1m).

D Finch

Group Chief Executive
28 February 2019

C Davies

Group Finance Director

Company Number 02590560

Company Statement of Changes in Equity

For the year ended 31 December 2018

	Share capital £m	Share premium £m	Capital redemption reserve £m	Own shares (note 15) £m	Profit and loss account £m	Total £m
At 1 January 2018	25.6	532.7	0.2	(6.0)	326.1	878.6
Loss for the year	-	-	-	-	(0.8)	(0.8)
Actuarial loss, net of tax	-	-	-	-	(27.0)	(27.0)
Total comprehensive income	-	-	-	-	(27.8)	(27.8)
Shares purchased	-	-	-	(9.7)	-	(9.7)
Own shares released to satisfy employee share schemes	-	-	-	8.7	(8.7)	-
Share-based payments	-	-	-	-	5.1	5.1
Dividends	-	-	-	-	(70.8)	(70.8)
At 31 December 2018	25.6	532.7	0.2	(7.0)	223.9	775.4

The Company's profit and loss account includes £212.3m (2017: £289.5m) that is available for distribution. Cumulative gains on the Company's defined benefit pension scheme, which is currently in a net surplus position, are deemed to be not distributable. In addition, own shares have been purchased out of distributable profits and therefore reduce the reserves available for distribution. The share premium and capital redemption reserves are not distributable.

Details of dividends paid, declared and proposed during the year are given in note 12 to the consolidated accounts.

	Share capital £m	Share premium £m	Capital redemption reserve £m	Own shares (note 15) £m	Profit and loss account £m	Total £m
At 1 January 2017	25.6	532.7	0.2	(7.8)	342.7	893.4
Profit for the year	-	-	-	-	55.1	55.1
Actuarial gain, net of tax	-	-	-	-	(1.8)	(1.8)
Total comprehensive income	-	-	-	-	53.3	53.3
Shares purchased	-	-	-	(8.1)	-	(8.1)
Own shares released to satisfy employee share schemes	-	-	-	9.9	(9.9)	-
Share-based payments	-	-	-	-	4.7	4.7
Dividends	-	-	-	-	(64.7)	(64.7)
At 31 December 2017	25.6	532.7	0.2	(6.0)	326.1	878.6

Notes to the Company Accounts

For the year ended 31 December 2018

1 Accounting policies

Basis of preparation

The separate accounts of the parent Company are presented as required by the Companies Act 2006. The accounts have been prepared on the going concern basis and under the historical cost convention, except for the recognition of derivative financial instruments and available-for-sale investments detailed below, and in accordance with applicable accounting standards in the United Kingdom.

The Company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council. Accordingly, these financial statements have been prepared in accordance with FRS 101 (Financial Reporting Standard 101) 'Reduced Disclosure Framework' as issued by the Financial Reporting Council.

The Company has taken advantage of the disclosure exemptions available under FRS 101 in relation to share-based payments, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, standards not yet effective, impairment of assets and related party transactions. Where required, equivalent disclosures are included within the consolidated accounts.

No profit and loss account is presented by the Company as permitted by Section 408 of the Companies Act 2006. The profit and loss attributable to the Company is disclosed in the footnote to the Company's balance sheet.

Critical accounting judgements and key sources of estimation uncertainty

The preparation of the Company's accounts in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the accounts and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge, actual results may ultimately differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

No key sources of estimation uncertainty have been identified in the year; however the following item is considered a critical accounting judgement:

Pensions – defined benefit assets

Judgement is required regarding the application of IFRIC 14 and the extent to which the Company can recognise its defined benefit pension asset. Changes in this judgement could significantly impact the value of the balance recognised.

Based on the terms and conditions of the scheme, and from consultation with independent advisers, the Company determined that an ultimate future economic benefit exists in the form of a refund or a reduction in future contributions. The surplus has therefore been recognised in full.

Tangible fixed assets

Tangible fixed assets are stated at historical cost less accumulated depreciation and any impairment. Tangible fixed assets are depreciated on a straight-line basis over their estimated useful lives as follows:

Plant and equipment	– 3 to 5 years
---------------------	----------------

The carrying value of fixed assets is reviewed for impairment if events or changes in circumstances indicate that the current carrying value may not be recoverable, and are written down immediately to their recoverable amount. Repairs and maintenance are charged to the profit and loss account during the financial period in which they are incurred.

Investments in subsidiaries

Investments are held at historical cost less any provision for impairment.

1 Accounting policies continued

Interest-bearing loans and borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of issue costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Hedge accounting is adopted where derivatives such as fixed to floating interest rate swaps are held as fair value hedges against fixed interest rate borrowings. Under fair value hedge accounting, fixed interest rate borrowings are revalued at each Balance Sheet date by the change in fair value attributable to the interest rate being hedged.

Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

Pensions

The Company has both the National Express Group Staff Pension Fund (a defined benefit scheme) and a defined contribution scheme.

For the defined benefit scheme, the Balance Sheet position comprises the net of the present value of the relevant defined benefit obligation at the Balance Sheet date and the fair value of plan assets. The trustees complete a full actuarial valuation triennially but the obligation is updated annually for financial reporting purposes by independent actuaries, using the projected unit credit method. The present value of the obligation is determined by the estimated future cash outflows discounted using interest rates of high quality corporate bonds which have terms to maturity equivalent to the terms of the related liability.

The current service cost and gains and losses on settlements and curtailments are recognised as operating costs. Past service gains and losses are also recognised within operating costs and in the period in which the related plan amendment or curtailment occurs. Net interest is calculated by applying a discount rate to the net defined benefit liability or asset and is recognised within finance costs. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to the profit and loss reserve in the period in which they arise.

For the defined contribution scheme, the amount charged to the profit and loss is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the Balance Sheet.

Share-based payment

The Company awards equity-settled share-based payments to certain employees, under which the Company receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted, excluding the impact of any non-market service and performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the Company over a specified time period). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each Balance Sheet date, the Company revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the Income Statement, with a corresponding adjustment to equity.

Foreign currencies

Foreign currency assets and liabilities are translated into Sterling at the rates of exchange ruling at the year end. Foreign currency transactions arising during the year are translated into Sterling at the rate of exchange ruling on the date of the transaction. Any exchange differences so arising are dealt with through the profit and loss account.

1 Accounting policies continued

Deferred tax

Deferred tax is provided in full in respect of all material temporary differences at the Balance Sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, apart from where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is measured on a non-discounted basis at tax rates that are expected to apply in the periods in which the temporary differences reverse based on tax rates and laws enacted or substantively enacted at the Balance Sheet date.

Deferred tax assets are recognised to the extent that it is considered more likely than not that future taxable profits will be available against which the underlying temporary differences can be deducted. Their carrying amount is reviewed at each Balance Sheet date on the same basis.

Derivative financial instruments

The Company uses derivative financial instruments such as interest rate derivatives, foreign currency forward exchange contracts and cross currency swaps to hedge its risks associated with interest rate fluctuations and foreign currency. Such derivative financial instruments are initially recognised at fair value and subsequently remeasured to fair value for the reported Balance Sheet. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. The fair value of the derivatives are calculated by reference to market exchange rates and interest rates at the period end.

The Company's interest rate derivatives are designated as fair value hedges. The gain or loss on the hedging instrument is recognised immediately in the Income Statement. The carrying amount of the hedged item is adjusted through the Income Statement for the gain or loss on the hedged item attributable to the hedged risk, in this case movements in the risk free interest rate. Hedge accounting is discontinued when the hedging instrument expires, is sold, terminated, exercised, or no longer qualifies for hedge accounting.

Foreign currency derivatives and cross currency swaps are used to hedge the Group's net investment in foreign currency denominated operations. For the Company, gains and losses are recognised immediately in the Income Statement. For the Group, to the extent that the derivatives are designated and effective as net investment hedges, they are transferred to equity on consolidation to match against foreign exchange exposure in the related assets and liabilities.

The Group also uses foreign currency forward contracts to hedge certain transactional exposures. These contracts are not hedge accounted and all gains and losses are taken directly to the Income Statement.

2 Exchange rates

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

	2018		2017	
	Closing rate	Average rate	Closing rate	Average rate
US Dollar	1.28	1.34	1.35	1.29
Canadian Dollar	1.74	1.73	1.70	1.67
Euro	1.11	1.13	1.13	1.14

3 Directors' emoluments

Detailed information concerning Directors' emoluments, shareholdings and options is shown in the Directors' Remuneration Report.

4 Intangible assets

	Software £m
Cost:	
At 1 January and 31 December 2018	0.4
Amortisation:	
At 1 January and 31 December 2018	0.4
Net book value:	
At 1 January and 31 December 2018	-

5 Tangible assets

	Plant and equipment £m
Cost:	
At 1 January and 31 December 2018	0.3
Depreciation:	
At 1 January and 31 December 2018	0.3
Net book value:	
At 1 January and 31 December 2018	-

6 Investments in subsidiaries

	£m
Cost or valuation:	
At 1 January 2018	2,727.5
Additions	28.4
Disposals	(503.6)
At 31 December 2018	2,252.3
Provisions:	
At 1 January 2018	1,026.6
Provided in the year	8.9
Disposals	(503.6)
At 31 December 2018	531.9
Net carrying amount:	
At 31 December 2018	1,720.4
At 31 December 2017	1,700.9

The addition in the year represents an additional investment in National Express Intermediate Holdings Limited.

The amount provided in the year relates to National Express Trains Limited.

During the year, the cost and cumulative provision of certain dormant subsidiaries were written off as a result of liquidation. There was no impact on the net carrying amount.

The information provided below is given for the Company's principal subsidiaries. A full list of subsidiaries and investments can be found in note 39 to the consolidated accounts. The principal country of operation in respect of the companies below is the country in which they are incorporated and all holdings are 100% held directly by the Company:

Incorporated in England and Wales

National Express Intermediate Holdings Limited	Holding company for the majority of the Group's operating companies
National Express Finance Company Limited	Finance company for Group fuel derivative arrangements

7 Derivative financial instruments

	2018 £m	2017 £m
Interest rate derivatives	6.7	10.0
Cross currency swaps	–	0.9
Derivative financial assets due over one year	6.7	10.9
Interest rate derivatives	3.9	4.2
Foreign exchange forward contracts	3.6	3.3
Derivative financial assets due under one year	7.5	7.5
Cross currency swaps	(4.4)	–
Derivative financial liabilities due over one year	(4.4)	–
Interest rate derivatives	–	0.2
Cross currency swaps	–	(4.3)
Foreign exchange forward contracts	(10.5)	(1.8)
Derivative financial liabilities due under one year	(10.5)	(5.9)

Full details of the Group's financial risk management objectives and policies can be found in note 30 to the consolidated accounts. As the holding company for the Group, the Company faces similar risks over foreign currency and interest rate movements.

8 Debtors

	2018 £m	2017 £m
Amounts falling due within one year:		
Amounts owed by subsidiary undertakings	214.6	75.4
Corporation tax recoverable	3.0	10.1
Other debtors	2.5	1.8
Prepayments	3.0	0.3
	223.1	87.6

9 Cash at bank and in hand

	2018 £m	2017 £m
Cash at bank	0.1	0.2
Short-term deposits	35.0	204.5
	35.1	204.7

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Company, and earn interest at the respective short-term deposit rates. The fair value of cash equals the carrying value.

10 Creditors: amounts falling due within one year

	2018 £m	2017 £m
Bank overdraft	84.7	15.5
Bank loans	-	94.2
Trade creditors	23.4	24.2
Amounts owed to subsidiary undertakings	136.6	72.4
Accruals and deferred income	43.2	22.6
Accrued interest on borrowings	10.9	11.2
Other debt payable	0.5	-
	299.3	240.1

Trade creditors are non-interest bearing and are normally settled on 30-day terms and other creditors are non-interest bearing and have an average term of six months.

11 Creditors: amounts falling due after more than one year

	2018 £m	2017 £m
Bonds	852.4	851.9
Other debt payable	73.7	73.6
	926.1	925.5

12 Provisions for liabilities and charges

	Total £m
At 1 January 2018	13.0
Utilised in the year	(9.2)
At 31 December 2018	3.8

Provisions for liabilities and charges relates to restructuring activities, and it is expected to be utilised within the next five years.

13 Deferred tax

Deferred tax included in the Balance Sheet is as follows:

	2018 £m	2017 £m
Deferred tax assets	14.4	15.6
Deferred tax liability	(2.6)	(7.3)
Net deferred tax asset	11.8	8.3

The major components of the provision for deferred taxation are as follows:

	2018 £m	2017 £m
Accelerated capital allowances	0.1	0.2
Other timing differences	-	0.2
Losses carried forward	14.3	15.2
Defined benefit pension	(2.6)	(7.3)
Net deferred tax asset	11.8	8.3

A reconciliation of the deferred tax balances is as follows:

	Deferred tax assets £m	Deferred tax liability £m
Deferred tax at 1 January 2018	15.6	(7.3)
Charge to Income Statement	1.8	-
Charge to Other Comprehensive Income	(3.0)	4.7
Deferred tax at 31 December 2018	14.4	(2.6)

Timing differences associated with Group investments

No deferred tax (2017: £nil) is recognised on the unremitted earnings of subsidiaries and associates, as no dividends have been accrued as receivable, and no binding agreement to distribute the past earnings in future has been entered into by the subsidiaries.

Unrecognised tax losses

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit against future taxable profits is probable. Deferred tax assets that the Company has not recognised in the accounts amount to £nil (2017: £nil).

14 Interest-bearing loans and borrowings

The effective interest rates at the Balance Sheet date were as follows:

	2018 £m	Maturity	Effective interest rate	2017 £m	Maturity	Effective interest rate
Current						
Bank overdraft	84.7	-	-	15.5	-	-
US bank loans	-	-	-	94.2	April 2018	USD LIBOR 0.75%
Accrued interest on borrowings	10.9	-	-	11.2	-	-
Total current	95.6			120.9		
Non-current						
10-year Sterling bond	227.9	June 2020	6.85%	230.4	June 2020	6.85%
7-year Sterling bond	400.3	November 2023	2.54%	400.2	November 2023	2.54%
2.5-year Euro floating rate note	224.2	May 2020	EURIBOR + 0.40%	221.3	May 2020	EURIBOR + 0.4%
Bonds	852.4			851.9		
Euro Private Placement	73.7	August 2021	4.55%	73.6	August 2021	4.55%
Other debt payable	73.7			73.6		
Total non-current	926.1			925.5		

Details of the Company's interest rate management strategy and interest rate swaps are included in notes 30 and 31 to the consolidated accounts.

15 Called-up share capital

	2018 £m	2017 £m
At 31 December:		
Authorised:		
800,000,000 (2017: 800,000,000) ordinary shares of 5p each	40.0	40.0
Issued called-up and fully paid:		
511,738,648 (2017: 511,738,648) ordinary shares of 5p each	25.6	25.6

The total number of share options exercised in the year by employees of the Group was 2,248,309 (2017: 2,773,080) of which 1,910,086 (2017: 2,316,546) exercises were satisfied by transferring shares from the National Express Employee Benefit Trust. The remaining exercises were settled via a direct purchase of shares from the open market.

Own shares

Own shares comprises 1,758,660 (2017: 1,643,746) ordinary shares in the Company that have been purchased by the trustees of the National Express Employee Benefit Trust (the 'Trust'). During the year, the Trust purchased 2,025,000 (2017: 1,700,000) shares and 1,910,086 (2017: 2,316,546) shares were used to satisfy options granted under a number of the Company's share schemes. No shares (2017: nil) were sold during the year to the open market.

The market value of the shares held by the Trust at 31 December 2018 was £6.6m (2017: £6.3m). The dividends payable on 3,551,284 of these shares have been waived (2017: 1,520,405).

16 Retirement benefits

The Company participates in both the National Express Group Staff Pension Fund (a defined benefit scheme) and a defined contribution scheme.

Defined benefit scheme

The defined benefit scheme is now closed to all future accrual.

On 11 October 2018, the Trustees of the 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.

The assets of the scheme are held separately from those of the Company.

The valuation as at 31 December 2018 is based on the results of the 5 April 2016 actuarial valuation, which has been updated by independent professionally qualified actuaries to take account of the requirements of IAS 19. The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice. Details of the latest actuarial valuation are included in note 34 to the consolidated accounts.

The relevant assumptions used are as follows:

	2018 £m	2017 £m
Rate of increase in salaries	–	2.5%
Rate of increase of pensions	3.2%	3.2%
Discount rate	2.9%	2.5%
Inflation assumption (RPI)	3.2%	3.2%
Inflation assumption (CPI)	2.2%	2.2%
Post-retirement mortality in years:		
Current pensioners at 65 – male	22.7	23.1
Future pensioners at 65 – male	24.1	24.8
Current pensioners at 65 – female	25.4	25.9
Future pensioners at 65 – female	26.9	27.8

Sensitivities regarding key assumptions are disclosed in note 34 of the consolidated accounts.

The amounts charged to the Income Statement and comprehensive income for the years ended 31 December 2018 and 2017 are set out in the following tables:

	2018 £m	2017 £m
Income Statement		
Past service cost	(0.9)	–
Net interest income	1.1	1.2
Total credit to the Income Statement	0.2	1.2

During the year £0.2m (2017: £0.2m) of administrative expenses were incurred.

	2018 £m	2017 £m
Comprehensive income		
Actuarial loss during the period from obligations	7.3	(1.9)
Expected return on plan assets greater/less than discount rate	(35.6)	(0.4)
Net actuarial loss	(28.3)	(2.3)

The actuarial loss of £35.6m includes £26.5m representing the difference between the costs of the insurance policy and the accounting value of the liabilities secured through the buy-in transaction described above.

16 Retirement benefits continued

Defined benefit scheme continued

The amounts recognised in the Balance Sheet at 31 December are:

	2018 £m	2017 £m
Bonds	-	185.3
Insurance policy	83.7	-
Other	14.9	(51.3)
Fair value of scheme assets	98.6	134.0
Present value of scheme liabilities and defined benefit obligation	(83.7)	(90.8)
Defined benefit pension surplus	14.9	43.2

The movement in the present value of the defined benefit obligation in the year is as stated below:

	2018 £m	2017 £m
Defined benefit obligation at 1 January	(90.8)	(89.7)
Past service cost	(0.9)	-
Benefits paid	2.9	3.1
Finance charge	(2.2)	(2.3)
Actuarial loss arising from changes in financial assumptions	7.4	(1.9)
Actuarial gain arising from changes in demographics	2.2	-
Actuarial loss arising from experience adjustments	(2.3)	-
Defined benefit obligation at 31 December	(83.7)	(90.8)

The movement in the fair value of scheme assets is as follows:

	2018 £m	2017 £m
Fair value of scheme assets at 1 January	134.0	134.2
Expected return on plan assets	3.3	3.5
Expected return on plan assets greater/less than discount rate	(35.6)	(0.4)
Cash contributions – employer	-	-
Administrative expenses	(0.2)	(0.2)
Benefits paid	(2.9)	(3.1)
Fair value of scheme assets at 31 December	98.6	134.0

History of experience gains and losses:	2018 £m	2017 £m	2016 £m	2015 £m	2014 £m
Fair value of scheme assets	98.6	134.0	134.2	105.1	101.8
Present value of defined benefit obligation	(83.7)	(90.8)	(89.7)	(70.2)	(71.2)
Surplus in the scheme	14.9	43.2	44.5	34.9	30.6
Experience adjustments arising on liabilities	(2.3)	-	(0.3)	-	-
Experience adjustments arising on assets	(35.6)	(0.4)	28.1	(2.2)	22.6

17 Share-based payment

During the year, ended 31 December 2018, the Company had a number of share-based payment arrangements, which are described in note 7(b) to the consolidated accounts.

The options have a weighted average contractual life of one year (2017: one year). Options were exercised throughout the year and the weighted average share price at exercise was 388p (2017: 362p).

18 Commitments and contingencies**Operating lease commitments**

The Company had total commitments under non-cancellable operating leases as set out below:

	Land and buildings	
	2018	2017
	£m	£m
Operating leases which expire:		
Within one year	0.2	–
Within two to five years	–	0.1
	0.2	0.1

Contingent liabilities**Guarantees**

The Company has guaranteed credit facilities totalling £211m (2017: £222m) of certain subsidiaries. The Company has also guaranteed certain liabilities of a number of its subsidiaries under Section 479C of the Companies Act 2006. These subsidiaries are highlighted in the full subsidiaries listing in note 39 to the consolidated accounts.

Bonds and letters of credit

In the ordinary course of business, the Company is required to issue counter-indemnities in support of its operations. Letters of credit have been issued to support insurance retentions of £118.2m (2017: £91.9m).

19 Post Balance Sheet events

In January 2019, the Company entered into a £500 million bridging-to-bond facility in anticipation of the refinancing of the Company's €250 million floating rate note maturing in May 2020 and £225 million bond maturing in June 2020. The facility is for an initial period of 18 months and includes committed options to extend the maturity date until January 2022.

Five Year Summary

	2018	2017	2016	2015	2014
Group normalised					
Revenue	2,450.7	2,321.2	2,093.7	1,745.4	1,707.7
Normalised operating profit	257.7	241.5	217.5	190.6	173.9
Return on capital	12.4%	11.9%	11.9%	11.7%	10.7%
Basic EPS	32.9	29.1	26.3	23.4	18.9
IFRS					
Revenue	2,450.7	2,321.2	2,093.7	1,745.4	1,707.7
Operating profit	215.4	197.9	183.7	164.9	118.1
PBT	177.7	156.4	134.8	120.6	70.4
Basic EPS	26.6	25.7	23.0	20.9	11.6
Dividends per share	14.9	13.5	12.3	11.3	10.3
Net (debt)/funds					
Cash	117.7	314.3	324.4	60.4	83.7
Other debt receivable	2.1	0.7	0.5	0.8	0.8
Bonds	(852.4)	(851.9)	(983.2)	(583.5)	(585.3)
Bank loans	(9.0)	(115.6)	(13.3)	(45.3)	(5.2)
FV of derivatives	6.4	11.3	25.5	14.3	18.6
Finance lease	(142.6)	(173.1)	(159.5)	(127.6)	(110.5)
Other debt payable	(73.7)	(73.6)	(72.4)	(64.6)	(66.4)
Net debt	(951.5)	(887.9)	(878.0)	(745.5)	(664.3)
Gearing ratio	2.30	2.30	2.50	2.45	2.25

Managing our environmental impacts – performance data

We remain committed to working in partnership with our stakeholders and partners to mitigate the impact of climate change and the Group continues to maintain full environmental legislative compliance. Our environmental performance has remained strong in 2018 retaining a CDP 'B' rating and a water disclosure 'C' rating for 2018.

Divisional tCO₂e for KPI period

Total Group emissions decreased again year-on-year, to 865,311 tCO₂e. Although this is a marginal decrease it needs to be considered in relation to the overall increase in passenger km. North America and ALSA reported an increase of 3% and 1.5% respectively but this increase was mitigated by the strong UK performance. We saw total UK emissions drop year-on-year from 237,919 to 230,222 tonnes, a reduction of 3%, with only a small (4,038 tCO₂e) attributable to the reduction from the Midland Metro exit.

Divisional tCO ₂ e	2014	2015	2016	2017	2018	Change year-on-year	Change 2014-18
ALSA	296,214	311,985	303,537	313,608	318,451	1.54%	7.51%
UK Bus	142,312	138,822	138,449	132,586	128,906	(2.78%)	(9.42%)
UK Coach	109,225	106,203	110,799	105,333	101,116	(4.00%)	(7.42%)
UK Rail	45,132	43,408	44,341	4,038	N/A		
N. America	236,979	232,576	258,183	261,913	269,953	3.07%	13.91%
Bahrain	N/A	12,861	21,698	20,506	20,509	0.01%	59.47% ¹
German Rail	N/A	N/A	26,395	28,704	25,367	(11.63%)	(3.89%) ¹
Leased vehicles / business travel	411	641	1,254	1,184	1,009	(14.78%)	145.50%
TOTAL	830,273	846,496	904,656	867,872	865,311	(0.30%)	4.22%

¹ Change calculated from earliest available data

Greenhouse Gas (GHG) Emissions by scope

When we review the total emissions data by Green House Gas (GHG) protocol we can see Scope 2 (energy we purchase for use) has a marginal decrease year on year and a significant decrease for 2014-18. The Scope 1 (combustion of fuel and operation of facilities) increase of less than 1% year-on-year and 7% for the KPI period is to be expected with the Group growth over that period but the increase is less than passenger km growth and demonstrates the improving efficiency of our fleet.

Group GHG Emissions Data	2014	2015	2016	2017	2018	Change year-on-year	Change 2014-18
GHG SCOPE 1 (Combustion of fuel and operation of facilities)	754,859	771,922	799,929	801,063	808,212	0.89%	7.07%
GHG SCOPE 2 (Electricity, heat, steam, cooling energy use)	67,186	66,317	95,107	60,682	49,153	(19.00%)	(26.84%)
GHG SCOPE 3 (Other upstream emissions)	8,228	8,257	9,620	6,127	7,946	29.69%	(3.43%)
TOTAL	830,273	846,496	904,656	867,872	865,311	(0.30%)	4.22%

Intensity Metrics

Applying the intensity metrics we show a year-on-year decrease of 4.75 % tCO₂e / million passenger km and a total decrease from 2014 baseline of over 13%. This decrease is significant considering the Group increase of nearly 20% in passenger km.

Intensity Metrics	2014	2015	2016	2017	2018	Change year-on-year	Change 2014-18
tCO ₂ e / £m revenue	445	428	430	373	353	(5.36%)	(20.67%)
tCO ₂ / million passenger km	22.46	22.55	22.01	20.43	19.46	(4.75%)	(13.36%)
Total passenger km (m)	37,450	37,450	41,107	42,845	44,479	3.81%	18.77%

Group Environmental KPI performance

With the KPI period extending to 2018 our Group environmental performance against a particularly robust and ambitious suite of KPIs has again delivered some strong results and we close out the KPI period by exceeding the target reduction of total carbon emissions (tCO₂e) per million passenger km by over 19% and year-on-year 2017-18 by nearly 5%.

Water consumption reduction has also exceeded the KPI period target by over 50% and reduced year-on-year by 4%. However, some challenges still remain with a year-on-year increase in site energy use and waste to landfill. As with last year, some of these changes are the result of improved reporting and accuracy of data but we will review this data at a site level and set improvement targets for the next period.

Group KPI performance	Target reduction for KPI period	Metric	2014	2015	2016	2017	2018	Change year-on-year	Change 2014-18
Traction Energy	3% (energy use - fuel & electricity)	MWh/m pass km	82.70	76.09	73.85	69.98	66.51	(4.96%)	(19.58%)
Site Energy	20% (emissions - energy only)	tCO ₂ e	42,016	43,050	42,464	40,615	44,057	8.47%	4.86%
Waste	80% non-haz waste to landfill	tonnes	5,357	5,648	7,449	7,676	7,910	3.05%	47.66%
Water	10% total consumption	m ³	1,008,363	978,922	514,821	510,167	489,393	(4.07%)	(51.47%)
Total Emissions	4% carbon emissions / pass. Km	tCO ₂ e/m pass km	24.11	22.55	22.01	20.43	19.46	(4.75%)	(19.29%)

Shareholder Information

Ordinary shares

The Company's ordinary shares, each of nominal value 5 pence, are traded on the main market for listed securities on the London Stock Exchange (LON:NEX).

Company website:

www.nationalexpressgroup.com

The Company website contains information about the Company, including results announcements and presentations, annual reports, AGM notices and other similar corporate communication and shareholder materials which are available to view and download. Information can also be found there about the latest National Express share price and dividends, news about the Group and its operations, and details and links to further information.

Registrar: Equiniti

For assistance and enquiries relating to the administration of shareholdings in National Express Group PLC, such as lost share certificates, dividend payments or a change of address, please contact the Company's Registrar:

Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

Telephone from UK:
0371 384 2152*

Telephone from overseas:
+44 (0) 121 415 7047*

Textel (for the hard of hearing):
0371 384 2255*

If you are registered for online shareholder communications, you can contact the Registrar and access details of your shareholdings electronically via www.shareview.co.uk.

* Lines are open from 8.30am to 5.30pm, Monday to Friday, excluding public holidays in England and Wales.

e-Communication

National Express encourages shareholders to receive communications from the Company electronically as this will enable you to receive them more quickly and securely. It also allows the Company to communicate in a more environmentally friendly and cost-effective manner.

To register for this service, you should go to www.shareview.co.uk.

Payment of dividends to UK resident shareholders

Shareholders whose dividends are currently sent to their registered address may wish to consider having their dividends paid directly into their personal bank or building society account. This has a number of advantages, including the crediting of cleared funds on the actual dividend payment date. If you would like your future dividends paid in this way, you should contact the Registrar or complete a mandate instruction available at www.shareview.co.uk and return it to the Registrar. Under this arrangement, dividend confirmations are still sent to your registered address.

Payment of dividends to non-UK resident shareholders

Instead of waiting for a sterling cheque to arrive by post, shareholders can request that their dividends be paid directly to a personal bank account overseas. This is a service which the Registrar can arrange in over 30 different countries worldwide, and in local currencies, and it normally costs less than paying in a sterling cheque.

For more information, you should contact the Registrar on +44 (0)121 415 7049 or download an application form online at www.shareview.co.uk. Alternatively, you can contact the Registrar at the address given above.

Annual Dividend Confirmation

The Company issues Annual Dividend Confirmations ('ADC') to private shareholders. An ADC in respect of dividends paid by the Company during the tax year 2018/19 has been issued at the same time as this report.

Share dealing service

Equiniti provides both existing and prospective UK shareholders with an easy to access and simple to use share dealing facility for buying and selling shares in National Express Group PLC by telephone, online or post. The telephone and online dealing service allows shareholders to trade 'real-time' at a known price that will be given to them at the time they give their instruction.

For telephone dealing, call 0345 603 7037 between 8.00am and 4.30pm, Monday to Friday (excluding public holidays in England and Wales). Calls are charged at the standard geographic rate and will vary by provider. Calls outside the UK will be charged at the applicable international rate. For online dealing, log on to www.shareview.co.uk/dealing. For postal dealing, call 0371 384 2248 for full details and a dealing instruction form. Existing shareholders will need to provide the account/shareholder reference number shown on their share certificate.

Other brokers, banks and building societies also offer similar share dealing facilities.

ShareGift

ShareGift is an independent charity share donation scheme administered by the Orr Mackintosh Foundation (registered charity number 1052686). Those shareholders who hold only a small number of shares, the value of which makes it uneconomic to sell them, can donate the shares to ShareGift who will sell them and donate the proceeds to a wide range of charities. For further information, contact:

ShareGift
PO Box 72253
London
SW1P 9LQ

Telephone: 020 7930 3737
Email: help@sharegift.org
Website: www.sharegift.org

General Data Protection Regulation ('GDPR')

On 25 May 2018, the General Data Protection Regulation came into force which gives individuals improved clarity and rights over personal data. The Company has updated its Shareholder Privacy Notice to make it easier to understand how National Express uses and protects shareholder information. A copy of the Shareholder Privacy Notice can be found at www.nationalexpressgroup.com/investors/shareholder-centre/shareholder-privacy-notice.

Unclaimed Assets Register

The Company participates in the Unclaimed Assets Register ('UAR') programme which provides a search facility for shareholdings and other financial assets that may have been forgotten. For further information, contact:

Telephone: 0333 000 0182
Email: uarenquiries@uk.experian.com
Website: www.uar.co.uk

Unsolicited mail

The Company is legally obliged to make its share register available on request, subject to a proper purpose test, to other organisations and this may result in shareholders receiving unsolicited mail. To limit the receipt of such unsolicited mail, contact:

MPS Complaint Department
The Mailing Preference Service
DMA House
70 Margaret Street
London
W1W 8SS

Telephone: 0207 291 3310
Website: www.mpsonline.org.uk

Shareholder security

Share fraud includes scams where investors receive unsolicited calls or correspondence concerning investment matters from organisations or persons claiming or implying that they have some connection with the Company. These are typically from purported 'brokers' who offer to buy shares at a price often far in excess of their market value. These operations are commonly known as 'boiler rooms'. Shareholders are advised to be very wary of any offers of unsolicited advice, discounted shares, premium prices for shares they own or free reports into the Company. If you receive any such unsolicited calls, correspondence or investment advice:

- ensure you get the correct name of the individual and firm
- if you feel uncomfortable with the call or the calls persist, simply hang up
- check that the individual and/or firm appear on the Financial Conduct Authority ('FCA') Register to ensure they are authorised at <https://register.fca.org.uk/>
- use the details on the FCA Register to contact the firm, if you want to call them back
- call the FCA Consumer Helpline (0800 111 6768) if there are no contact details for the firm on the Register or you are told they are out of date
- if you are approached by an unauthorised individual or firm, you should inform the FCA via its website
- if you do buy or sell shares from an unauthorised individual or firm, you may not have access to the Financial Ombudsman Service of the Financial Services Compensation Scheme
- if you have already paid money to share fraudsters you should contact Action Fraud on 0300 123 2040.

REMEMBER: if it sounds too good to be true, it probably is!

Financial Calendar 2019

2018 final dividend ¹	
18 APR	Ex-dividend date
23 APR	Record date
14 MAY	Payment date
2019 AGM	
9 MAY	Annual General Meeting ²
2019 interim dividend	
29 AUG	Ex-dividend date
30 AUG	Record date
20 SEP	Payment date
2019 reporting timetable	
9 MAY	First quarter trading update
25 JULY	Half year results
17 OCT	Third quarter trading update
2020	
27 FEB	Full year results ³

¹ The Board has recommended a final dividend of 10.17 pence per ordinary share, subject to shareholders' approval at the forthcoming Annual General Meeting

² The Annual General Meeting will be held at 2.00pm on Thursday, 9 May 2019 in The Horton Suite at the Macdonald Burlington Hotel, Burlington Arcade, 126 New Street, Birmingham, B2 4JQ. A separate circular, comprising a letter from the Chairman, Notice of Meeting and explanatory notes in respect of the resolutions proposed, accompanies this Annual Report. Copies of this document can also be found on the Company's website at www.nationalexpressgroup.com

³ Provisional

Definitions and Supporting Information

AGM	Annual General Meeting
AFV	Alternative Fuel Vehicle
FRC	The Financial Reporting Council
Board	The Board of Directors of the Company
Bps	Basis points
BRT	Bus Rapid Transit
BSOG	Bus Service Operators Grant
CDP	Carbon Disclosure Project
Code	The UK Corporate Governance Code published by the FRC in 2016
Company	National Express Group PLC
CPI	Consumer Price Index
CRM	Customer Relationship Management
CTV	Consolidated Tax Voucher
Dividend	Amount payable per ordinary share
DTRs	Disclosure, Guidance and Transparency Rules
EBIT	Earnings Before Interest and Tax
EBITDA	Earnings Before Interest and Tax plus Depreciation and Amortisation, calculated by taking normalised operating profit and adding back depreciation, fixed asset grant amortisation, and share-based payments
EFQM	European Foundation for Quality Management
EPS	Earnings per share – the profit for the year attributable to shareholders, divided by the weighted average number of shares in issue, excluding those held by the Employee Benefit Trust which are treated as cancelled
ESOS	Energy Savings Opportunity Scheme
EU	European Union
EURIBOR	Euro Interbank Offered Rate
Free cash flow	The cash flow equivalent of normalised profit after tax
FRC	The Financial Reporting Council
FWI	Fatalities and Weighted Injuries index
GDP	Gross Domestic Product – used to determine the economic performance of a whole country or region
GDPR	The General Data Protection Regulation 2016
Gearing ratio	The ratio of net debt to EBITDA over the last 12 months, including any pre-acquisition EBITDA generated in that 12-month period by businesses acquired by the Group during that period. For the purposes of this calculation, net debt is translated using average exchange rates
GHG	Greenhouse gas emissions
The Group	The Company and its subsidiaries
HMRC	Her Majesty's Revenue and Customs
IAS	International Accounting Standards
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
KPI's	Key Performance Indicators
LIBOR	London Interbank Offered Rate
Listing Rules	The Listing Rules of the FCA
LTIP	Long-Term Incentive Plan
MAA	Moving Annual Average

Maas	Mobility as a service
Net maintenance capital expenditure	The increase in net debt arising on the purchase of property, plant and equipment and intangible assets less proceeds from disposals of property, plant and equipment. It excludes capital expenditure arising from discontinued operations. Growth capital expenditure reflects investment in new or nascent parts of the business that drive enhanced profit growth
Net debt	Cash and cash equivalents (cash overnight deposits, other short-term deposits) and other debt receivables, offset by borrowings (loan notes, bank loans and finance lease obligations) and other debt payable (excluding accrued interest)
Net interest expense	Finance costs less finance income
Normalised earnings per share	Earnings per share excluding separately disclosed items
Normalised operating profit	Statutory operating profit excluding separately disclosed items
Normalised result	The statutory result excluding separately disclosed items
OEMs	Original Equipment Manufacturers
Operating cash flow	The cash flow equivalent of normalised operating profit
Operating margin	Normalised profit divided by revenue, expressed as a percentage
Ordinary shares	Ordinary shares of nominal value 5 pence each in the Company
RCF	Revolving credit facility
Return on assets (ROA)	The same calculation as ROCE, with the additional exclusion of intangible assets from capital employed
Return on capital employed (ROCE)	Normalised operating profit divided by average capital employed. Capital employed is net assets excluding net debt and derivative financial instruments, and for the purposes of this calculation is translated using average exchange rates
Return on invested capital (ROIC)	Normalised operating profit divided by invested capital. For acquisitions, invested capital is total consideration for the acquired business
RIA	Recruitment Incentive Awards granted under the LTIP
RME	Rhine-Münster Express
RMS	Revenue Management System
RPI	Retail Prices Index
RRX	Rhine-Ruhr Express
Separately disclosed items	Intangible amortisation for acquired businesses, result for the year from discontinued operations and in the prior year US tax reform and UK restructuring
SPAD	Signal Passed at Danger
TSR	Total shareholder return – the growth in value of a shareholding over a specified period assuming that dividends are reinvested to purchase additional shares
TUPE	Transfer of Undertakings (Protection of Employment) Act
ULSD	Ultra low sulphur diesel
Underlying revenue and underlying operating profit	Compares the current year revenue and operating profit with the prior year on a consistent basis, after adjusting for the impact of currency

Key Contacts and Advisers

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companysecretarial@
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2 King Edward Street
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HSBC Bank plc
8 Canada Square
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E14 5HA

* Lines are open 8.30am to 5.30pm, Monday to Friday, excluding public holidays in England and Wales. Calls are charged at the standard geographic rate and will vary by provider. Calls from outside the UK will be charged at the applicable international rate.

Cautionary statement

This Annual Report and the National Express website may contain certain 'forward-looking statements' with respect to National Express Group PLC ('Company' or 'Group') and the Group's financial condition, results of its operations and business, and certain plans, strategy, objectives, goals and expectations with respect to these items and the economies and markets in which the Group operates.

Forward-looking statements are sometimes, but not always, identified by their use of a date in the future or such words as 'anticipates', 'aims', 'due', 'could', 'may', 'should', 'will', 'would', 'expects', 'believes', 'intends', 'plans', 'targets', 'goal' or 'estimates' or, in each case, their negative or other variations or comparable terminology. Forward-looking statements are not guarantees of future performance. By their very nature, forward-looking statements are inherently unpredictable, speculative and involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. Many of these assumptions, risks and uncertainties relate to factors that are beyond the Group's ability to control or estimate precisely. There are a number of such factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. These factors include, but are not limited to, changes in the political conditions, economies and markets in which the Group operates (including the outcome of the negotiations to leave the EU); changes in the legal, regulatory and competition frameworks in which the Group operates; changes in the markets from which the Group raises finance; the impact of legal or other proceedings against or which affect the Group; changes in accounting practices and interpretation of accounting standards under IFRS, and changes in interest and exchange rates.

Any forward-looking statements made in this Annual Report or on the Company's website, or made subsequently, which are attributable to the Company or any other member of the Group, or persons acting on their behalf, are expressly qualified in their entirety by the factors referred to above. Each forward-looking statement speaks only as of the date it is made. Except as required by its legal or statutory obligations, the Company does not intend to update any forward-looking statements.

Nothing in this Annual Report or on the Company's website should be construed as a profit forecast or an invitation to deal in the securities of the Company.



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