23 February 2017

Full Year Results for the year ended 31 December 2016

Delivering strong growth from our diversified portfolio of businesses

Our diversified portfolio has delivered another strong performance in 2016, with both revenue and profits up on a constant currency and statutory basis, improving returns and strong cash generation, and a growing dividend. We have seen particularly strong growth in our overseas markets both from acquisitions and organically. As we enter 2017, we have a number of tailwinds including the benefits from our successful refinancing of our bond, the full year effect of acquisitions and lower fuel costs. We have a clear strategy for growth and remain focused on disciplined capital allocation, with a strong pipeline of opportunities for 2017 and beyond. The strength of our business, coupled with the removal of our c2c franchise commitments, means we are both raising our annual free cash flow guidance to £120 million and we propose a 10% increase in the final dividend.

On February 10th we completed the sale of c2c to Trenitalia. The results shown below from continuing operations, exclude the contribution from the UK Rail division in accordance with IFRS.

Financial highlights

	FY 2016	FY 2015	Change	Change at constant currency
Continuing Operations				
Group revenue	£2.10bn	£1.75bn	+20.0%	+10.6%
Group normalised operating profit	£219.0m	£191.8m	+14.2%	+4.8%
Group statutory operating profit	£185.2m	£166.1m	+11.5%	
Group normalised PBT	£170.1m	£148.4m	+14.6%	
Group statutory PBT	£136.3m	£122.7m	+11.1%	
Total Operations including UK Rail				
Group normalised PBT	£175.0m	£150.1m	+16.6%	
Statutory profit for the year	£120.0m	£109.1m	+10.0%	
Normalised EPS	27.3p	23.4p	+16.7%	
Group statutory EPS	23.0p	20.9p	+10.0%	
Free cash flow	£138.6m	£111.0m	£27.6m	
Net debt	£878.0m	£745.5m	£132.5m	
Full year proposed dividend	12.28p	11.33p	+8.4%	

Our focus on operational excellence continues to deliver results

- Strong growth in North America, with revenue and operating profits up 14.3% and 11.9% on a constant currency basis, with another successful bidding season
- Record passenger numbers in Spain and Morocco, supporting revenue growth of 5.7% and operating profit growth of 5.3%, both in constant currency
- Good performance from UK Coach and resilient results from UK Bus in challenging market conditions
- First full year of our German rail operations, carrying over 20 million passengers and delivering operational improvements relative to the previous operator
- Strong growth in passengers in c2c, up 6.7%, well ahead of average for London and South East, delivering revenue growth of 5.7%
- All three UK businesses awarded the British Safety Council Sword of Honour, while ALSA has received the prestigious Prince Michael International Road Safety Award for its ‘Driving out Harm’ campaign in Morocco
- UK Coach joins c2c with EFQM 5-star rating

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

- New real-time active revenue management systems fully installed in our UK and Spanish coach businesses, with positive early signs, helping to drive revenue, profit and incremental growth in 2017
- Continued investment in new mobile websites and ticketing apps to drive higher online transactions, conversion rates and lower costs
- Contactless payment being enabled in UK Bus in 2017
- Continuing to roll out Lytx DriveCam technology across our businesses, helping to deliver a reduction in collisions and associated costs
- Launch of a new free 'infotainment' system, VUER, in UK Coach, building customer loyalty and driving higher levels of customer satisfaction; trialling in UK Bus

Growing through new business opportunities including bolt-on acquisitions

- Completed 11 acquisitions in the year, all of which will be earnings accretive within the first 12 months:
    - 8 bolt-on acquisitions in North America, adding 1,100 school buses and 450 transit vehicles, with Ecolane, a paratransit planning and scheduling software provider delivering new contract wins since acquisition
    - 2 acquisitions in ALSA: 1 regional bus business giving us entry into Ibiza; and, 1 private hire transfer operator in Switzerland, providing entry to the lucrative ski and alpine tourist market and platform for expansion in complementary markets
    - Acquisition of Clarkes in UK Coach, building our commuter business and providing entry into the in-bound tourist market
- Our North American acquisitions made in 2015 delivered an average ROIC of between 15% and 20%
- Submitted bids to operate the Casablanca Tramway and Singapore urban bus
- Actively looking at a number of attractive growth opportunities
- Disposal of c2c to Trenitalia, freeing up capital for investment in higher growth markets

Dean Finch, National Express Group Chief Executive said:

"We have again delivered a strong set of results from our diversified group of international businesses and remain confident for our future prospects. Our focus on operational excellence is helping drive organic growth across the Group, and this is being complemented by significant returns from our recent acquisitions. We carried a record 921 million passengers in 2016 and will continue to invest in new technology to deliver ever-improving services to our customers.

"With the recent sale of our c2c franchise, we have further opportunity to invest in our fastest growing markets which deliver strong returns, but we will continue to do so in a disciplined manner. We have developed a strong track record and team in identifying and completing acquisitions that generate significant value and we have identified a strong pipeline of further opportunities. Our confidence in the future is demonstrated by the increase in our annual free cash flow guidance to £120 million and the proposed 10% increase in the final dividend."

Enquiries

National Express Group PLC

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Maitland

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There will be a presentation and webcast for investors and analysts at 0900 on 23 February 2017. Details are available from Rebecca Mitchell at Maitland.

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

In addition, unless other stated, all pre-tax results and margin data refers to the Group's continuing operations. Further details of discontinued operations can be found in note 6 to the Financial Statements.

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

Further details of these measures are provided on pages 34 to 35.

Group Chief Executive's Review

Tragic accident in Chattanooga, Tennessee

The tragic accident in Chattanooga, Tennessee on 21st November 2016 when six children lost their lives and others were seriously injured in a crash on one of our school buses has left six families grieving and a community in shock. It has had a profound impact on us all at National Express and we are deeply sorry that such a horrific accident should happen to children aboard one of our vehicles.

The North American management team, working closely with the local school board and community groups, swiftly offered appropriate support to the families affected. We have also offered our full co-operation to the investigations being led by the regulatory authorities that always follow an accident such as this. Without prejudicing the outcomes of these investigations we have accelerated programmes that were previously being piloted in our North American division as part of our long-standing determination to deliver industry-leading safety performance: an industry first, Lytx DriveCam will be installed on our North American vehicles by the end of 2019; and, a cloud-based portal recording communication between us and school administrators will be available for every location before the end of 2017.

None of us at National Express will ever forget the terrible accident and tragic impact on the friends and families of those children who lost their lives or were injured. But it only reinforces – if any reinforcement was ever needed – why safety will remain my priority as Chief Executive, as I have consistently made clear in previous statements and at our annual general meetings. While we have of course pledged to learn any necessary lessons from the investigations, I have also commissioned our independent safety consultants Arthur D Little to identify best practice in driver recruitment, training and assessment and review our procedures in all divisions to identify what further progress we can make to be consistently industry-leading. They will report back by the middle of the year.

Introduction

Financially, National Express delivered strong growth in 2016, with revenue, profit and cash all growing significantly. Indeed, National Express delivered a record statutory profit of £120 million – itself a doubling in the last two years - has grown earnings per share by nearly 17% and increased return on capital employed by 20 basis points to 11.9%. This strong performance coupled with the removal of our c2c franchise commitments, means we are both raising our guidance for future free cash flow to £120 million and proposing a 10% increase in the final dividend.

We believe our diversified international businesses and clear strategy has provided us with strong momentum and will continue to deliver growth in 2017 and 2018. We enter 2017 with some positive tailwinds that combined with proactive management action are providing both confidence for the future and helping us mitigate our identified challenges. Firstly, after last year's highly successful bond placement we have the benefit of reduced interest costs of £9 million every year. In 2017 we will also see lower fuel costs of around £6 million, and in 2018 these savings will grow to around £20 million. Secondly, our recent acquisitions are all performing well, have all been earnings accretive within the first 12 months and will continue to generate growth in 2017 and beyond. Our acquisitions made in North America during 2015, for example, continue to deliver returns of around 15-20%. Indeed, combined with our continued focus on rigorous cashflow management and operational excellence, and the receipts from the sale of c2c, we have an expanding portfolio of opportunities for further growth and expansion that we are confident will underpin growth not just in 2017 and 2018, but also beyond.

Our strategy therefore remains:

- A focus on operational excellence, including tight cost control, rigorous cashflow 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.
- Growth through targeted acquisitions, primarily bolt-on opportunities in North America and strategic targets in Spain and prudent expansion in to new international markets.

Before expanding on these areas in more detail, I would like to turn to each of our divisions to pick out their highlights and how they are equipped to prosper in the future.

Divisional highlights

North America

North America has had another strong year financially, with revenue growing by 14.3% and profit by 11.9%, both in constant currency. Despite a slight decline caused by the growing transit business, our margins remain industry-leading at 9.6% (2015: 9.8%). Since 2009 North American profits have increased by 188%. This performance reflects our success in tight cost control and organic growth, as well as the benefits of our acquisition strategy. In the last bid season we achieved a price increase of seven per cent on contracts up for renewal, translating into a 3.7% average price increase across the whole portfolio. The early signs this bid season suggest there are similar price increases coming through, which helped offset the continuing pressure on driver wages. We also added more buses, net, through new or expanded existing contracts against those lost through regretted contract exit and enjoyed our best ever school start-up, including proactive driver recruitment in what remains a tight labour market.

Our 2015 acquisitions made returns of around 15-20% in 2016. In 2016 we made a further eight acquisitions and we have a strong pipeline of further opportunities identified. The North America school bus market remains highly fragmented with around 1,000 operators. We are currently the only active major buyer in the market and have built a strong team who have made 20 acquisitions over the last five years, adding $450 million of annual revenue. We believe there continues to be plenty of scope for further expansion through the acquisition of operators near our existing sites where our service excellence and synergies offer the opportunity for significant returns and growth. These are good businesses in markets we already know well. Following the successful sale of c2c, the Group now has the opportunity to allocate more capital to our North American acquisition strategy. We will, however, continue to do this in a disciplined manner and seek similar returns to those already achieved.

ALSA

Our Spanish and Moroccan division, ALSA, has again carried a record number of passengers and continues to deliver an industry-leading margin of 14.2% (2015: 14.2%). When coupled with the success of our more sophisticated active, real-time revenue management system (RMS), the continued strong growth in Morocco and the benefit of recent acquisitions such as Herranz and new contracts such as ‘Imserso’, this all drove revenue up by 5.7% and grew profit by 5.3%, both in constant currency.

These results also demonstrate that we are entering the concession renewal process in Spain performing well. ALSA has industry-leading credentials and has been pioneering initiatives, such as RMS, which have improved our ability to compete and protect our existing concessions. These credentials are even more important as the terms of retendering competitions have been recently altered to emphasise service quality and competitive yet sensible pricing that reduces the opportunity for speculative very low-cost bids. We have, so far, won both concessions we operate to have come up for renewal. Indeed, their strong performance post-renewal, with good margins, means we are increasingly confident about our prospects. Even under a worse-case scenario, there will be no impact in 2017 and only up to a €3 million reduction in profit in 2018 on those contracts retendered in the next 12 months.

This potential profit impact must also be considered in its context, however. Firstly, it is important to note that in 2018 we expect a year-on-year fuel cost saving of over €11 million in ALSA alone. Secondly, we are actively growing other parts of the ALSA division and diversifying our operations. Our Moroccan business has now grown both revenue and passengers by over 70% since 2012, and we have recently submitted a bid to operate the Casablanca Tramway. We have complemented our Ibiza regional bus and Herranz acquisitions with another in Switzerland. This Swiss acquisition is in the potentially lucrative ski tourism market and is based in Geneva, where ALSA has existing coach operations, providing immediate synergy benefits and the opportunity to utilise spare coaches to meet demand. This acquisition also provides a platform for potential further expansion in complementary markets. We have added another new contract to our Imserso success in 2015, with a 10 year concession to operate services at Granada airport. Like in North America, with the additional proceeds provided by the sale of c2c, we will also target, in a disciplined manner, further acquisitions.

Rail

We completed the sale of our c2c franchise to Trenitalia on 10th February 2017, receiving £108 million through: a consideration of £72.6 million; and, the settlement of £35 million of inter-company loans. National Express is very proud of its record on c2c, turning it in to consistently the best performing railway in the UK. We handover c2c: with a record number of passengers; holding both the period and annual punctuality records; securing its highest customer satisfaction scores for three years; and, leading the industry on customer service standards, such as with automatic delay repay.

The current UK rail market is, however, one that we believe is not as attractive as our other growth opportunities. By securing the proceeds from c2c's sale and using them to pay down debt while assessing where to best invest in our fastest growing markets, I firmly believe we have a real opportunity to generate significant shareholder value. Further, despite significant organic growth on c2c, the commitments to substantial investment in fleet and property and a growing premium were emerging as a risk. The slowdown in UK rail passenger growth is likely to present significant challenges to many operators with very high premium obligations. By moving swiftly and firmly, we have both removed this risk and replaced it with the opportunity for further targeted investment.

We still remain fully committed to German rail. In our first full year of operation on the Rhine Munster Express (RME), we carried over 20 million passengers and delivered an improved operational performance compared to our predecessor. We have begun the mobilisation for the first of our Rhine Ruhr Express (RRX) contracts in June 2019. Now that we have an established operational base in Germany we are consolidating our presence, securing cost benefits. We will submit further German rail bids this year and also see it as an emerging opportunity for entry in to other, complementary markets nearby. As our decision to inform the local Bavarian authority that due to delay in its award we were not able to proceed with the Nuremberg S-Bahn contract demonstrates, we maintain a disciplined approach to bidding. While not ruling out further UK rail bids our immediate focus will be in these markets.

UK Coach

UK Coach has again grown in 2016, delivering a revenue increase of 0.6%, profit up over three percent and an industry-leading margin of 11.8% (2015: 11.5%). 2016 saw UK Coach further establish itself as the fair-priced alternative to rail, with high profile successes. We carried around an additional 25,000 customers on affected routes during the strikes on Southern rail and achieved record breaking days over the Christmas period where we both carried our highest ever number of passengers in a day and had two days where we took over £1 million in revenue.

Underpinning this success has been National Express coach's determination to be at the forefront of new technology adoption within the sector. Our recently installed more sophisticated, active real-time RMS has, for example, helped us respond quickly and in a more targeted manner to competition. Following a successful first quarter, quarters two and three were much more challenging. Through action taken on targeted routes during the third quarter, we were able to reduce our prices to generate sufficient passenger growth that delivered an overall increase in both revenue and seat utilisation rates by the end of the year. This trend has continued into 2017, with improved seat utilisation rates.

This action has helped increase revenue in our core coach business by 1.9% and passenger numbers by around two percent despite the UK bus and coach sector experiencing challenging market conditions and provides us with confidence for the future as we compete with both rail and other operators.

We have also augmented this organic growth in our core network with strategic expansion through acquisition in our Kings Ferry operation. Our acquisition of Clarkes of London in December 2016, provides the opportunity to deliver expanded commuter services in to London while securing synergies with our existing operations and expand in to the in-bound tourism market in which Clarkes has a substantial presence.

UK Bus

Across the country the UK Bus industry is experiencing a particularly challenging period. The combination of urban congestion and changing travel patterns are affecting revenue and profit. Across the year the bus division increased commercial revenue by two percent, but this was offset by the expected decline in concessionary income, to deliver overall revenue growth of only 0.1%. Normalised operating profit declined by 5.3%, with margins down to 12.4% (2015: 13.1%).

Within this overall picture, there have been some success stories. Our Platinum services – combining state-of-the-art vehicles with bus priority measures installed by the local authority – have grown patronage by nearly four percent on their routes. Solihull Council's investment in bus prioritisation on Lode Lane has, for example, made our 17,000 morning peak commuters' journeys 8 minutes faster and helped drive five percent growth on the services using this route. We are also working through our industry-leading Bus Alliance to rapidly establish and implement a West Midlands-wide congestion action plan that draws on examples such as this and targets the key pinch points impacting the most significant number of passengers, and thereby providing the greatest opportunity for overall improvement.

We are implementing a plan to boost passenger numbers, drawing on the early positive evidence from recent targeted fare reductions. We have extended these reductions to deeply discounted tickets in Sandwell and Dudley, supported by significant marketing activity, to encourage more trips among existing users and attract non-users as part of a granular approach to pricing that better reflects the local markets we are serving. If the pilot is successful we will roll this new approach out across the business.

We are complementing this new pricing with investment in technology such as the roll-out of new ticket machines this year to provide the largest network of contactless payment in public transport outside of London. This will simplify ticket purchasing and provide the opportunity to reassure customers through fare capping guarantees. Our tram services have pioneered this technology and already nearly 20% of on-board tickets are contactless purchases. We are also reviewing costs, including opportunities for further timetable efficiencies. And shortly we will roll out a new combined app which will bring together journey planning, real time information, and m-ticketing in one place.

So while there are industry-wide concerns, we are actively pursuing a plan to address the particular challenges and capitalise on our unique opportunities in the West Midlands and Dundee.

Bahrain

Our bus services in Bahrain continue to grow, with nearly 12 million passengers carried in 2016 – an increase of 85.7%. The Go Card smartcard, was successfully introduced in 2016 and will be rolled out across the whole network in 2017. We continue to have positive discussions with the local Bahraini authority around the service and the opportunity for future expansion. Our successful introduction to the Bahraini market has also provided an important credential in our recent bid for a bus contract in Singapore.

Across the Group as a whole these results show the success of our existing strategy and why we believe it will continue to generate growing returns for our shareholders. I will now move on to describe the benefits of our strategy in more detail.

Strategy

Operational excellence

For a number of years I have consistently made the case that our success as a business is dependent upon us securing and maintaining a reputation for operational excellence. For our existing customers this means consistently delivering safe services that they want at competitive prices they can afford. For new customers it means demonstrating to them that our services will provide to them the service they want in a convenient way while offering good value for money. Both require a focus on cost efficiency to ensure we are delivering the best possible value fares. In 2016 we delivered a further £17 million of cost savings, a total of £131 million in savings in 5 years.

The Group carried a record 921 million passengers in 2016, with both c2c and ALSA setting new records for the second year running. We continue to deliver industry-leading customer service. UK Coach is again the most trusted ground transportation brand in the UK Customer Service Institute's annual survey; UK Bus has been named Bus Operator of the Year at the National Transport Awards; c2c again has one of the highest customer satisfaction scores for reliability and punctuality in London and South East franchises in the National Rail Passenger Survey; in our North American School Bus over 90% of customers say they would recommend us on the basis of our service, safety and value for the fifth consecutive year; and, ALSA has won the prestigious 2016 IZO award for 'Best Customer Experience in Transport'.

We have sought external recognition of our approach to excellence and are very pleased with the progress we have made in the last year. UK Coach has secured 5-star European Foundation for Quality Management (EFQM) ratings, to join c2c on the top mark. UK Bus and ALSA – currently holding a 4-star rating – are working hard to join them shortly. In North America we won a Bronze Illinois Performance Excellence Recognition Program (ILPEx) for the second year in a row, increasing our score by 50% in the process. 2016 again saw us secure a record number of external awards across the Group.

We have also secured some very important safety awards in the year. All of our UK businesses secured both 5-star scores and a Sword of Honour from the British Safety Council. This is a significant achievement and one I am particularly pleased with. We also won a prestigious Prince Michael International Road Safety award for our Driving Out Harm programme, especially as it has applied to our Moroccan operations.

But there is always more that we can do. To ensure we are always striving for excellence and greater efficiency I launched the 'Delivering Excellence' team in late 2016 to identify examples of best practice both within and outside our Group and apply them to our companies. This team is led by a senior member of the Group Executive but drawn from talented individuals within our businesses, to also develop the skills and experience of future managers and leaders. The team's first project is an assessment of our driver training, recruitment and workforce planning, to learn from the best and deliver improvements where necessary to embed excellence.

This recognition for excellence has helped unlock new contracts and our continued focus on it has helped drive organic growth across our business. We have seen further contract wins in the year, highlights include: a 10 year contract to operate services to Granada Airport; a six year contract to operate sight-seeing services in Marrakech; a joint contract between UK Bus and Coach to operate staff bussing to Amazon sites; a contract to provide the coaching services to UEFA officials for the 2017 Champions League Final; and, as well as the new school bus contracts secured in North America during the bidding season, our recent Ecolane acquisition secured new contracts and we had another successful year in Transit with annualised revenues growing by 60% to around $200 million, driven by three new contracts wins and bolt-on acquisitions, while maintaining a 100% customer retention rate.

Our underlying business saw passenger numbers increase by 2.7% - with value fares helping generate growth – and 6.3% when acquisitions are included. Our ability to offer value fares is contingent on our excellence and our focus on cost efficiency. Our choice is stark: we either pass cost efficiency on to a growing number of passengers or cost inefficiency on to fewer passengers. That is why I am delighted with the example of UK Coach reacting so swiftly to challenging market conditions with lower fares to increase passenger numbers sufficiently to generate an overall revenue increase, as well as its record-breaking Christmas. On our Platinum bus routes in the West Midlands, we saw passenger numbers increase by nearly four percent in 2016. In c2c in 2016, new products recently introduced saw significant growth: online advance sales increased by 71% and Senior Rover sales increased by 50%. We have also focused on improving our Spanish marketing with, for example, 2016's Christmas Campaign delivering a 12% increase in revenue driven by 11% increase in passengers.

When combined with the rigorous management of cash flow and a focus on returns, we see the benefits to shareholder value. 2016 again saw us beat our free cash flow target, with £139 million achieved against £111 million last year. Our return on capital employed also increased by 20 basis points to 11.9%. As already set out above, it is because of our determination to invest further in our fastest growing markets with the highest returns that we have sold c2c. And it is because of the liabilities we have removed with c2c's sale and the confidence we have that our operational excellence will continue to deliver that we have increased our free cash flow target to £120 million.

Investment in technology
As I signaled last year, this has been a strategic focus of the Group. If we are to continue to deliver operational excellence, attract new customers and compete effectively we need to continue to embrace the opportunities presented by new technology. I see technology as particularly crucial to three areas.

First, delivering excellence to our customers, where 2016 saw us make significant strides. c2c pioneered automatic delay repay for smartcard season ticket holders which has now set a new standard that the Department for Transport wants replicated in other franchises. c2c was also the first franchise to launch flexi-season tickets and has an industry-leading take-up of smartcard season tickets at 43% of season ticket users. As well as demonstrating our commitment to innovation, we can take the learnings from these products' development and implementation into our other divisions despite c2c's sale.

UK Coach has pioneered targeted digital marketing and has further enhanced its approach this year through more personalised and real time marketing drawing on, for example, a customer's location, their last travel destination and dynamic data such as weather forecasts and ours and competitors' pricing. UK Coach is also developing its capability to target social media messages and promotions for specific locations and events and will shortly be trialling location-specific SMS messaging in London. Both UK Bus and UK Coach are developing apps that bring together journey planning, real time information and m-ticketing, making sales easier to existing customers and removing barriers to potential new users.

UK Coach has also advanced the on-board experience with the roll-out of the VUER free entertainment system that allows passengers to access television programmes and magazines on their phones or tablets. The aim is to have this installed on all routes by the Summer of 2017 and has already seen higher customer satisfaction scores for those who have accessed the system. Following its success we are piloting VUER on some of our Platinum bus routes in the West Midlands, with a view to a wider roll-out if it is a success.

As well as using new technology to make it easier for current and new customers to pay for our services, we are using it to communicate with them in more sophisticated ways. We have grown our CRM databases, allowing targeted communication with customers: UK Coach, from a very strong position, by 13%; 23% in ALSA; significant growth in UK Bus; and, over 15% in c2c. We have also grown the amount of revenue we receive from digital sources significantly. From a very strong position, UK Coach has grown further, with two percent growth in digital revenue. Both UK Bus and c2c have doubled their digital revenue in the year and ALSA secured a 36% year-on-year increase in revenue from email marketing and 40 year-on-year growth in revenue from mobile and apps, in 2016.

In North America we have introduced an app that helps parents track their child's bus, providing both reassurance and practical help in meeting their son or daughter at the end of their trip. We also acquired Ecolane, a company providing sophisticated route scheduling technology. As well as a growth market – the business has added new contracts since joining National Express – this technology provides the opportunity to improve the efficiency of our operations across the Group as a whole, not just North America.

In Spain, we have launched the pioneering 'ALSAcab' 'carpooling' service that provides a door-to-door 'first or final mile' option after completing their longer journey on our buses or coaches. This is an interesting new avenue for us and one that we are again looking to learn Group-wide lessons from.

Across the Group we have a number of initiatives that are market-leading, setting new customer service standards and attracting new customers and revenue. In an increasingly competitive market – including from new entrants using technology in increasingly sophisticated ways – this is ever more important.

Second, technology is being used to help us improve our safety performance. Lytx DriveCam in particular is proving an invaluable tool to help improve driving performance and reduce the cost of accidents. The leading technology of its type on the market, its power lies both in the data analytics it generates and the videos it allows to be reviewed. It is therefore an important management tool that allows tailored and targeted training. It also provides evidence to deal with any claims made against our drivers in an accident. We have fully installed the technology within UK Coach last year (with the recently acquired Clarkes vehicles to be fitted this year), and have begun its roll-out across UK Bus, ALSA and North America. As well as proving popular with staff, the emerging evidence demonstrates that it is a cost saving measure with UK Coach's pilot in one of our depots showing a 10% reduction in collision rate and annualised insurance costs coming down around 30%. Our early North American pilots have also demonstrated similar results.

Third, technology will also allow us to operate more efficiently. The benefits of our more sophisticated RMS are particularly relevant here. I have referred to UK Coach's figures above; in ALSA, as well as increasing revenue for the corridors under RMS by 0.8%, seat occupancy was also boosted by 1.1%. Our acquisition of Ecolane will also allow us to continue to seek more efficiencies across the Group in scheduling and routing.

Acquisitions and new opportunities
I have already explained above the importance and opportunity presented by new acquisitions. Our recent acquisitions have proven very successful. I believe that we have developed a real strength in identifying new acquisition targets, whether bolt-on to our existing operations or providing strategic new market entries. While remaining disciplined we believe we have a very strong pipeline of further opportunity, which when combined with our strong cash flow and the proceeds from c2c's sale, presents a significant opportunity for further value creation in the coming years.

North America has been, and will continue to be, the main focus of our activity. With sensible price increases apparent last year – and early signs they are continuing this year – a highly fragmented market with around 1,000 operators and a lack of competitors looking to acquire, we believe this remains a very attractive option. We have consistently delivered strong returns, with the average return of our 20 acquisitions over the last 5 years around 15-20%.

ALSA has also secured important acquisitions in the last year. In addition to our Ibiza regional bus and Herranz acquisitions we bought AlpyBus based in Geneva, Switzerland in December. This provides us with an entry in to both the ski tourism market as well as a base for possible further moves in to complementary markets nearby. The returns made by the Ibiza and Herranz acquisitions are above 20% and our ALSA team is currently exploring further opportunities that offer similar strategic and financial returns.

We will also continue to monitor the market for opportunities such as UK Coach's acquisition of Clarkes of London. This acquisition provided the opportunity to expand our existing Kings Ferry commuter services into London in an efficient way as Clarkes serves a complementary local market that provides the scope for operational and management synergies. Importantly, it has also provided a strong entry in to the in-bound tourism market in which Clarkes has a substantial presence. We believe this is a growth market that complements Kings Ferry's particular strengths.

We will also continue to look to grow our recent new market entries in Bahrain and Germany. We continue to have productive discussions with the local Bahraini authorities about the future shape of the network. We will also submit new contracts in Germany this year. In both, we are looking to complementary markets, as demonstrated by our recent bid submitted for a Singapore bus contract, where we are due to hear in the coming months whether we have been successful. We also continue to pursue other capital-light opportunities and, for example, submitted a bid for the Casablanca Tramway in December and are preparing for other bids in the coming months

Board changes

In January 2017 we announced that Matthew Ashley will become President and Chief Executive Officer for our North American business later this year, following David Duke's decision to retire. Matthew has done an excellent job as Group Finance Director over the last two and a half years and taking on such a senior operational position is an excellent career development opportunity for him. I wish Matthew and his family, who will be moving to the US with him, all the best for their time there. Matthew will remain a member of the PLC Board.

Chris Davies will replace Matthew as Group Finance Director and join the PLC Board after the May AGM. Chris joins us after holding senior finance positions at Inchcape plc and Diageo plc and I look forward to working with him, and continuing to work with Matthew, in the coming years.

Outlook

During 2017 we expect to continue to make good progress across the Group. We will continue with our strategy, with a focus on operational excellence driving a strong cashflow and returns and growing shareholder value. We will further enhance our service and customer offering through the investment in industry-leading technology, which we will also use to drive further safety improvements and cost efficiencies. And our focus on attracting the best and developing those with the highest potential will continue as we learn from fresh insight and spread best practice.

We have entered 2017 with good tailwinds, including the annualised saving of around £9 million secured through our recent bond refinancing and the full year benefit of the 11 acquisitions made in 2016. Coupled with the expected savings from fuel of around £6 million in 2017 and around £20 million in 2018, we will see significant reductions in our cost base in the coming years. We will remain focused on cash generation and have increased our annual target to £120 million, reflecting both the c2c liabilities removed with its sale and our confidence in our future performance.

We will continue to look for acquisitions. With the additional resources provided by the sale of c2c we will continue to be disciplined and only acquire opportunities that meet our strict returns criteria: our 2015 acquisitions are delivering returns of around 15-20%. This also applies to our other businesses, especially ALSA, where we believe there are other opportunities for acquisitions that provide either the opportunity for operational synergies or targeted strategic expansion. We will also continue to target capital-light new contract opportunities, using our existing operations as both credentials and bases for complementary market expansion.

In Spain, we enter the concession renewal process with a market-leading company that is winning customer awards and setting the standard on sophisticated value pricing through its upgraded RMS. While we expect there to be an impact on margin at renewal, the impact will not be felt until 2018. Even if we lost every contract we operate that is likely to come up for renewal this year the impact on ALSA's operating profit will be between £0-3 million in 2018. This needs to be considered against a saving of around €11 million in ALSA's fuel costs alone in 2018, compared to 2016 prices.

UK Coach will continue its drive to be the fair-priced alternative to rail, with active real-time RMS and on-board entertainment delivering value fares that are complemented by targeted digital marketing and sales to drive growth. UK Bus will continue to execute its plan to drive passenger growth through pricing initiatives, technology enhancements and cost reductions.

Safety will remain the Group's priority and we continue to target improvements in our performance. With investment in the industry-leading Lytx DriveCam technology and initiatives to improve further enhance driver recruitment, training and assessment – including through the new Delivering Excellence team's first projects – we are determined to be widely seen as the industry's safest operator.

Our uniquely diversified portfolio of international businesses and consistent delivery of our strategy has provided consistent growth in recent years and gives us confidence for our future prospects. While remaining disciplined we believe we have a very strong pipeline of targeted acquisitions and new market entries, which when combined with our strong cash flow and the proceeds from c2c's sale – as well as the continued focus on delivering excellence for our customers to drive organic growth – presents a significant opportunity for further value creation in the coming years.

Group Finance Director's Review

Presentation of results

We present our financial results on two bases. Normalised results show the performance of the business before intangible amortisation, since the Board believes this gives the reader a clearer understanding of existing business performance. IFRS results include amortisation to give the statutory results. There were no items presented as 'exceptional' in 2016 or 2015.

Following the disposal of c2c to Trenitalia, on 10 February we have also presented financial results on a continuing basis, with 2015 numbers restated to exclude results from UK Rail.

Revenue

Group revenue from the continuing business for the year was £2,103.7 million (2015: £1,753.8m), after excluding c2c, our UK rail franchise. This represents an overall increase of 10.6% on a constant currency basis and up 20.0% on a reported basis, benefitting from a number of bolt-on acquisitions made over the last two years, together with significant foreign exchange tailwinds.

Performance has been particularly strong in our overseas businesses, with North America delivering 14.3% growth in constant currency, benefitting from another strong bidding season where we achieved an average price increase of 3.7% across the entire portfolio and 7% on those contracts up for bid and renewal, together with eight bolt-on acquisitions made during the year. Spain and Morocco also delivered a strong performance, with revenue growth of 5.7% on a constant currency basis. This was supported by record passenger numbers in both Spain and Morocco, with more than 307 million passenger journeys made in 2016, together with the benefit of a full year's contribution from the Herranz acquisition made in 2015, and a further two small acquisitions made in 2016.

Rail also delivered a strong performance, with the first full year contribution of £61million from our German Rail operations where we commenced services on our RME network in December 2015. Our UK Coach business has delivered a robust performance, with core revenue growth of 1.9% more than offsetting a significant decline in demand for our Eurolines services, following the various terrorist attacks across Europe over the last year or so. UK Bus was flat on the year, with growth in commercial revenues being offset by declines in concessionary income.

Revenue bridge for the continuing operations	£m	% Change
2015 full year revenue	1,754	
Currency translation	148	
2015 full year revenue at constant currency	1,902	
Organic growth	48	2.5%
Acquisitions	93	4.9%
German rail	59	3.1%
Weather	2	0.1%
2016 full year revenue	2,104	10.6%

Normalised profit

Group normalised operating profit for continuing operations increased by 4.8% to £219.0 million on a constant currency basis; up 14.2% on a reported basis (2015: £191.8m). Growth of £10 million from our existing businesses together with an £18 million contribution from the 11 acquisitions made in 2016 and the full year benefit of acquisitions completed in 2015, more than offset net cost inflation of £13 million. We also saw a £6 million benefit from lower fuel prices as a direct result of our hedging policy, with further significant fuel cost savings to come in 2017 and 2018. The £10 million increase, year-on-year, in operating profit on a constant currency basis is also after an increase in bid and acquisition related costs of £5 million. Our new Director of Insurance and Risk has reviewed all historic claims and as a consequence of this review of our growing business together with providing in full for the insurance deductibles for the Chattanooga accident, resulted in costs rising by £7 million.

Group operating profit margin declined by 55 basis points to 10.4%, reflecting a larger contribution from our North American business together with the small loss in our German Rail business and a decline in profit in our UK Bus business.

Profit bridge for the continuing operations	£m	
2015 normalised full year operating profit	192	
Currency	17	% Change
Operating profit at constant currency	209	
Growth	10	
Acquisitions	18	
Bid and acquisition related costs	(5)	
Cost inflation	(30)	
Cost efficiency	17	
Fuel price benefit	6	
Insurance cost in North America	(7)	
Weather	1	
2016 normalised full year operating profit	219	4.8%

Segmental profit performance

Our overseas businesses were the strongest performers, with North America profit increasing by 11.9% on a constant currency basis and up 25.7% on a reported basis, benefiting from the significant weakening of Sterling against world currencies post the EU Referendum result.

Acquisitions made in 2015 and 2016 have delivered strong growth, with those acquisitions made in 2015 achieving ROIC of between 15-20%. In Spain and Morocco, operating profit increased by 5.3% on a constant currency basis, driven by a combination of organic growth, acquisitions and cost efficiencies. Reported operating profit increased by 18.5%, reflecting the significant weakening in Sterling.

UK Coach also delivered growth in profits, with operating profit up 3.1%, reflecting growth in new routes together with cost efficiencies. Our UK Bus operations had a challenging year with operating profit down £2.0 million, primarily caused by the £3 million reduction in concessionary income.

Our German Rail operations delivered a small operating loss of £1.5 million in its first full year of operations and we are targeting to make a small profit in 2017.

Segmental operating profit from continuing operations

	2016 Local currency	2015 Local currency	**2016 £m**	2015 £m
Spain and Morocco	**103.7**	98.5	**84.7**	71.5
North America	**113.9**	101.8*	**84.0**	66.8
UK Bus			**35.5**	37.5
UK Coach			**33.3**	32.3
German Rail	**(1.8)**	(0.1)	**(1.5)**	(0.1)
Central functions			**(17.0)**	(16.2)
Group			**219.0**	191.8

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

Income from associates was £1.1 million (2015: £1.8m) and is predominantly earnings from Bahrain.

Net finance costs increased to £50.0 million (2015: £45.2m), reflecting interest costs of £3.2 million on the bridging facilities ahead of the repayment of the £350 million bond in January 2017 together with a slightly higher level of average debt.

Including the results from UK Rail, normalised operating profit rose 15.7% to £223.9 million (2015: £193.5m) and normalised profit before tax increased by 16.6% to £175.0 million (2015: £150.1m).

Excluding UK Rail, on a continuing basis normalised profit before tax was £170.1 million (2015: £148.4m), an increase of 14.6%.

The normalised tax charge from continuing operations was £31.7 million (2015: £28.2m), a normalised effective tax rate of 18.6% (2015: 19.0%). The tax charge for 2016 included a number of one-off items, with the main ones being the release of tax provisions and recognition of losses. Details of the tax reconciliation are in note 10(c).

Looking forward, and depending on profit mix, new business opportunities and the future tax environment including new restrictions on tax deductions for interest expense in the UK, we expect the normalised effective tax rate to increase from 2017 and to likely settle around the mid 20's percentage range in the longer term. However, further out, rates may reduce if the new US administration reduces the US federal corporate income tax rate as is widely expected. We would expect the cash tax rate to be less than 15% for the next two years as we utilise brought forward tax losses, mainly in the US, during this period.

Normalised profit after tax for the year was £138.4 million (2015: £120.2m), with a basic EPS of 27.3 pence (2015: 23.4p), an increase of 16.7%. An increase of 10% in the final dividend to 8.41 pence has been proposed, reflecting our long-term dividend policy of ensuring that full year dividends are covered around two times by Group earnings.

Summary income statement

	2016 Total £m	UK Rail £m	**2016 Cont' £m**	2015* Cont' £m
Revenue	**2,279.2**	175.5	**2,103.7**	1,753.8
Operating costs	**(2,055.3)**	(170.6)	**(1,884.7)**	(1,562.0)
Normalised operating profit	**223.9**	4.9	**219.0**	191.8
Share of results from associates	**1.1**	-	**1.1**	1.8
Net finance costs	**(50.0)**	-	**(50.0)**	(45.2)
Normalised profit before tax	**175.0**	4.9	**170.1**	148.4
Tax	**(32.7)**	(1.0)	**(31.7)**	(28.2)
Normalised profit after tax	**142.3**	3.9	**138.4**	120.2

*2015 results restated to exclude the results from UK Rail

Exceptional items

There were no exceptional items in the period or the prior year.

IFRS results

Intangible amortisation increased to £33.8 million (2015: £25.7m), reflecting the weakening of Sterling together with recent acquisitions in North America and Spain. Profit for the year, after amortisation was a record high of £120.0 million (2015: £109.1m), up 10%. Basic EPS, after amortisation was 23.0 pence (2015: 20.9p), an increase of 10.0%.

IFRS profit

	2016 £m	2015 £m
Normalised profit before tax	**170.1**	148.4
Intangible amortisation	**(33.8)**	(25.7)
Profit before tax	**136.3**	122.7
Tax charge	**(20.2)**	(15.0)
Profit for the year from continuing operations	**116.1**	107.7
Profit after tax for UK Rail – discontinued operations	**3.9**	1.4
Total profit for the year	**120.0**	109.1

Cash management

Cash generation is the result of delivering operational excellence and represents a key driver of shareholder value. Our strong and sustainable cash flows allow us to retain a disciplined focus on ROCE while supporting a capital investment programme that maintains fleet age at acceptable levels. Our current target is to invest around 1.1 to 1.2 times depreciation.

In 2016, the Group delivered operating cash flow of £201.3 million (2015: £164.9m), up 22.1%, reflecting the significant increase in EBITDA, up by £46.5 million to £344.6 million (2015: £298.1m). The increase in operating cashflow of £36.4 million is also after an increased level of maintenance capital expenditure, net of disposals, of £134.7 million. This represents 110% of the depreciation charge and was £23 million higher than in 2015. The majority of the maintenance capital investment has been in fleet replacement in the UK, Spain and North America.

This has resulted in £138.6 million of free cash flow being generated over the year (2015: £111.0m), an increase of £27.6 million on the prior year. This free cash flow was well ahead of our £100 million target and in light of our positive momentum including the disposal of c2c and the discharge of the capital commitments therein, we are now increasing our target delivery to £120 million of free cash flow per annum, which we see as a sustainable level of cash generation going forward.

Free cash flow

	2016 £m	2015 £m
Continuing normalised operating profit	**219.0**	1.7
UK Rail operating profit	**4.9**	191.8
Total normalised operating profit	**223.9**	193.5
Depreciation and other non-cash items	**120.7**	104.6
EBITDA	**344.6**	298.1
Net maintenance capital expenditure	**(134.7)**	(111.7)
Working capital (increase)/decrease	**(3.1)**	(11.8)
Pension contributions above normal charge	**(5.5)**	(9.7)
Operating cash flow	**201.3**	164.9
Receipts from associates and minorities	**(1.5)**	0.7
Net interest paid	**(47.6)**	(43.4)
Tax paid	**(13.6)**	(11.2)
Free cash flow	**138.6**	111.0
UK rail franchise exit outflow	**(1.0)**	(2.5)
Exceptional cash expenditure	**(4.9)**	(10.0)
Cash flow available for growth & dividends	**132.7**	98.5

The Group generated cash flow of £132.7 million (2015: £98.5m), up £34.2 million on last year, which was available for growth capital projects, bolt-on acquisitions and dividends. The majority of the £27.0 million growth capital investment has been in growing our fleet on new services such as in Morocco, investment in revenue management systems for our coach services in the UK and Spain, investment in new contactless ticketing machines in UK Bus and investment to support our growth in Rail, both in the UK and Germany.

We have continued our strategy of making selective bolt-on acquisitions where the returns and strategic fit meet our strict criteria. During the year we invested in 11 acquisitions, eight of which were in our North America School Bus and Transit operations, in line with our stated strategy to exploit new growth opportunities in this market. We have also acquired two small acquisitions in ALSA, one for a regional bus contract in Ibiza and one for a private transfer operator in Switzerland. Our UK Coach business has also made a small bolt-on acquisition of a private hire business. Total net consideration was £122 million for the acquisitions, with a total of £88.8 million being paid in 2016 including £24 million of deferred consideration for acquisitions made in 2015.

Return on capital employed is a key factor in our incremental investment decisions and we are pleased with the progress we have made with the Group's return on capital increasing by 20 basis points to 11.9%.

Net funds flow for the period was an outflow of £132.5 million (2015: £81.2m), with year-end net debt of £878.0 million (2015: £745.5m) reflecting two main factors: Investment in acquisitions of £88.8 million during the period and the significant net outflow of £90.5 million, virtually all on the retranslation of foreign currency debt balances and the maturity of some foreign exchange contracts, caused by the significant weakening of Sterling against both the US Dollar and the Euro as commented above.

The Group maintains gearing discipline by matching the currency denomination of its debt to the currency in which EBITDA is earned. Simply put, gains from foreign exchange on EBITDA offset increases in debt due to movements in foreign exchange. As such, gearing at the end of the period was 2.5 times EBITDA, within the Group's target range of 2-2.5 times.

Net funds flow

	2016 £m	2015 £m
Cash flow available for growth & dividends	**132.7**	98.5
Net growth capital expenditure	**(27.0)**	(36.4)
Acquisitions and disposals	**(88.8)**	(69.4)
Dividends	**(58.9)**	(54.4)
Other, predominantly foreign exchange	**(90.5)**	(19.5)
Net funds flow	**(132.5)**	(81.2)

Dividend
The second half of 2016 saw a significant weakening of Sterling against world currencies with markets forecasting a broad range of future movements. In light of this volatility, our long-term dividend policy remains to pay a dividend covered two times by Group earnings. We propose a 10% increase in the final dividend giving an 8.4% increase in the full year dividend to 12.28 pence, which is 2.2 times covered.

Treasury management
The Group maintains a prudent approach to its financing and is committed to an investment grade credit rating. The Board's policy targets a level of debt that allows for disciplined investment and ample headroom on its covenants, with net debt to EBITDA at a ratio of 2.0x to 2.5x in the medium-term. Both Moody's and Fitch have reaffirmed their investment grade ratings in 2016.

The Group's key debt ratios as at 31 December 2016 and 2015 were gearing of 2.5 times and a bank covenant that should not exceed 3.5 times. The interest cover ratio was EBITDA 7.0 times interest as at 31 December 2016 (2015: 6.6x) comfortably exceeding the bank covenant of not less than 3.5 times.

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.

During the year, the Group has been cognisant of market volatility and sought to actively manage liquidity and interest rate risk prior to the refinancing of the Group's £350 million bond maturing in January 2017.

In January 2016, the Group entered into new bank facilities totalling £450 million, comprising a £350 million bridge-to-bond facility, together with a £100 million general corporate purposes facility. This bridging facility gave the Group significant flexibility, enabling the Group to choose the optimum moment to refinance taking into account the prevailing low interest rate environment, without incurring punitive refinancing charges.

Following the EU referendum result and prior to the US election, gilt rates were at historical lows. In September 2016, the Group entered into additional unsecured committed revolving credit facilities totalling £96 million. These new facilities are on the same terms as the Group's £416 million bank facility and mature in November 2021. In November 2016, the Group issued a £400 million 7-year Sterling bond with a coupon of 2.5%. The proceeds were used to refinance the Group's £350 million bond which matured in January 2017 and for general corporate purposes. Both facilities provide the Group with an appropriate level of liquidity and funding headroom together with ensuring significant interest savings going forwards.

Excluding the £350 million bond which was repaid in January 2017, the Group had £838 million of funding at the year-end. This funding is primarily from two Sterling denominated bonds comprised of a £400 million bond maturing in 2023 and a £225 million bond maturing in 2020, a private placement of €78 million maturing in 2021 and £159 million of finance leases. The residual debt balance is funded from the Group's £512 million revolving credit facilities, with a margin of 0.6% over LIBOR and maturing in 2021. At 31 December 2016, the Group had £830 million in cash and undrawn facilities available, which included £350 million used to repay the expiring £350 million bond in January 2017.

At 31 December 2016, the Group had foreign currency debt and swaps held as net investment hedges. These help mitigate volatility in foreign currency profit translation with corresponding movements in the Sterling value of debt. These corresponded to 2.1 times EBITDA earned in the US, held in US Dollars, and 2.4 times EBITDA earned in Spain and Germany, held in Euros. The Group hedges its exposure to interest rate movements to maintain a balance between fixed and floating interest rates on borrowings. It has therefore entered 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 2016, the proportion of Group net debt at floating rates was 24% (2015: 34%).

Group tax policy

We are committed to creating shareholder value through our four strategic goals: A focus on operational excellence; investment in technology; growth through targeted acquisitions; and an active focus on talent. The Group tax strategy supports these goals.

We pursue a cautious approach to our tax affairs which are aligned to business transactions and economic activity. Our approach to tax can be evidenced by the lack of outstanding tax audits as detailed in the Annual Report and Accounts. There are no outstanding tax audits in any of our main three markets of the UK, Spain and the United States of America.

In order to gain as much certainty as possible, tax matters are largely discussed in "real time" with the tax authorities in the markets in which we operate. For example, the proposed disposal of our UK rail business, which was announced in January 2017, was communicated to the HMRC at that time rather than when the tax return is submitted in December 2018. We have a constructive and good working relationship with the various tax authorities. However, due to the complexity of tax legislation, the Group and tax authorities may sometimes have differing opinions. The Group manages risk and accrues for areas of tax uncertainty in line with accounting standards requirements, where appropriate. The Group Tax Department reports on a regular basis on the Group's tax matters, with the Board and the Audit Committee apprised of any significant tax matters.

Pensions

The Group's principal defined benefit pension schemes are all in the UK. The combined deficit under IAS19 at 31 December 2016 for the continuing operations was £88.2 million (31 December 2015: deficit of £12.6m). The two principal plans are the UK Group scheme, which closed to new accrual in 2011, and the West Midlands Bus plan, which remains open to accrual for existing active members only. We are currently in negotiations with the Trustees of each of these schemes with respect to future deficit payments and anticipate that the overall level of contribution will remain at around £10 million per annum.

The IAS19 valuations for the principal schemes at 31 December 2016 were as follows:

- UK Bus (under the WM plan and the Tayside Transport Superannuation Fund): £128.5 million deficit (2015: £60.4m deficit);
- UK Group scheme: £44.5 million surplus (2015: £34.9m surplus)

The net pension surplus for c2c's participation in the Railway Pension Scheme has been transferred following the disposal of the rail franchise to Trenitalia.

Fuel costs

The Group consumes approximately 225 million litres of fuel each year for which it is at risk (i.e. there is no direct fuel escalator in the contract or concession price); all of which relates to the non-rail divisions. Fuel costs from non-rail divisions represented a total cost (including delivery and taxes) to the Group in 2016 of £168 million (approximately 8% of related revenue), at an average fuel component cost of 45.4 pence per litre. The Group has adopted a forward fuel buying policy in order to secure a degree of certainty in its planning. This policy is to hedge fully a minimum of 15 months addressable consumption against movements in price of the underlying commodity, together with at least 50% of the next nine months' consumption in the contract businesses. Currently, the Group is 100% fixed for 2017 at an average price of 42.6 pence/litre (excluding delivery and tax), 89% fixed for 2018 at an average price of 33p, 50% fixed for 2019 at 33p and 10% fixed for 2020 at 33p. We anticipate fuel savings of around £6 million in 2017 and around £20 million in 2018, assuming the balance of the fuel hedging for 2018 is transacted around the current spot price for fuel.

Where businesses have freedom to price services, this hedge provides sufficient protection to recover fuel price increases through the fare basket. In contract businesses, where price escalation may be restricted by a formula independent of fuel costs, extended cover, up to the life of the contract, may be taken, subject to availability and liquidity in the hedging market. The latter is rarely available beyond three years from the trade date.

Sale of c2c to Trenitalia

This transaction completed on 10 February 2017 and will be accounted for in the financial statements for the year ending 31 December 2017. The consideration received was £72.6 million and a further £35 million was received to settle intercompany loans. This transaction including anticipated costs of right sizing the UK business post UK rail, has resulted in a small profit on disposal.

Finally, I would like to say how much I have enjoyed my time as Group Finance Director and that I am looking forward to my new role within the Group as President and CEO of North America. I would like to welcome Chris Davies to the Group and wish him well in his new role.

Matthew Ashley
Group Finance Director
23 February 2017

Spain and Morocco

Year ended 31 December	**2016 £m**	2015 £m
Revenue	**£597.3**	£502.2
Normalised operating profit	**£84.7**	£71.5
Revenue	**€731.2**	€691.8
Normalised operating profit	**€103.7**	€98.5
Operating margin	**14.2%**	14.2%

Overview of 2016

ALSA has set another record for passengers carried in the year, with strong growth in both Spain and Morocco, helping to drive increases in revenue, profit and margin in the division. Total divisional revenue grew by 5.7% to €731.2 million (2015: €691.8m) and normalised operating profit rose 5.3% to €103.7 million (2015: €98.5m), both in constant currency.

In Spain, revenues rose 5.7% driven by increased passenger journeys together with the full year contribution from the acquisition of Herranz, the benefit of a new contract to operate transport services for holidaymakers (Imserso) and a small acquisition of a regional bus business in Ibiza. Towards the end of the year, we also started to see the benefits of the newly implemented real time active revenue management system (RMS), contributing one percent revenue growth for the year as a whole. In Morocco we have seen another year of good growth, with revenues up 5.4%, driven by an increase of six percent in passenger journeys, supported by further expansion of services in Tangier and the first full year of operations in Khouribga. Operating margin was maintained at 14.2%, still industry-leading for a Spanish bus and coach operator.

We have successfully renewed two small national franchises ahead of the new concession retendering process which was introduced towards the end of 2016. We believe we are increasingly well placed in the renewal process and do not expect any impact to be felt in 2017 and only minimally in 2018. We also won a new 10 year contract to operate services at Granada Airport.

With the significant weakening of Sterling against the Euro during 2016, reported revenues increased by 18.9% to £597.3 million (2015: £502.2m) and operating profit increased by 18.5% to £84.7 million (2015: £71.5m).

	€m
2015 normalised operating profit	99
Growth	3
Acquisitions	4
Other cost inflation	(10)
Cost efficiencies	5
Fuel	3
2016 normalised operating profit	104

Cash and returns

In 2016 ALSA delivered another strong performance, generating operating cash of €110 million with operating cash conversion of 106%. We have invested in a higher level of capital expenditure year on year, with growth capital expenditure focused predominantly on new fleet to support the continuing expansion of our operations in Morocco and the implementation of the new more sophisticated RMS.

Delivering operational excellence

ALSA is widely recognised as an industry-leading operator for which it has consistently received awards. In 2016 this included the Best Customer Experience seal for passenger transport, ranking ahead of all other ground transport and air operators in Spain. We have also seen a three percent improvement in our customer satisfaction score and this has helped drive a record year of over 307 million passenger journeys made on our services in Spain and Morocco.

Over the last few years we have made great progress in improving safety standards in our operations in Morocco and in 2016 we were delighted to have received the prestigious Prince Michael International Road Safety Award, which recognises achievements and innovations in road safety management.

We have also delivered further improvements in maintenance standards resulting in a six percent reduction in breakdowns following a 20% reduction in 2015. We continue to reduce fuel consumption through an on-going programme of consumption improvement measures, including fuel efficient driver training.

ALSA currently holds a 4-star European Foundation for Quality Management (EFQM) rating, and is working hard to secure a 5-star rating shortly.

Deployment of technology
We are increasingly looking at how we utilise technology in order to raise customer and safety standards, drive efficiencies and generate sales, margin and cash.

As part of our ongoing focus on improving safety standards, we will install DriveCam technology in Spain within three years. Evidence from our pilots shows this technology helps to reduce the number of collisions and insurance costs. During 2016 a strong emphasis on driver assessment and training helped to deliver a 10% reduction in the number of preventable accidents.

In the past year we have implemented a more sophisticated revenue management system, which operates on over 200 flows. This more sophisticated system significantly enhances our capability to actively manage pricing on a real time basis and provides a competitive edge against the likes of RENFE and also in future bidding of contracts. In 2016, RMS increased revenue on these corridors by 0.8% and boosted seat occupancy by 1.1%. With the system now fully implemented, this should further drive revenue, profit and incremental demand.

Leveraging UK Coach's leadership we have made significant progress in 2016 in increasing our digital capabilities in areas such as customised e-marketing, the development of new apps offering improved functionality, together with personalised journey planners, content and offers. Shorter loading times and more convenient and faster methods of payment are resulting in higher conversion rates. At the same time this is helping to secure reduced costs of sale: in 2016 we drove a further increase in the proportion of sales through our digital channels and ticketing machines, with nearly 40% of transactions now conducted this way. We have seen particularly strong growth in sales transacted through mobile channels, with the launch of the new app driving growth of 40%.

Creating new opportunities
The acquisition of Herranz in 2015 has made a strong contribution to growth and profits during 2016. We have made further bolt-on acquisitions in 2016, with the purchase of a regional bus operator in Ibiza, gaining entry into a new market and increasing our exposure to the tourist market. At the end of the year we also acquired AlpyBus, in Switzerland, serving the lucrative ski and alpine tourist markets. Both acquisitions are expected to be accretive within the first 12 months after transaction and we will consider further bolt-on acquisitions where they meet our strict financial criteria.

We continue to see strong growth prospects in Morocco. Since 2012 we have grown both passengers and revenues by over 70% in Morocco. In 2016, we have extended our services in Tangier and saw the first full year of operations in Khouribga. We also won a six-year contract to operate sight-seeing services in Marrakech. As well as continuing to grow our existing operations, we see further growth opportunities with the addition of services in new cities, and have recently submitted a bid to operate the Casablanca Tramway, with the contract commencing in December 2017.

Our continuing focus is to ensure we are well placed for the concession renewal process which we expect to pick up pace towards the end of 2017. However, not only have we won both concessions that have so far come up for renewal where we were the incumbent operator, we have also delivered strong margins post-retendering as our fare reductions generated significant passenger growth.

The terms of retendering competitions have recently been altered to emphasise service quality and competitive yet sensible pricing that reduces the opportunity for speculative very low-cost bids and plays to our strengths. We believe that our focus on operational excellence and understanding of price elasticities through our upgraded RMS – which will get more sophisticated as it gathers more data and analytical capabilities – gives us unrivalled knowledge of the market and places us at a competitive advantage as concession renewal gathers pace later this year. Further, the geographic clustering of the contracts gives us a further advantage as we are able to secure further synergies and cost savings.

We therefore enter 2017 with confidence in our ability to secure good results from the renewal process. We do not expect any real impact on revenues or profits until 2019, and even then our recent success and the changes to the terms of the retendering competition means we are increasingly optimistic we will deliver a strong result then. With no impact this year, we now expect the worst case scenario for 2018 operating profit to be a reduction of up to €3million from those contracts up for renewal. While we have always expected there to be pressure on margins on the renewal of contracts, the results of our recent retendering suggests there is the opportunity to maintain good margins through significant passenger growth. Nonetheless, we maintain our programmes to mitigate any impact through, for example: fuel savings; further cost efficiencies; the benefits from a more sophisticated revenue management system in Spain; targeted acquisitions; and, additional opportunities for growth in Morocco. We are also looking at other opportunities in new markets in Europe where we can achieve attractive returns.

North America

Year ended 31 December	2016 £m	2015 £m
Revenue	**£877.2**	£683.2
Operating profit	**£84.0**	£66.8
Revenue	**US$1,189.0**	US$1,040.6*
Operating profit	**US$113.9**	US$101.8*
Operating margin	**9.6%**	9.8%

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

Tragic accident in Chattanooga

The tragic accident in Chattanooga, Tennessee, has taken six children far too soon, has injured others, and left families and friends grieving. We are profoundly sorry that such an accident should happen on one of our school buses.

We sought to move quickly, but respectfully, to offer appropriate support to the families and local community. We have – and will continue to – provide any assistance to the on-going investigations. While we have accelerated existing pilot programmes – the installation of Lytx DriveCam and a cloud-based communications portal with customers – we will also learn any lessons identified and implement appropriate changes.

Overview of 2016

Our North American business has delivered strong growth in revenue and operating profit. On a constant currency basis* revenue grew by 14.3% with operating profit increasing by 11.9% to $113.9 million (2015: $101.8m). Since 2009, our North American division has grown profit by 188%.

We continued to focus on driving profitable growth and improving the quality of our portfolio, through acquisitions, winning new business that generates attractive returns and exiting those contracts that fall below our minimum return criteria (an "up or out" strategy). We have had another successful bidding season, achieving price increases of seven percent on those contracts up for renewal and an average price increase across the entire portfolio of 3.7%. This has offset increased costs from on-going driver wage pressure and regulatory requirements such as Obamacare. These trends of increasing prices and wage pressure have continued into the current bid season. We continue to maintain a relentless focus on costs and the streamlining of operations with the benefits of the "up or out" strategy helping to offset pressure on drivers' wages.

Insurance costs have increased following a thorough review of our open claims by our new Director of Insurance and Risk and as a result of providing the full deductible for the claims associated with the accident at Chattanooga.

During the period we have seen a strong contribution from the acquisitions we have made in the past two years. We are very pleased with the level of returns we are achieving, with the acquisitions made in 2015 achieving around 15-20% return on capital. We also generated operating cash flow of $133 million in North America which was nearly twice the cash consideration paid in year for our bolt on acquisitions.

	$m
2015 normalised operating profit	102
Exchange movement (CAD to USD)	0
2015 normalised operating profit at constant currency*	102
Net impact of revenue growth	9
Fuel cost	2
Cost inflation	(16)
Cost efficiencies	10
Insurance costs	(9)
Weather	1
Acquisitions	19
Acquisition costs expensed	(4)
2016 normalised operating profit*	114

Cash and returns

Operating cash flow represented a conversion of 117% of operating profit with $133 million of operating cash delivered in the year. This represents a significant increase from 2015 and primarily reflcts an inflow from working capital.

Delivering operational excellence

Our North America operation already delivers best in class margins. Traditionally, the school bus industry is a capital-intensive, low cash generation business. In the past year we have continued to focus on increasing the return on capital across our portfolio of more than 500 contracts. Where we are not able to obtain financial returns above our minimum criteria, we have exited the contract – in the 2016/17 school year bid season we relinquished nine such contracts amounting to 550 buses. We continue to cascade buses where they meet the appropriate age criteria, thereby increasing fleet utilisation.

We have added a further 590 buses from new contract wins in 2016 both in School Bus and Transit operations. We had another successful year in Transit, growing annualised revenues by 60% to around $200 million with three new contracts wins and through bolt-on acquisitions, while maintaining a 100% customer retention rate.

In line with our strategy to increase investment in new growth opportunities in North America, we have made eight small bolt-on acquisitions, with four of those made in the final quarter of the year. Over the period we have added a net 1,030 buses, with the new business wins and acquisitions more than offsetting the contracts we regretted losing or chose to exit.

Change in school bus numbers – 2016 bid season	Number of buses
Regretted losses	(670)
Exited per “up or out” strategy	(550)
Acquisitions	1,560
Conversion and share shift	590
Organic growth	100
Change in buses operated for 2016/17 school year	1,030

Our relationship-based approach continues to deliver superior service standards, with over 90% of our customers willing to recommend us on the basis of quality of service, safety and value. It is also securing an industry leading contract retention rate of 97% for the last bidding season, excluding those contracts which we chose to exit.

We were delighted that our commitment to excellence and our pursuit of continuous improvement has been recognised for the second consecutive year with a Bronze Award from the Illinois Performance Excellence Recognition Programme, increasing our score by 50%. This is a North American equivalent to EFQM.

Deployment of technology
We are increasingly looking at how we utilise technology in order to raise customer and safety standards, drive efficiencies and generate sales, margin and cash.

We remain committed to raising safety standards and are rolling out Lytx DriveCam technology across our locations, with the aim of having this technology installed on our vehicles by the end of 2019. DriveCam enables us to monitor individual driving behaviours and provide tailored training to each of our drivers. This should not only result in fewer collisions but also help to reduce insurance and associated costs of claims.

We have also been trialling a cloud-based complaints management portal, enabling our customers to communicate with us more quickly and efficiently, and we are aiming to have this available in all our locations by the end of 2017.

Following a successful trial in 2015 and in response to positive customer feedback, we have continued to roll out the "Where's my Bus" app which provides parents with real-time tracking information.

Creating new opportunities
We have been highlighting, for some time now, the attractive growth opportunities available in the North American school bus and transit markets and have significantly increased our level of investment in both of these markets over the last two years. The school bus market remains highly fragmented with over 1,000 private school bus businesses in the US and we continue to believe that there is real opportunity in this market. We also see the transit market as a strong business development opportunity and building on another successful year in 2016.

During 2016, in line with this growth strategy, we invested in eight small bolt-on acquisitions that are either close to our existing business and where we can therefore drive synergies and operational improvements, or provide strategic entry to new markets. The acquisitions were five school bus businesses (two of which included transit operations) and two shuttle, private hire and paratransit business. These acquisitions have helped us create new hubs in strategic locations, such as New York, where we now have a presence in the coach, charter, school bus and para-transit market. We also made the strategic acquisition of Ecolane, a planning and scheduling software business in the paratransit market, which provides us with a market-leading bespoke technology platform. Ecolane strengthens our credentials in this attractive market, provides the potential to grow revenues through new third party contracts. With 14 new contracts won in the period since acquisition, it has also increased its success rate in tenders and the Ecolane employees are already discussing with ALSA how their technology could drive efficiencies. This is something we are also looking to apply in other divisions.

In total these acquisitions added 1,560 buses, 1,110 of which were school bus and 450 were transit vehicles. All are expected to be accretive within the first 12 months and have delivered returns between 15-20%, demonstrating our discipline and focus on returns. We have developed a real strength in identifying, completing and securing synergy benefits from, acquisitions. We have an active pipeline of further opportunities both in school bus and transit and while remaining disciplined and focused on our strict returns criteria, believe there continues to be significant opportunity for growth and excellent shareholder value in this market.

We will again approach the upcoming bid season in a disciplined manner, including addressing the ongoing wage pressure the industry is experiencing. We will also continue to seek further capital light opportunities through conversions and further improve the quality of the existing portfolio.

UK Bus

Year ended 31 December	**2016 £m**	2015 £m
Revenue	**286.8**	286.4
Operating profit	**35.5**	37.5
Operating margin	**12.4%**	13.1%

Overview of 2016

Along with the rest of the industry, we have experienced challenging market conditions during the year with congestion and changing travel patterns affecting revenue and profit. Commercial revenue growth of two percent has been offset by the, as anticipated, reduction in concessionary revenues, with the result that total revenue growth for our UK Bus division was just 0.1%.

	Growth %
Like-for-like commercial revenue	1
Mileage	1
Underlying commercial revenue	2
Concession and other revenue	(4)
Total revenue	0

Normalised operating profit fell by 5.3% to £35.5 million (2015: £37.5m), reflecting weak revenue growth combined with cost inflation. The operating margin has declined by 70 basis points to 12.4% (2015: 13.1%). While we did see a small benefit from lower fuel costs in the year, we expect to see larger benefits in 2017 and 2018 as a result of fuel hedging activity over the past 18 months or so.

	£m
2015 normalised operating profit	38
Net impact from revenue growth	(1)
Fuel cost	2
Other cost inflation	(5)
Cost efficiencies	2
2016 normalised operating profit	36

Cash and returns

Our UK Bus business generates an excellent return on capital, delivering good asset utilisation and profitable returns on investment. We continued to invest in our new Platinum buses in 2016, where we see significantly higher growth in passenger volumes. This capital investment combined with a working capital outflow, in part due to the lower income from concessionary revenues, has resulted in a lower level of operating cash of £8 million.

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

Delivering operational excellence

Our continued focus on delivering operational excellence and superior service standards has been recognised with prestigious industry awards, including the pre-eminent National Transport Award for Bus Operator of the Year. In 2016 we also achieved a four percent increase in the willingness of customers to recommend our services in the Transport Focus survey. Our introduction of contactless payment on the Midland Metro tram also received the award for ‘Best Passenger Initiative’ at the Global Light Rail Awards.

We also continued our strong track record of improving safety, both for customers and employees, resulting in a lower number of injuries and assaults, with for example, a reduction of 27% in responsible Lost Time Injuries during the year. This also results in a reduced cost of claims. We were delighted to be presented with the prestigious British Safety Council Sword of Honour as well as their five-star rating.

UK Bus has maintained a four-star rating by the European Foundation for Quality Management in its second assessment.

As part of the West Midlands Bus Alliance, we continue to work in partnership with Transport for West Midlands (formerly known as Centro) to improve the customer experience by addressing industry-wide challenges in a targeted way. For example, through the introduction of bus prioritisation measures at key pinch-points to speed up journey times, in conjunction with associated investment in our state-of-the-art Platinum buses. We continue to see significantly higher levels of passenger growth on those routes where we offer such 'express' services. We are also seeing high levels of customer satisfaction on these Platinum routes, with scores well over 90%. Finally UK Bus was the first privately-owned public transport company to introduce the Living Wage Foundation Living Wage for all staff.

Deployment of technology
We are increasingly looking to utilise technology to raise customer and safety standards, drive efficiencies and generate sales, margin and cash.

We remain committed to raising safety standards and are rolling out Lytx DriveCam technology to 50% of our fleet by the middle of 2017. This technology enables us to monitor individual driving behaviours and provide tailored training to each driver; over 90% of our drivers who have received subsequent coaching improve their driving behaviours. Our initial pilots have shown this is not only leading to a lower number of incidents but also helping to reduce insurance costs.

We continue to look for more convenient ways for our customers to pay, and have successfully introduced contactless payment for the Midland Metro tram system in 2016 (it already accounts for 20% of on-board transactions). Drawing on this, contactless payment is being rolled out to our buses this year. We have continued to see strong take-up of smart ticketing options, with growth of over 400% during the year and which now represent around 20% of journeys – the Swift smartcard is now twice as large as the next biggest smartcard outside of London. We have also launched a mobile ticket app, offering yet another innovative and convenient solution for our customers. These ticketing options also help to speed up journey times as well as reduce our sales distribution costs.

We are also refocusing a greater proportion of our marketing effort to digital channels, with campaigns such as our "Get more out of Christmas campaign" helping us to provide value fares and drive incremental demand, while reducing costs and improving returns.

Creating new opportunities
Following the early positive evidence from recent targeted fare reductions we are implementing a plan to boost passenger numbers. We have extended these reductions to deeply discounted tickets in Sandwell and Dudley, supported by significant marketing activity, to encourage more trips among existing users and attract non-users as part of a granular approach to pricing that better reflects the local markets we are serving. If the pilot is successful we will roll this new approach out across the business.

We are complementing this new pricing with continued investment in technology such as the roll-out of new ticket machines this year to provide the largest network of contactless payment in public transport outside of London. This will simplify ticket purchasing and provide the opportunity to reassure customers through fare capping guarantees. Our tram services have pioneered this technology and already nearly 20% of on-board tickets are contactless purchases. We are also reviewing costs, including opportunities for further timetable efficiencies.

We also believe there is more scope for sales and marketing through our app and other digital sources. Our initial app and enhanced web presence has proven popular with customers, generating increased sales and encouraging signs of additional demand: 39% of app users say its launch is making them use the bus more often. We will shortly roll out a new combined app to bring together journey planning, real time information and m-ticketing in one place. Following the successful launch of VUER, a free 'infotainment' system on services in the UK Coach business, we are also trialling it on our Platinum services, to enhance the on-board experience and drive passenger growth.

We continue to look for opportunities to grow outside of our core bus business and have secured a number of new contracts in 2016 including the provision of corporate transport services for Amazon to their distribution centres around the UK.

The extension, in May 2016, of the Midland Metro tram service to the recently refurbished Birmingham New Street Station and new Grand Central shopping complex has helped drive record growth in passenger journeys of 29% in the year and we expect to see further strong growth this year.

UK Coach

Year ended 31 December	**2016 £m**	2015 £m
Revenue	**282.8**	281.2
Operating profit	**33.3**	32.3
Operating margin	**11.8%**	11.5%

Overview of 2016

UK Coach continues to focus on delivering frequent, value for money services efficiently and marketing them in an increasingly personalised and targeted way using sophisticated digital technologies and techniques.

Total revenue increased by 0.6% to £282.8 million (2015: £281.2m). Core network revenue increased by 1.9% as further marketing improvements and the benefits of an upgraded revenue management system (RMS) more than offset a significant decline in revenue from our Eurolines business.

	Growth %
Passenger yield	0
Passenger volume	2
Change in Core Express revenue	2
Other revenues	(4)
Total revenue	1

Overall divisional performance has been strong in the face of industry-wide challenges, the disposal of Airlinks and significant challenges at Eurolines. Eurolines suffered a year-on-year decline in revenue of 31% and an operating loss of £0.4 million (2015: Profit £1.6m) due to suppressed demand after the terrorist attacks in Europe and heightened competition. We have restructured management, bringing Eurolines in to the core coach business, reduced mileage and other costs and enhanced marketing and commercial capabilities including through its inclusion in our RMS.

Despite this, profit grew 3.1% to £33.3 million (2015: £32.3m) reflecting revenue growth in the rest of the coach business and an on-going focus on cost efficiencies. Operating margin rose 30 basis points to 11.8% (2015: 11.5%), building on the strong gains of recent years. Passenger numbers on the core network also grew by nearly two percent.

	£m
2015 normalised operating profit	32
Net impact of growth and new routes	1
Cost inflation	(3)
Cost efficiencies	3
2016 normalised operating profit	33

Cash and returns

The UK Coach business model has a particularly strong return on capital and cash generation, outsourcing the majority of fleet provision and services to its partner operators in a capital-light model. In 2016, we delivered another strong performance, generating operating cash of £36 million with cash conversion of 109% of operating profit.

Delivering operational excellence

With further investment in customer service, including new apps with enhanced journey planners, easier payment and free on-board entertainment systems, we are pleased to have recorded a three percent improvement in our customer satisfaction score and a two percent increase in customers likely to recommend our services, to 88%. We have delivered a one percent improvement in punctuality on our services and have again been rated number one in the Institute of Customer Services' Customer Service Index for ground transportation.

Our relentless focus on safety has delivered a significant improvement in our Fatalities Weighted Index score for the year and has been recognised with another five-star rating from the British Safety Council, with an improved score of 98.5%. We are also delighted to have been awarded the prestigious British Safety Council Sword of Honour for the second consecutive year.

Awarded a four-star rating by the European Foundation for Quality Management in its first assessment in 2014, we are delighted UK Coach achieved a five-star rating in 2016, demonstrating our commitment to achieving excellent operational standards.

Deployment of technology

We have been determined to be at the forefront of new technology adoption to enhance our offer to customers, ability to compete and improve safety performance and secure cost efficiencies.

An example of our investment in customer service leadership is the launch of VUER, an innovative free digital 'infotainment' news and entertainment system. This service is resulting in a five percent increase in customer satisfaction for those passengers who have used the system, helping to drive customer loyalty and incremental demand.

Technology has an important role to play in raising safety standards. We have rolled out the Lytx DriveCam technology across the whole of our network during 2016 (with the recently acquired Clarkes following this year). This technology enables us to improve driving performance and tailor training through the analytics and videos generated. Our initial pilot in one depot showed a 10% reduction in the collision rate and annualised repair costs reduced around 30%.

In the past year we have implemented active, real time RMS across the whole of the network. This upgraded system significantly enhances our capability to actively manage pricing, helping to drive revenue, profit and incremental demand. We have already seen the benefits, with targeted reductions in price driving passenger increases and overall revenue growth in the fourth quarter. With full installation complete in December, the immediate benefit was an increase in revenue of 1% during the month and improved seat utilisation rates. The benefits should grow through the year as the system gains increasingly sophisticated data and analytical capabilities.

We have also made further improvements to our digital platforms in the past year, such as the launch of a new and improved mobile website, app, journey planner and PayPal payment system, helping us to engage with our customers in a more personalised way while also increasing revenue.

Creating new opportunities

Attractive pricing, coupled with the upgraded RMS, will continue to grow volume, improve load factors and drive profitability. We have also grown our CRM database by 13% in the year, from an already strong position and we will continue to exploit our enhanced capabilities here in 2017, developing further tailored and customised offers for our customers.

We continue to look for new contract opportunities and have secured a three-year contract, in conjunction with UK Bus, to provide corporate transport services for Amazon to distribution centres around the UK, and a contract to provide transport services to UEFA for the 2017 Champions League Final. We also look to increase our sales distribution through the development of existing relationships and the creation of new partnership arrangements, and in 2016 have secured new partnership agreements with Expedia, UCAS and Groupon, and expanded our existing partnerships with Ryanair, the Trainline.com and RBS. We plan to launch a trial in 2017 to provide 'end to end' journey services, working in partnership with taxi and private hire car firms.

As well as reviewing our network efficiency, we also look to add new routes where we see growth opportunities. First introduced in 2013, our Christmas Day services are helping secure significant growth over the festive period: we broke our record for the number of passengers carried in a day and had two days where we took over £1 million in revenue. In 2016 we also launched new services serving passengers between London and Stansted, further strengthening our position in the airport market where we continue to see strong growth.

In December we acquired Clarkes, a private hire coach company based in Kent. This acquisition of a well-known coach brand has two principal benefits. First, by expanding our presence in the Kent and Medway commuter markets in an efficient way, enabling the sharing of spare fleet and management synergies. Second, it provides efficiency opportunities for our core coach operations, through attractively placed depots and access to an expanded driver pool in London.

Rail

Year ended 31 December	**2016 £m**	2015 £m
German Rail		
Revenue from continuing business	**£61.3**	£2.4
Operating loss	**£(1.5)**	£(0.1)
Revenue from continuing business	**€75.0**	€3.3
Operating loss	**€(1.8)**	€(0.1)
Operating margin	**(2.4)%**	(0.3)%
c2c		
Revenue from c2c	**£175.5**	£166.0
Operating profit	**£4.9**	£1.7
Operating margin	**2.8%**	1.0%

Overview of 2016

On the 10th February 2017, we announced the completed sale of the c2c franchise to Trenitalia, receiving £108 million through: a consideration of £72.6 million; and, the settlement of £35 million of inter-company loans.

2016 itself saw c2c outperforming other UK rail franchises many of which are experiencing notable slowdowns in passenger growth. Last year was also the first full year of our Rhine Munster Express (RME) contracts in Germany.

Revenue from the continuing RME business rose to €75.0 million, with a small operating loss of €1.8 million. We are engaged in discussions with the local transport authorities in Germany to clarify certain aspects of our subsidy revenue entitlement. We have taken a prudent approach: our revenue policy is to only recognise revenue where these discussions are suitably advanced and where amounts are considered highly probable. We are still targeting a small profit in 2017.

c2c delivered an operating profit of nearly £5 million, giving the rail division's combined profit of £3.4 million.

Cash and returns

In 2016 our Rail division saw an outflow of £18.6 million of operating cash, reflecting: the build-up of our German rail operations; the bid costs for the East Anglia franchise; and, capital investment in c2c.

Delivering operational excellence

Our relentless focus on safety has delivered an improvement of over 60% in the Fatalities Weighted Index score for the year for c2c. These high standards have been recognised with a five-star rating from the British Safety Council and we are also delighted to have been awarded their prestigious Sword of Honour as well. In September 2016 the German Rail Authority (EBA) conducted their first safety compliance audit, passing us with no material findings.

c2c's strong performance in the year demonstrates that our focus on operational excellence again helped it outperform similar franchises. Driven by a combination of December 2015's new timetable, enhanced marketing and fare offers, and supported by the subsequent arrival of 24 additional carriages at the end of 2016, c2c saw passenger growth of 6.7%, well ahead of the industry.

We have taken our expertise and approach developed at c2c and applied it to our German operations. In a successful first year of RME services, we carried over 20 million passengers, more than achieved its punctuality targets and delivered operational improvements compared to the previous operator. The mobilisation of our second German rail franchise, the Rhine Ruhr Express (RRX), is underway, drawing on our experience with the mobilisation of RME and providing the opportunity for cost efficiency given the complementary locations.

Deployment of technology

c2c has pioneered technological innovation, such as the industry-leading automatic delay compensation scheme for smartcard customers and a flexible season ticket aimed at part-time commuters. We have also led the industry with over 40% of season-ticket holders using smartcards. We drove revenue growth through sophisticated marketing and the success of new fares and products such as online advance sales increasing by over 70% and Senior Rover sales rising by 50%.

We are taking the lessons from c2c and applying them to Germany where this customer-focused approach is less apparent. There are currently two priority areas. First, enhanced marketing helping to drive sales, including online and digital. Second we are developing enhanced live customer information across our various digital channels, including use of social media.

Drawing on our emerging Group strength we have also made further improvements to our digital platforms in the past year, with faster connections and improved search and navigation enhancing the customer experience and driving higher conversion rates. The launch of our new mobile app, c2c Live, with journey planners, live travel information, special offers and additional services such as payment for station car parking, enabled engagement with customers in a more personalised way, driving customer loyalty and incremental demand. The improvements to our digital platforms have driven an increase of 88% in online transactions over the past year, with a doubling of revenue now transacted through these channels, delivering both revenue and cost benefits.

Creating new opportunities

The sale of c2c has both removed significant potential liabilities from the Group, and provided resources to invest in our fastest growing markets. The UK rail market is undergoing a downturn, with passenger growth in London and the South East train operating companies of only 0.3% in 2016. While c2c was significantly outperforming this, we were concerned that the remaining obligations of over £30 million of capital expenditure and lease payments for over £100 million of new trains to generate sufficient revenue to repay around £900 million of franchise premiums were looking increasingly challenging. With recent franchises won on anticipated double digit compound annual revenue growth and average costs of around £5-10 million per bid, we felt this was also an increasingly unattractive market.

The sale of c2c presented the opportunity to remove these potential liabilities in an increasingly unattractive market and generate £108 million of cash – through a consideration of £72.6 million and the settling of £35 million of inter-company loans – to invest in our fastest growing markets that are generating returns between 15-20% on recent acquisitions. We believe this approach is much more likely to generate shareholder value in the coming years.

We remain fully committed to German rail and believe there is further opportunity in this market. Our second German rail contract, RRX, will see the first of its operations commence in June 2019, with the second starting in December 2020. Both contracts run through to 2033. We are planning to submit a number of German rail bids in 2017. We continue to view the German rail market as attractive, with franchises being smaller and lower risk than in the UK, and with many franchises requiring relatively low levels of capital investment. With at least 30 contracts coming to market in the next three years, we see a strong pipeline of opportunities and we will continue to be selective in our bidding approach in order to drive the best returns. Our presence in Germany also provides the opportunity to enter other, complementary, markets nearby.

We will continue to bid in a disciplined manner. Our decision in October 2016, to inform the local Bavarian authority that due to delay in its award we were not able to proceed with the Nuremberg S-Bahn contract, demonstrates that we maintain a disciplined approach to bidding. While not ruling out further UK rail bids, our immediate focus will be in these markets.

Group wide risks

Principal risks and uncertainties

The Group's principal risks and uncertainties summarised here are in line with those that are detailed in the 2016 Annual Report and Accounts:

- Concession and contract renewal: 2017 is likely to see some significant bidding activity by the Group to retain and renew its existing portfolio of contracts and concessions, for example in Spain, and North America, which may be underbid by competitors;
- Economic conditions: parts of the business may be adversely affected by economic conditions as revenues in many of the businesses are historically correlated to GDP and employment;
- Political and regulatory changes: changes in political and regulatory environments can impact a regulated transport business, through the operation of concessions, safety procedures, equipment specifications, employment requirements, environmental procedures and other operating issues;
- Contract management: an inherent risk of bidding for contracts is that bid assumptions prove to be incorrect;
- Contract mobilisation: principally mobilisation for new bus and rail contracts in the Middle East and Germany.
- Fuel cost: changes in economic and political climate can drive changes in cost for the Group;
- Insurance and claims: there is a risk that a successful insurance, employment or other claim may result in material charges to profit and cash flow;
- Financial risks: the Group faces risks from deteriorating customer credit and to movements in currencies.
- Cyber security: increasingly the global markets we operate in are subject to Information Systems and Technology failure, loss of confidential data and damage to brand reputation.

Brexit

The imminent triggering of Article 50 presents risk over the nature of 'Brexit' and its impact on the UK economy and future trading opportunities. It is possible that there may be an economic impact as a result of the UK's exit from the EU and the terms of its likely exit from the Single Market and Customs Union. However, with over two-thirds of Group earnings generated in North America and Spain, where we expect to see no significant affects from 'Brexit', we feel that the Group is well-positioned to deal with any short-term uncertainty in the UK.

The value of Sterling has fallen against both the Euro and US Dollar since the EU Referendum. Whilst this affects both our overseas earnings and debt balances, our policy of matching our debt and earnings in local currency ensures that our key gearing ratio is protected. We will continue to hedge our fuel in local currency. We also monitor the interest rate environment, which is of relevance to our pension valuations. However, we do not currently expect any further significant adverse effect as a result of interest rate movements in the light of the referendum. With operating companies registered within the EU and Single Market, we believe our diversity mitigates any risk of potential limits on European market access because of Brexit.

Definitions

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

Unless otherwise stated, all operating profit, margin and EPS data refer to normalised results, which can be found on the face of the Group Income Statement in the first column. Normalised profit is defined as being the IFRS result excluding intangible asset amortisation and tax relief thereon. The Board believes that the normalised result gives a better indication of the underlying performance of the Group, by adding back this non-cash item, and it also allows better comparison of divisional performance which have different levels of intangible amortisation.

In addition, unless otherwise stated, all pre-tax results and margin data refer to the Group's continuing operations. Further details of discontinued operations can be found in note 6 to the Financial Statements.

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

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

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

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

'Return on assets' ('ROA') is normalised operating profit divided by net assets excluding net debt, derivative financial instruments and intangible assets. For the purposes of this calculation, net assets are translated using average exchange rates.

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

Operating cash flow is the cash flow equivalent of normalised operating profit. A reconciliation is set out in the table within the Finance Director's review.

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

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

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

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

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

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

Safety Incidents measure those for which the Group is responsible and is based on the Fatalities and Weighted Injuries Index used in the UK Rail industry.

Group Income Statement
For the year ended 31 December 2016

	Note	**Total before intangible amortisation 2016 £m**	**Intangible amortisation 2016 £m**	**Total 2016 £m**	Total before intangible amortisation (restated) 2015 £m	Intangible amortisation 2015 £m	Total (restated) 2015 £m
Continuing operations							
Revenue	3	**2,103.7**	**–**	**2,103.7**	1,753.8	–	1,753.8
Operating costs before intangible amortisation		**(1,884.7)**	**–**	**(1,884.7)**	(1,562.0)	–	(1,562.0)
Intangible amortisation	3	**–**	**(33.8)**	**(33.8)**	–	(25.7)	(25.7)
Total operating costs		**(1,884.7)**	**(33.8)**	**(1,918.5)**	(1,562.0)	(25.7)	(1,587.7)
Group operating profit	3	**219.0**	**(33.8)**	**185.2**	191.8	(25.7)	166.1
Share of results from associates and joint ventures		**1.1**	**–**	**1.1**	1.8	–	1.8
Finance income	4	**7.5**	**–**	**7.5**	5.9	–	5.9
Finance costs	4	**(57.5)**	**–**	**(57.5)**	(51.1)	–	(51.1)
Profit before tax		**170.1**	**(33.8)**	**136.3**	148.4	(25.7)	122.7
Tax charge	5	**(31.7)**	**11.5**	**(20.2)**	(28.2)	13.2	(15.0)
Profit after tax for the year from continuing operations		**138.4**	**(22.3)**	**116.1**	120.2	(12.5)	107.7
Profit for the year from discontinued operations	6	**3.9**	**–**	**3.9**	1.4	–	1.4
Profit for the year		**142.3**	**(22.3)**	**120.0**	121.6	(12.5)	109.1
Profit attributable to equity shareholders		**139.5**	**(22.3)**	**117.2**	119.5	(12.5)	107.0
Profit attributable to non-controlling interests		**2.8**	**–**	**2.8**	2.1	–	2.1
		142.3	**(22.3)**	**120.0**	121.6	(12.5)	109.1
Earnings per share:							
– basic earnings per share	8			**23.0p**			20.9p
– diluted earnings per share	8			**22.8p**			20.9p
Normalised earnings per share:							
– basic earnings per share	8	**27.3p**			23.4p		
– diluted earnings per share	8	**27.2p**			23.3p		
Earnings per share from continuing operations:							
– basic earnings per share	8			**22.2p**			20.7p
– diluted earnings per share	8			**22.1p**			20.6p

Group Statement of Comprehensive Income
For the year ended 31 December 2016

	2016 £m	2015 £m
Profit for the year	**120.0**	109.1
Items that will not be reclassified subsequently to profit or loss:		
Actuarial losses on defined benefit pension plans	**(45.6)**	(9.4)
Deferred tax on actuarial losses	**8.0**	1.4
	(37.6)	(8.0)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on retranslation of foreign operations (net of hedging)	**189.6**	(31.0)
Exchange differences on retranslation of non-controlling interests	**2.5**	(0.6)
Gain/(loss) on cash flow hedges	**38.8**	(52.5)
Less: reclassification adjustments for gains or losses included in profit	**43.7**	36.1
Tax on exchange differences	**14.3**	(1.1)
Deferred tax on cash flow hedges	**(12.2)**	1.2
	276.7	(47.9)
Total comprehensive income for the year	**359.1**	53.2
Total comprehensive income attributable to:		
Equity shareholders	**353.8**	51.7
Non-controlling interests	**5.3**	1.5
	359.1	53.2

Group Balance Sheet
At 31 December 2016

	Note	2016 £m	2015 £m
Non-current assets			
Intangible assets		**1,548.6**	1,230.7
Property, plant and equipment		**983.6**	801.1
Available-for-sale investments		**7.8**	6.5
Derivative financial instruments		**31.1**	22.2
Deferred tax assets		**48.3**	31.1
Investments accounted for using the equity method		**13.7**	10.6
Trade and other receivables		**18.2**	4.0
Defined benefit pension assets	10	**44.5**	49.7
		2,695.8	2,155.9
Current assets			
Inventories		**25.0**	22.5
Trade and other receivables		**302.7**	241.9
Derivative financial instruments		**13.0**	2.4
Current tax assets		**2.3**	1.4
Cash and cash equivalents		**318.1**	60.4
Assets classified as held for sale	6	**78.0**	–
		739.1	328.6
Total assets		**3,434.9**	2,484.5
Non-current liabilities			
Borrowings		**(816.7)**	(752.3)
Derivative financial instruments		**(4.2)**	(39.6)
Deferred tax liability		**(82.9)**	(53.8)
Other non-current liabilities		**(21.2)**	(16.0)
Defined benefit pension liabilities	10	**(132.7)**	(62.3)
Provisions		**(57.2)**	(32.1)
		(1,114.9)	(956.1)
Current liabilities			
Trade and other payables		**(600.7)**	(499.5)
Borrowings		**(443.8)**	(99.1)
Derivative financial instruments		**(26.0)**	(46.0)
Current tax liabilities		**(6.7)**	(16.1)
Provisions		**(57.2)**	(36.6)
Liabilities directly associated with assets classified as held for sale	6	**(60.1)**	–
		(1,194.5)	(697.3)
Total liabilities		**(2,309.4)**	(1,653.4)
Net assets		**1,125.5**	831.1
Shareholders' equity			
Called-up share capital		**25.6**	25.6
Share premium account		**532.7**	532.7
Capital redemption reserve		**0.2**	0.2
Own shares		**(7.8)**	(7.8)
Other reserves		**194.1**	(80.1)
Retained earnings		**362.0**	345.6
Total shareholders' equity		**1,106.8**	816.2
Non-controlling interests in equity		**18.7**	14.9
Total equity		**1,125.5**	831.1

D Finch
Group Chief Executive

M Ashley
Group Finance Director

23 February 2017

Group Statement of Changes in Equity
For the year ended 31 December 2016

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Own shares £m	Other reserves £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
At 1 January 2016	**25.6**	**532.7**	**0.2**	**(7.8)**	**(80.1)**	**345.6**	**816.2**	**14.9**	**831.1**
Shares purchased	**–**	**–**	**–**	**(7.7)**	**–**	**–**	**(7.7)**	**–**	**(7.7)**
Own shares released to satisfy employee share schemes	**–**	**–**	**–**	**7.7**	**–**	**(7.7)**	**–**	**–**	**–**
Total comprehensive income	**–**	**–**	**–**	**–**	**274.2**	**79.6**	**353.8**	**5.3**	**359.1**
Share-based payments	**–**	**–**	**–**	**–**	**–**	**4.1**	**4.1**	**–**	**4.1**
Tax on share-based payments	**–**	**–**	**–**	**–**	**–**	**(0.7)**	**(0.7)**	**–**	**(0.7)**
Dividends	**–**	**–**	**–**	**–**	**–**	**(58.9)**	**(58.9)**	**–**	**(58.9)**
Dividends paid to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(0.9)**	**(0.9)**
Payments for equity in non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(0.6)**	**(0.6)**
At 31 December 2016	**25.6**	**532.7**	**0.2**	**(7.8)**	**194.1**	**362.0**	**1,106.8**	**18.7**	**1,125.5**

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Own shares £m	Other reserves £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
At 1 January 2015	25.6	532.7	0.2	(1.5)	(32.8)	299.3	823.5	12.7	836.2
Shares purchased	–	–	–	(8.5)	–	–	(8.5)	–	(8.5)
Own shares released to satisfy employee share schemes	–	–	–	2.2	–	(2.2)	–	–	–
Total comprehensive income	–	–	–	–	(47.3)	99.0	51.7	1.5	53.2
Share-based payments	–	–	–	–	–	3.2	3.2	–	3.2
Tax on share-based payments	–	–	–	–	–	0.7	0.7	–	0.7
Dividends	–	–	–	–	–	(54.4)	(54.4)	–	(54.4)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	(0.1)	(0.1)
Contribution from non-controlling interest	–	–	–	–	–	–	–	0.8	0.8
At 31 December 2015	25.6	532.7	0.2	(7.8)	(80.1)	345.6	816.2	14.9	831.1

Group Statement of Cash Flows
For the year ended 31 December 2016

	Note	**2016 £m**	2015 £m
Cash generated from operations	12	**330.2**	264.1
Tax paid		**(13.6)**	(11.2)
Net cash flow from operating activities		**316.6**	252.9
Cash flows from investing activities			
Payments to acquire businesses, net of cash acquired		**(58.9)**	(62.3)
Deferred consideration for businesses acquired and disposed		**(24.4)**	(0.2)
Proceeds from the disposal of business, net of cash disposed		**0.9**	–
Purchase of property, plant and equipment		**(130.3)**	(107.5)
Proceeds from disposal of property, plant and equipment		**14.4**	10.2
Payments to acquire intangible assets		**(6.3)**	(16.4)
Payments to acquire investments		**(0.2)**	(3.5)
Interest received		**7.1**	5.6
Net cash flow from investing activities		**(197.7)**	(174.1)
Cash flows from financing activities			
Purchase of own shares		**(7.7)**	(8.5)
Interest paid		**(62.9)**	(46.7)
Finance lease principal payments		**(37.9)**	(25.8)
Increase in borrowings		**404.4**	45.9
Repayment of borrowings		**(50.3)**	(1.6)
Payments for the maturity of foreign currency contracts		**(46.3)**	(11.1)
Dividends paid to non-controlling interests		**(0.9)**	(0.1)
Payments for equity in non-controlling interests		**(0.6)**	–
Contribution from non-controlling interest		**–**	0.8
Dividends paid to shareholders of the Company		**(58.9)**	(54.4)
Net cash flow from financing activities		**138.9**	(101.5)
Increase/(decrease) in cash and cash equivalents		**257.8**	(22.7)
Opening cash and cash equivalents		**60.4**	83.7
Increase/(decrease) in cash and cash equivalents		**257.8**	(22.7)
Foreign exchange		**6.2**	(0.6)
Closing cash and cash equivalents		**324.4**	60.4

Cash and cash equivalents in continuing operations		**318.1**	60.4
Cash and cash equivalents classified in assets held for sale		**6.3**	–
Closing cash and cash equivalents		**324.4**	60.4

Notes to the Consolidated Accounts

For the year ended 31 December 2016

1 Basis of preparation

The results are based on the Group Financial Statements, which have been prepared in accordance with International Financial Reporting Standards ('IFRS') and interpretations of the International Financial Reporting Interpretations Committee ('IFRIC') as adopted by the European Union ('EU'), and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

These results have been prepared on the going concern basis under the historical cost convention, except for the recognition of derivative financial instruments and available-for-sale investments, and using the accounting policies set out in the Group's 2016 statutory financial statements. The accounting policies adopted are consistent with those of the previous financial year, except as noted below, and there have been no changes in accounting standards during the year that have had a material effect on the Group.

On 13 December 2015 the Group commenced operations in German Rail and as a result we have amended our existing revenue recognition policy for this new business. Rail revenue in Germany comprises passenger revenues and subsidy income receivable from the Public Transport Authorities. Passenger revenue, which is allocated between the various transport providers in each region by the tariff authority responsible for that region, is recognised based on passenger counts, tariff authority estimates and historical trends. Subsidy income is recognised over the life of each franchise based on contractual entitlements including, where appropriate, indexation and other adjustments made or expected to be made to the subsidy entitlement. In accordance with IAS 20, the subsidy income recognised in each period reflects a systematic allocation of the total contractual subsidy entitlement, based on the expected profile of the underlying cost base which the subsidy is intended to compensate. Following our first year of operations in Germany we are working with the local transport authorities on clarifying certain aspects of subsidy revenue entitlement. Our revenue policy is to only recognise revenue where these discussions are suitably advanced and where amounts are considered probable.

Restatements

Prior year figures in the Group Income Statement and related notes have been restated to present separately the amounts relating to operations classified as discontinued in the current year. For details see note 6.

2 Exchange rates

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

	2016 Closing rate	**2016 Average rate**	2015 Closing rate	2015 Average rate
US dollar	**1.23**	**1.36**	1.47	1.53
Canadian dollar	**1.66**	**1.80**	2.04	1.95
Euro	**1.17**	**1.22**	1.36	1.38

If the results for the year to 31 December 2015 had been retranslated at the average exchange rates for the year to 31 December 2016, North America would have achieved normalised operating profit of £75.1m on revenue of £767.7m, compared to normalised operating profit of £66.8m on revenue of £683.2m as reported, and Spain and Morocco would have achieved a normalised operating profit of £80.5m on revenue of £565.1m, compared to normalised operating profit of £71.5m on revenue of £502.2m as reported.

3 Segmental analysis

The operating businesses are organised and managed separately according to the nature of the public transport services they provide. The geographical markets they operate in match the nature of public transport services provided. Commentary on the segments is included in the Strategic Report.

The results of the UK Rail division have been excluded from the segmental analysis below as it has been classified as a discontinued operation.

Revenue is analysed by reportable segment as follows:

	External revenue 2016 £m	**Inter-segment sales 2016 £m**	**Segment revenue 2016 £m**	External revenue (restated) 2015 £m	Inter-segment sales 2015 £m	Segment revenue (restated) 2015 £m
UK Bus	**285.4**	**1.4**	**286.8**	285.1	1.3	286.4
UK Coach	**282.5**	**0.3**	**282.8**	280.9	0.3	281.2
German Rail	**61.3**	**–**	**61.3**	2.4	–	2.4
Spain and Morocco	**597.3**	**–**	**597.3**	502.2	–	502.2
North America	**877.2**	**–**	**877.2**	683.2	–	683.2
Inter-segment sales elimination	**–**	**(1.7)**	**(1.7)**	–	(1.6)	(1.6)
Total revenue	**2,103.7**	**–**	**2,103.7**	1,753.8	–	1,753.8

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

Operating profit is analysed by reportable segment as follows:

	Normalised operating profit 2016 £m	**Intangible amortisation 2016 £m**	**Segment result 2016 £m**	Normalised operating profit (restated) 2015 £m	Intangible amortisation 2015 £m	Segment result (restated) 2015 £m
UK Bus	**35.5**	**–**	**35.5**	37.5	–	37.5
UK Coach	**33.3**	**(0.4)**	**32.9**	32.3	(0.5)	31.8
German Rail	**(1.5)**	**(0.8)**	**(2.3)**	(0.1)	–	(0.1)
Spain and Morocco	**84.7**	**(9.5)**	**75.2**	71.5	(9.9)	61.6
North America	**84.0**	**(23.0)**	**61.0**	66.8	(15.2)	51.6
Central functions	**(17.0)**	**(0.1)**	**(17.1)**	(16.2)	(0.1)	(16.3)
Operating profit from continuing operations	**219.0**	**(33.8)**	**185.2**	191.8	(25.7)	166.1
Share of results from associates and joint ventures			**1.1**			1.8
Net finance costs			**(50.0)**			(45.2)
Profit before tax			**136.3**			122.7
Tax charge			**(20.2)**			(15.0)
Profit after tax for the year from continuing operations			**116.1**			107.7
Profit for the year from discontinued operations			**3.9**			1.4
Profit for the year			**120.0**			109.1

3 Segmental analysis continued

Depreciation is analysed by reportable segment as follows:

	2016 £m	(restated) 2015 £m
UK Bus	**17.1**	15.7
UK Coach	**2.9**	3.7
German Rail	**0.1**	–
Spain and Morocco	**35.7**	31.4
North America	**65.9**	52.2
Central functions	**0.8**	0.7
Total	**122.5**	103.7

4 Net finance costs

	2016 £m	(restated) 2015 £m
Bond and bank interest payable	**(50.3)**	(45.1)
Finance lease interest payable	**(3.5)**	(3.2)
Other interest payable	**(1.5)**	(0.9)
Unwind of provision discounting	**(1.2)**	(1.4)
Net interest cost on defined benefit pension obligations	**(1.0)**	(0.5)
Finance costs	**(57.5)**	(51.1)
Other financial income	**7.5**	5.9
Net finance costs	**(50.0)**	(45.2)
Of which, from financial instruments:		
Financial liabilities measured at amortised cost	**(51.1)**	(46.0)
Derivatives used for hedging	**7.5**	5.9
Loan fee amortisation	**(2.7)**	(2.3)

5 Taxation

(a) Analysis of taxation charge in the year

	2016 £m	2015 £m
Current taxation:		
UK corporation tax	**0.5**	1.7
Overseas taxation	**9.9**	13.3
Current income tax charge	**10.4**	15.0
Adjustments with respect to prior years – UK and overseas	**(6.9)**	(8.5)
Total current income tax charge	**3.5**	6.5
Deferred taxation:		
Origination and reversal of temporary differences – continuing operations	**19.6**	9.2
Adjustments with respect to prior years – UK and overseas	**(1.9)**	(0.4)
Deferred tax charge	**17.7**	8.8
Total tax charge for the Group	**21.2**	15.3
Less: amounts relating to discontinued items	**(1.0)**	(0.3)
Total tax charge for the continuing Group	**20.2**	15.0

The tax charge for the continuing Group is disclosed as follows:		
Tax charge on profit before intangible asset amortisation	**31.7**	28.2
Tax credit on intangible asset amortisation	**(11.5)**	(13.2)
	20.2	15.0

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

	2016 £m	2015 £m
Current taxation:		
Charge on exchange movements offset in reserves	**–**	(0.3)
	–	(0.3)
Deferred taxation:		
Deferred tax credit on actuarial losses	**8.0**	1.4
Deferred tax (charge)/credit on cash flow hedges	**(12.2)**	1.2
Deferred tax credit/(charge) on foreign exchange differences	**14.3**	(0.8)
Deferred tax (charge)/credit on share-based payments	**(0.7)**	0.7
	9.4	2.5

6 Discontinued operations and assets and liabilities held for sale

On 10 February 2017 the Group disposed of the National Express Essex Thameside 'c2c' franchise to Trenitalia. Following initial partnership discussions during 2016, Trenitalia made an offer to the Group to acquire the franchise. After a period of negotiation it was formally announced in early January 2017 that an in principle agreement had been reached. On 10 February the Department for Transport granted final consent for the transaction to complete and Trenitalia commenced operation of the c2c franchise from that date.

The assets and liabilities of the franchise have been classified as held for sale in the balance sheet and comprise the following:

	2016 £m
Property, plant and equipment	**19.3**
Defined benefit pension asset	**37.7**
Trade and other receivables	**14.7**
Cash and cash equivalents	**6.3**
Total assets held for sale	**78.0**
Trade and other payables	**(52.2)**
Current tax liability	**(0.9)**
Deferred tax liability	**(6.9)**
Provisions	**(0.1)**
Total liabilities held for sale	**(60.1)**
Net assets	**17.9**

Following the negotiations and decision in the year to dispose of the Group's only remaining UK rail franchise, the UK Rail operating segment has been recognised as a discontinued operation. The results of the operation included in the profit and loss for the year are set out below. The comparative profit and loss from the operation has been re-presented as discontinued.

	2016 £m	2015 £m
Revenue	**175.5**	166.0
Operating costs	**(170.6)**	(164.3)
Profit before tax	**4.9**	1.7
Attributable income tax expense	**(1.0)**	(0.3)
Profit for the year from discontinued operations	**3.9**	1.4

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

	2016 £m	2015 £m
Cash (outflow)/inflow from operating activities	**(1.5)**	1.5
Cash outflow from investing activities	**(6.7)**	(6.7)
Cash inflow from financing activities	**0.8**	0.1
Net cash outflow	**(7.4)**	(5.1)

7 Dividends paid and proposed

	2016 £m	2015 £m
Declared and paid during the year		
Ordinary final dividend for 2015 paid of 7.645p per share (2014: 6.95p)	**39.1**	35.5
Ordinary interim dividend for 2016 of 3.87p per share (2015: 3.685p)	**19.8**	18.9
	58.9	54.4
Proposed for approval (not recognised as a liability at 31 December)		
Ordinary final dividend for 2016 of 8.41p per share (2015: 7.645p per share)	**43.0**	39.1

8 Earnings per share

	2016	2015
Basic earnings per share	**23.0p**	20.9p
Normalised basic earnings per share	**27.3p**	23.4p
Basic earnings per share from continuing operations	**22.2p**	20.7p
Diluted earnings per share	**22.8p**	20.9p
Normalised diluted earnings per share	**27.2p**	23.3p
Diluted earnings per share from continuing operations	**22.1p**	20.6p

Basic EPS is calculated by dividing the earnings attributable to equity shareholders of £117.2m (2015: £107.0m) by the weighted average number of ordinary shares in issue during the year, excluding those held by the Group's Employee Benefit Trust which are treated as cancelled.

Basic EPS for continuing operations is calculated by dividing the earnings from the continuing Group attributable to equity shareholders of £113.3m (2015: £105.6m). Basic and diluted EPS in the year for discontinued operations was 0.8p (2015: 0.3p).

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:

	2016	2015
Basic weighted average shares	**510,255,410**	510,954,717
Adjustment for dilutive potential ordinary shares	**2,859,856**	2,399,159
Diluted weighted average shares	**513,115,266**	513,353,876

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:

			2016			2015
	£m	**Basic EPS p**	**Diluted EPS p**	£m	Basic EPS p	Diluted EPS p
Profit attributable to equity shareholders	**117.2**	**23.0**	**22.8**	107.0	20.9	20.9
Intangible amortisation	**33.8**	**6.6**	**6.6**	25.7	5.0	5.0
Tax relief on the above	**(11.5)**	**(2.3)**	**(2.2)**	(13.2)	(2.5)	(2.6)
Normalised profit from continuing operations and attributable to equity shareholders	**139.5**	**27.3**	**27.2**	119.5	23.4	23.3

9 Business combinations
(a) Acquisitions

During the year the North America division acquired 100% of the share capital of seven businesses in the US and one business in Finland, none of which are material individually:

- Safeway Training and Transportation Services Inc (March 2016) – school bus transportation services in New Hampshire
- White Plains Bus Company (comprising White Plains Bus Co Inc and Suburban Paratransit Service Inc) (March 2016) – school bus and paratransit transportation services in New York
- Ecolane Finland Oy and Ecolane USA Inc (May 2016) – a transit software developer
- Robertson Transit Inc (September 2016) – school bus transportation services in New Hampshire
- Diamond Transportation Services Inc (October 2016) – paratransit transportation services in Virginia and Washington D.C.
- Transit Express (comprising Transit Express Inc, Transit Express Services Inc, Medacare Vans of Waukesha Inc and Caravans Leasing Vehicles LLC) (November 2016) – paratransit, shuttle and charter transportation services in Wisconsin
- New Dawn Transit LLC (December 2016) – school bus and charter transportation services in New York
- Trinity Transportation Group (comprising Trinity Inc, Trinity Cars Inc, Trinity Coach LLC, Trinity Management Services Co. LLC and JNL Leasing Inc) (December 2016) – school bus, coach and other ground transportation in Michigan and Ohio

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

	£m
Intangible assets	**53.0**
Property, plant and equipment	**17.8**
Trade and other receivables	**14.9**
Cash and cash equivalents	**8.0**
Trade and other payables	**(19.4)**
Provisions	**(17.6)**
Deferred tax liabilities	**0.1**
Net assets acquired	**56.8**
Goodwill	**56.5**
Total consideration	**113.3**
Represented by:	
Cash consideration	**52.9**
Payments for cash acquired in the businesses	**8.0**
Deferred consideration	**52.4**
	113.3

Trade and other receivables had a fair value and a gross contractual value of £14.9m. The best estimate at acquisition date of the contractual cash flows not to be collected was £nil.

Goodwill of £56.5m arising from the acquisitions consists of certain intangible benefits that cannot be separately identified and measured due to their nature. This includes control over the acquired businesses and increased scale in our North American operations, along with synergy benefits expected to be achieved.

Included in the consideration shown above is contingent consideration of £8.6m, relating to three acquisitions. For two of the acquisitions the Group is required to pay consideration upon meeting agreed revenue levels over a period of one year. For the third agreement, the Group is required to pay consideration based upon meeting an agreed EBITDA level over three years. The maximum payment under these arrangements is dependent on meeting the respective revenue and EBITDA levels, and the minimum payment is £nil. Based on projections, management expect the discounted value of payments to be the maximum amount of £8.6m.

Acquisition-related costs included within the Group's operating profit for the year amounted to £0.4m.

The acquired businesses contributed £49.1m of revenue and £12.9m 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 period would have been £2,160.9m and the Group's continuing operating profit would have been £189.7m.

Deferred consideration of £6.1m (2015: £0.2m) 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 £59.0m, comprising consideration of £60.9m and deferred consideration of £6.1m, less cash acquired in the businesses of £8.0m.

In June 2016, the Spain and Morocco division acquired Voramar el Gaucho, a business that operates transport and charter services in Ibiza, Spain. The total provisional fair value of net assets acquired in this business was £1.3m. Total consideration was £3.6m, resulting in provisional goodwill of £2.3m. Cash in the acquired business was £0.8m, therefore the net cash outflow for the period relating to this acquisition was £2.8m.

In December 2016, the Spain and Morocco division acquired AlpyBus S.a.r.l., a business that operates charter services in Switzerland. The total provisional fair value of net liabilities acquired in this business was £0.2m. Total consideration was £3.1m, resulting in provisional goodwill of £3.3m. Cash in the acquired business was £0.5m, therefore the net cash outflow for the period relating to this acquisition was £2.6m.

Deferred consideration of £18.3m (2015: £nil) was paid in the year relating to the acquisition of the Madrid-El Escorial franchise in December 2015.

Total cash outflow in the year from acquisitions in the Spain and Morocco division was £23.7m, comprising consideration of £6.7m and deferred consideration of £18.3m, less cash acquired in the businesses of £1.3m.

In December 2016, the UK Coach division acquired E. Clarke & Son (Coaches) Limited, 'Clarkes of London', a business that operates coach services in the UK. The total provisional fair value of net assets acquired in this business was £3.0m. Total consideration was £5.1m, of which £4.5m is deferred, resulting in provisional goodwill of £2.1m. The net cash outflow for the period relating to this acquisition was £0.6m.

In 2015 the Group acquired five transport businesses in North America and the Madrid–El Escorial franchise in Spain. The fair value of net assets for the North America acquisitions were adjusted in 2016, resulting in additional goodwill of £0.8m. There were no fair value adjustments in 2016 for the Madrid–El Escorial franchise.

(b) Disposals

In March 2016 the Group disposed of a small business in the UK Coach division for consideration of £2.0m. Cash in the business was £0.8m and deferred consideration was £0.3m therefore the net cash inflow in the year was £0.9m. There was no material profit or loss arising on the disposal.

There were no material business disposals during 2015.

10 Pensions and other post-employment benefits

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

The majority of employees of the UK Rail companies are members of the appropriate shared cost section of the Railways Pension Scheme ('RPS'), a funded defined benefit scheme. For 2016, the scheme relating to NXET Trains Limited has been recognised within assets held for sale (note 6). The Group retains the defined benefit scheme for National Express Services Limited and recognises it as a continuing asset.

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

Subsidiaries in North America contribute to a number of defined contribution plans. The Group also provides certain additional unfunded post-employment benefits to employees in North America and Spain, which are disclosed in the 'Other' category.

In 2011 UK Bus agreed a £5.5m annual deficit repayment plan with the trustees of the West Midlands Integrated Transport Authority Pension Fund, which continues until March 2017. A new agreement is currently being finalised and is expected to result in a revised repayment plan of approximately £8.0m per annum. This will fund a £104m scheme funding deficit over 14 years. The plan remains open to accrual for existing members only.

The total pension cost charged to operating profit in the year for the continuing Group was £7.4m (2015: £8.2m), of which £3.7m (2015: £3.9m) relates to the defined contribution schemes.

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

	2016 £m	2015 £m
UK Rail	**–**	14.8
Company	**44.5**	34.9
Pension assets	**44.5**	49.7
UK Bus	**(128.5)**	(60.4)
UK Rail	**(1.5)**	–
Other	**(2.7)**	(1.9)
Pension liabilities	**(132.7)**	(62.3)
Total	**(88.2)**	(12.6)

11 Net debt

	At 1 January 2016 £m	Cash flow £m	Acquisitions £m	Exchange differences £m	Other movements £m	At 31 December 2016 £m
Cash	59.2	(2.2)	9.1	6.2	–	72.3
Overnight deposits	0.7	2.8	–	–	–	3.5
Other short-term deposits	0.5	248.1	–	–	–	248.6
Cash and cash equivalents	60.4	248.7	9.1	6.2	–	324.4
Other debt receivables	0.8	(0.4)	–	0.1	–	0.5
Borrowings:						
Bank and other loans	(45.3)	42.8	(0.2)	(9.2)	(1.2)	(13.1)
Bonds	(583.5)	(398.9)	–	–	(0.8)	(983.2)
Cross currency swaps	–	–	–	–	11.1	11.1
Fair value of hedging derivatives	14.3	–	–	–	0.1	14.4
Finance lease obligations	(127.6)	37.9	(6.0)	(24.3)	(39.7)	(159.7)
Other debt payable	(64.6)	2.4	–	(9.2)	(1.0)	(72.4)
Total borrowings	(806.7)	(315.8)	(6.2)	(42.7)	(31.5)	(1,202.9)
Net debt*	(745.5)	(67.5)	2.9	(36.4)	(31.5)	(878.0)

* Excludes accrued interest on long-term borrowings.

Short-term deposits included within liquid resources relate to term deposits repayable within three months.

Borrowings include non-current interest-bearing borrowings of £816.7m (2015: £752.3m).

Other non-cash movements in net debt include finance lease additions of £39.7m (2015: £34.3m) and a £2.7m reduction from the amortisation of loan and bond arrangement fees (2015: £2.0m). A £0.1m increase 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 £0.7m fair value increase in bonds and a £1.0m fair value decrease in other debt payable. In addition, non cash movements includes a fair value foreign exchange gain of £11.1m arising from cross currency swaps.

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

* Excludes accrued interest on long-term borrowings.

12 Cash flow statement

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

Total operations	2016 £m	2015 £m
Net cash inflow from operating activities		
Profit before tax	**141.2**	124.4
Net finance costs	**50.0**	45.2
Share of post-tax results under the equity method	**(1.1)**	(1.8)
Depreciation of property, plant and equipment	**123.0**	104.3
Intangible asset amortisation	**33.8**	25.7
Amortisation of fixed asset grants	**(0.5)**	(0.6)
Profit on disposal of property, plant and equipment	**(5.9)**	(2.3)
Share-based payments	**4.1**	3.2
Decrease/(increase) in inventories	**1.1**	(0.7)
Increase in receivables	**(42.5)**	(32.7)
Increase in payables	**23.6**	34.8
Increase/(decrease) in provisions	**3.4**	(35.4)
Cash generated from operations	**330.2**	264.1

13 Post Balance Sheet events

On 13 January 2017 the Group repaid the £350m 2017 sterling bond that is disclosed within current borrowings.

On 10 February 2017 the Group disposed of the National Express Essex Thameside 'c2c' franchise to Trenitalia. Details are provided in note 6.

The transaction will be accounted for in the financial statements for the year ending 31 December 2017. The consideration received was £72.6m and a further £35.0m was received to settle intercompany loans. This transaction, including anticipated costs of right sizing the UK business post UK rail, has resulted in a small profit on disposal.

14 Financial information

The financial information set out above does not constitute the Group's statutory financial statements for the years ended 31 December 2016 or 2015, but is derived from those financial statements. Statutory financial statements for 2015 have been delivered to the Registrar of Companies and those for 2016 will be delivered following the Company's annual general meeting. The auditors have reported on those financial statements; their reports were unqualified, did not draw attention to any matters by way of emphasis without qualifying their report and did not contain statements under s498(2) or (3) Companies Act 2006.

The Annual Report will be posted to shareholders on 24 March 2017 and will also be available from the Company Secretary at National Express House, Birmingham Coach Station, Mill Lane, Digbeth, Birmingham, B5 6DD. Copies are also available via www.nationalexpressgroup.com.