28 February 2019
***National Express Group PLC*: Full Year Results for the year ended 31 December 2018**

Record results and growing momentum

Dean Finch, National Express Group Chief Executive said:

"I am delighted we have again delivered a record-breaking set of results. Revenue, profit and free cash all increased significantly, with organic top line growth in every division augmented by strategic acquisitions and cost control. Group normalised operating margin increased to 10.5%.

"We ended the year strongly, with particularly outstanding performances in ALSA and UK coach.

"These record results again demonstrate the benefit of our increasingly diversified international portfolio of industry-leading businesses. Every division accelerated revenue growth in the second half of 2018 and made strategic acquisitions or complementary market expansions. Our strong cash generation allows us to capitalise on these opportunities, invest in innovative technologies to drive organic growth and further efficiencies, while consistently increasing returns to shareholders.

"A consistent record of success over the last five years has delivered compounded statutory PBT growth of over 20%, whilst reducing gearing and improving ROCE. I remain confident we will grow revenue, profit and dividends further in 2019. As a measure of our confidence we again propose to increase the final dividend by 10 per cent."

Financial highlights

	2018	2017	Change	In constant currency
Continuing operations				
Group revenue	**£2.45bn**	£2.32bn	+5.6%	+6.9%
Group normalised operating profit	**£257.7m**	£241.5m	+6.7%	+7.7%
Group normalised PBT	**£220.0m**	£200.0m	+10.0%	+11.3%
Normalised basic EPS	**32.9p**	29.1p	+13.1%	
Statutory				
Group operating profit	**£215.4m**	£197.9m	+8.8%	
Group PBT	**£177.7m**	£156.4m	+13.6%	
Group PAT from continuing operations	**£138.7m**	£128.4m	+8.0%	
Basic EPS	**26.6p**	25.7p	+3.5%	
Free cash flow	**£198.6m**	£146.4m	+£52.2m	
Net debt	**£951.5m**	£887.9m	+£63.6m	
Full year proposed dividend	**14.86p**	13.51p	+10.0%	

Highlights

- Organic revenue growth in all divisions and strategic acquisitions delivering record Group profit:
  - Record Group normalised operating profit of £257.7 million, up 7.7% in constant currency;
  - Record Group statutory profit of £177.7 million, up 13.6%;
  - Group normalised operating margin increased to 10.5% (2017: 10.4%).

- Consistent delivery, with very strong five year compound annual growth rates (CAGR):
  - Statutory PBT five year CAGR of 21.9%;
  - Normalised operating profit five year CAGR of 8.2%.

- Free cash flow of £198.6 million.

- ROCE increased by 50 basis points to 12.4%; gearing held flat at 2.3x EBITDA.

- Proposed final dividend increased 10% to 10.17p; £450 million paid since 2011 resumption.

Operational excellence: organic revenue growth in every division and record profits

- Every division delivered revenue growth for the year:
    - North America: grew by 8% in constant currency to a record $1.42 billion;
    - ALSA: grew by 11.2% in constant currency to a record €842.3 million;
    - UK: grew by 2.8% to £577.0 million;
    - German Rail: declined by 15.1% in constant currency, as 2017 principally benefited from catch up revenues (up 5.4% on an underlying basis).

- Record normalised operating profits in our main international divisions combined with very strong UK growth:
    - North America: grew by 6.4% in constant currency to a record $129.4 million;
    - ALSA: grew by 9.9% in constant currency to a record €119.1 million;
    - UK: grew by 12.6% to £79.9 million (2017: £70.9m). Underlying profit growth was 5.4%, with a further £5m from property disposals.

- The Group carried 2.7% more commercial passengers than 2017:
    - All divisions carried more passengers, by providing value added services and retaining valued customers;
    - Our Spanish, Moroccan and UK coach businesses all set new patronage records;
    - UK bus grew commercial patronage by 1.1%, against the market trend;
    - Both UK coach (to nearly 60%) and ALSA (to over 50%) grew load factors during the year;
    - UK coach (11.5%) and bus (4%) both improved revenue per mile considerably.

Technology investment to underpin excellence, efficiency and innovation

- Across the Group we now have nearly 19,000 vehicles installed with DriveCam smart safety cameras, helping to reduce both the number of accidents and the cost of claims
- A continued shift to more convenient, cost effective and innovative digital channels, with over 13% growth in revenue through this segment in 2018:
    - Both UK coach (19%) and ALSA (15%) have grown ancillary revenues, such as seat reservations, during the year;
    - A significant growth in partner sales made through our digital channels – a key aspect of public transport's future revenue generation: this segment alone grew 63% in 2018.
- The benefit of our sophisticated Revenue Management Systems in UK coach and ALSA are demonstrated by both businesses growing passengers and yield during 2018:
    - By year end ALSA had more than reversed the long haul patronage decline of the first half;
    - Early pilots of machine learning have proved successful, with roll-out of Artificial Intelligence to further extend the reach and sophistication of our systems shortly underway.

Targeted growth through acquisition and market diversification

- We made 11 acquisitions in 2018: seven in North America, three in ALSA and one in the UK, consolidating our presence in core markets and entering strategic growth segments
- Our value enhancing acquisitions alongside continued contract wins have expanded our presence in rich and growing cities, as we seek to build multi-modal service hubs:
    - Geneva, New York and Chicago are examples where we have expanded through acquisition and contract wins to build hubs serving multiple local market segments;
    - We see significant opportunity to deepen our presence in similar cities and build platforms that deliver door-to-door journeys or comprehensive transport services for customers.
- We are well-advanced in our preparations to launch our new Rabat urban bus services (making us Morocco's largest operator) and our new Rhine Ruhr Express rail operations this year
- We have a very strong pipeline of further opportunities in place, which we will continue to pursue in a disciplined manner (targeting returns of over 15%) funded by our strong free cash flow generation.

Enquiries

National Express Group PLC

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There will be a presentation and webcast for investors and analysts at 11.00am on 28 February 2019. Details are available from Mads Neumann at Maitland.

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

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

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

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

Notes

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

Dividend

If approved by shareholders at the AGM on 9 May 2019, the final dividend of 10.17p per ordinary share will be paid on 14 May to those shareholders registered on 23 April 2019.

Group Chief Executive's Review

Overview

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

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

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

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

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

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

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

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

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

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

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

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

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

Equally, I was delighted we secured the accolade of Britain's Most Admired Transport Company in the 2018 Management Today awards. This award showed that we have managed to combine consistently strong financial performance with a reputation as a good company and employer. It is an achievement that employees across National Express feel rightly proud of.

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

Financial performance highlights

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

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

Revenue in constant currency	**2018**	2017
ALSA (€m)	**842.3**	757.4
North America (US$m)	**1,416.1**	1,311.3
German Rail (€m)	**76.6**	90.3
Revenue in £m		
ALSA	**745.1**	663.5
North America	**1,060.8**	1,017.2
UK	**577.0**	561.5
German Rail	**67.8**	79.0
Group	**2,450.7**	2,321.2

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

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

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

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

ALSA

Year ended 31 December	**2018 £m**	2017 £m
Revenue	**£745.1**	£663.5
Normalised operating profit	**£105.3**	£94.9
Revenue	**€842.3**	€757.4
Normalised operating profit	**€119.1**	€108.3
Operating margin	**14.1%**	14.3%

Overview

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

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

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

Operational excellence: driving organic growth

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

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

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

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

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

Technology investment to underpin excellence, efficiency and innovation

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

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

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

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

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

Targeted growth through strategic acquisition and market diversification

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

For example, in securing a nearly 500 vehicle Rabat urban bus contract, where we will be the majority partner in a joint venture, ALSA has become the largest private operator of public transport in Morocco. This contract will start later this year. In 2019 ALSA hopes to build upon this strong platform in five Moroccan cities and enter the inter-city market.

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

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

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

North America

Year ended 31 December	**2018 m**	2017 m
Revenue	**£1,060.8**	£1,017.2
Normalised operating profit	**£96.9**	£94.3
Revenue	**US$1,416.1**	US$1,311.2*
Normalised operating profit	**US$129.4**	US$121.6*
Operating margin	**9.1%**	9.3%

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

Overview

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

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

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

Operational excellence: driving organic growth

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

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

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

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

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

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

Our transit business added 650 vehicles in the year, and it now has annualised revenues of over $350 million. We added two major new contracts won through open bids in the year: a 147 bus paratransit contract in Massachusetts; and, a 115 bus fixed route contract in California (our largest ever by revenue won in open competition). We also recently secured a one-year extension to our single largest contract, paratransit services in Chicago as well as a two-year extension to important casino shuttle work in New York. With these contract successes and acquisitions set out below, we are also diversifying the transit business in to new segments such as employee shuttle.

Technology investment to underpin excellence, efficiency and innovation

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

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

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

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

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

Targeted growth through strategic acquisition and market diversification

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

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

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

UK

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

Overview

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

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

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

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

Operational excellence: driving organic growth

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

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

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

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

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

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

We continue to work closely with Transport for West Midlands (TfWM) and the West Midlands Mayor to improve services for passengers. With a strong and positive relationship we believe we will continue to prepare for the significant medium-term opportunities (such as the January 2020 introduction of the Birmingham Clean Air Zone and the 2022 Commonwealth Games) in partnership, rather than be distracted by the threat of regulation. Indeed, working with local councils and TfWM, we have secured funding to buy 29 electric buses, which will be introduced by the middle of next year.

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

Technology investment to underpin excellence, efficiency and innovation

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

From an already very high base, 70% of core coach's revenue is now secured through digital channels (up 3%). Alongside this, RMS is becoming ever more sophisticated, generating passenger and yield growth in the year. This digital focus also allows us to forge more partnerships with third parties, who can be more easily linked into our booking processes, with a near doubling in this income during the year. Together, the improved ease of booking, sophisticated pricing through RMS and new sources of growth through partnership is helping drive seat utilisation rates up impressively, from 54% in 2016, to nearly 60% in 2018.

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

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

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

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

Targeted growth through strategic acquisition and market diversification

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

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

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

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

Germany

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

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

Outlook

While 2019 has many uncertainties, I believe National Express is well placed to continue to grow
We have plans in place to capitalise further on the improvements in all our businesses that are underpinning these record results. For example: we are already progressing with further improvement to RMS in the UK and Spain that will help drive up load factors again; and, in North America we are improving asset utilisation and wage and hour controls, alongside further overhead cost reduction. When combined with the fact that Spanish concession renewals have still not resumed, we have a strong underlying momentum to build on further.

Our strong cash generation remains a focus and enables us to continue to invest in our existing businesses and new strategic acquisitions or market entries. This year sees the start of our Rabat urban bus contract and RRX German rail services, significant new additions to our portfolio. We believe there are also opportunities for strong growth in the Spanish mini-cab and US Charter School markets, as we leverage our presence in large cities to provide multi-modal services. Our pipeline of acquisitions remains very strong and we hope to continue to expand our presence in rich and growing urban areas this year.
So in 2019, we are again anticipating organic revenue and profit growth. While the political context, certainly in the UK, may be uncertain, we are determined to remain a consistent source of growth in shareholder value.

Dean Finch
Group CEO

28 February 2019

Group Finance Director's review

Presentation of results

To supplement IFRS reporting, we also present our results on a normalised basis which shows the performance of the business before intangible amortisation for acquired businesses, result for the year from discontinued operations and in the prior year, US tax reform and UK restructuring. The Board believes that this gives a more comparable year-on-year indication of the operating performance of the Group and allows the users of financial statements to understand management's key performance measures. Unless otherwise noted, all references to profit measures throughout this review are for continuing operations for both the current and prior reporting period. In addition to performance measures directly observable in the Group financial statements (IFRS measures), alternative financial measures are presented that are used internally by management as key measures to assess performance. Further explanation in relation to these measures can be found on page 23.

Statutory profit

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

Statutory profit

Reconciliation of statutory profit to normalised operating profit

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

Revenue

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

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

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

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

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

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

Normalised profit

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

Group normalised operating profit increased by 7.7% to £257.7 million on a constant currency basis, up 6.7% on a reported basis (2017: £241.5m), after the adverse impact of £3 million of currency translation driven by the strengthening of Sterling against the US Dollar. The Group delivered a robust performance from its existing businesses, as the drivers of revenue growth noted above flowed through to a £29 million contribution to profit. This was supplemented by the 11 acquisitions made during the year.
We benefited by £19 million from lower hedged fuel prices but this was mostly offset by above-inflation driver wage increases, predominantly in North America. During the year, we increased investment in maintenance and safety programmes in North America, and whilst this creates a short-term drag on North American operating margin, we will reap the rewards in the medium term.

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

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

Segmental profit performance

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

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

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

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

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

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

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

Summary income statement

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

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

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

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

The normalised tax charge from continuing operations was £49.0 million (2017: £48.0m), a normalised effective tax rate of 22.3%, (2017: 24.0%) in line with previous guidance. The decrease in the normalised effective tax rate is largely the result of mix of profits, with a significant proportion of profits coming from the US where the federal corporate income tax rate reduced from 35% to 21%, effective from 1 January 2018. Normalised basic earnings per share were 32.9 pence (2017: 29.1p), an increase of 13.1%.

Return on capital employed (ROCE)

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

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

Cash management

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

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

The Group delivered £402.1 million of EBITDA in the period (2017: £377.0m), an increase of £25.1 million. Net maintenance capital expenditure payments reduced by £41.3 million to £123.9 million, driven by sale and leaseback transactions, most notably the UK depots noted above. Going forward, we expect maintenance capital expenditure to revert to a normalised level of around 1.1 to 1.2 times depreciation. The working capital outflow of £17.5 million in 2018 compares with an inflow of nearly £5 million in the prior year, which partly reflected catch-up receipts in our German Rail business in 2017. The outflow in 2018 reflects a return to normal working capital movements associated with a growing business. The combination of these movements delivered operating cash flow of £253.3 million (2017: £211.6m), an increase of £41.7 million.

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

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

Reconciliation of free cash flow to net cash flow from operating activities	2018 £m
Free cash flow	198.6
Add: Operating cash flows from discontinued operations	0.4
Remove: Net maintenance capital expenditure	123.9
Remove: Movements in arrangement fees	0.3
Remove: Profit on disposal of tangible and intangible assets	(16.7)
Other movements	0.3
Net cash flow from operating activities	306.8

Net funds flow	**2018** **£m**	2017 £m
Free cash flow	**198.6**	146.4
Net growth capital expenditure	**(5.8)**	(13.2)
Net inflow from discontinued operations	**0.4**	27.5
Acquisitions (net of cash acquired)	**(154.5)**	(101.5)
Dividends	**(70.8)**	(64.7)
Other, including foreign exchange	**(31.5)**	(4.4)
Net funds flow	**(63.6)**	(9.9)
Net debt	**(951.5)**	(887.9)

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

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

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

Other items include £21.8 million relating to the retranslation of foreign currency debt balances and the maturity of some foreign exchange contracts.

Net funds flow for the period was an outflow of £63.6 million (2017: outflow £9.9m), resulting in year end net debt of £951.5 million (2017: £887.9m).

Dividend

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

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

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

Treasury management

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

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

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

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

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

At 31 December 2018, the Group had foreign currency debt and swaps held as net investment hedges: these help mitigate volatility in the foreign currency translation of our overseas net assets. The Group also hedges its exposure to interest rate movements to maintain an appropriate balance between fixed and floating interest rates on borrowings. It has therefore entered into a series of swaps that have the effect of converting fixed rate debt to floating rate debt. The net effect of these transactions was that, at 31 December 2018, the proportion of Group debt at floating rates was 37% (2017: 43%).

Working capital management

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

Group tax policy

We pursue a prudent approach to our tax affairs which are aligned to business transactions and economic activity. We have a constructive and good working relationship with the tax authorities in the countries in which we operate and there are no outstanding tax audits in any of our main three markets of the UK, Spain and the USA.

The Group's tax strategy is published on the Group website in accordance with recent UK tax law.

Pensions

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

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

In October 2018, the Group scheme executed an insurance "buy-in" with Rothsay Life for 100% of the future obligations of the funds of the UK Group scheme. Whilst this results in a reduction to the actuarial surplus, this materially derisked the Group's balance sheet, as any change in future liabilities will be met by the insurance company.

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

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

Fuel costs

The Group consumes approximately 230 million litres of fuel each year for which it bears pricing risk (ie. there is no direct fuel escalator in the contract or concession price). Fuel costs represented a total cost to the Group in 2018 of £160 million (approximately 7% of related revenue), at an average fuel component cost (ie. excluding delivery and taxes) of 34.9 pence per litre. The Group pursues a forward fuel buying policy in order to secure a high degree of certainty in its planning. This policy is to hedge fully a minimum of 15 months' addressable consumption against movements in price of the underlying commodity, together with at least 50% of the next nine months' consumption in the contract businesses. Currently, the Group is 100% fixed for 2019 at an average price of 37.4 pence per litre, 71% fixed for 2020 at an average price of 35.7 pence and 29% fixed for 2021 at 37.6 pence. Based on this, year-on-year fuel costs for the same mileage will be around £6 million more in 2019.

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

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

IFRS 9 Financial Instruments addresses accounting for financial assets and financial liabilities including new rules for hedge accounting and a new impairment model for financial assets. The Group has reviewed its existing financial assets and liabilities accounting and has made a number of transitional adjustments, including an increase in the impairment provision for trade and other receivables. The net impact of these adjustments is a reduction in net assets of £13.5 million, with full details in note 1 in the financial statements.

IFRS 15 Revenue from Contracts with Customers is based on the principle that revenue is recognised when control of a good or service transfers to a customer. On transition, this has resulted in a net reduction in net assets of £17.7 million, with full details in note 1 in the financial statements.

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

Brexit

The Directors have determined that the level of uncertainty surrounding Brexit requires the Group to highlight it as a specific principal risk. Whilst, at the time of writing, the likelihood of a disorderly Brexit appears to be increasing, given the diversified nature of our business model and the limited exposure to cross-border trade, we do not believe that Brexit poses a material threat to the Group. We no longer run scheduled operations between the UK and the Continent, therefore the main Brexit risk specific to the Group is that inbound and outbound airport travel in our UK coach business may be impacted should air travel be materially reduced due to restrictions or currency fluctuation. Our Spanish business carries very few UK nationals, making up only around 0.1% of total passenger revenue. We purchase some vehicles from European manufacturers for UK operations although we have good working relationships with both these and alternative UK suppliers to mitigate any long-term impact should further Sterling depreciation materially increase purchase cost. For the purposes of viability testing, we have modelled a hard Brexit in conjunction with other principal risks and remain confident that we have suitable mitigation plans in place however Brexit eventually unfolds.

Summary

The strong financial performance delivered in 2018, coupled with the additional financing facilities and continued prudent balance sheet management, further augment the Group's robust financial position. We remain confident about the prospects for the year ahead.

Chris Davies
Group Finance Director
28 February 2019

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 2018 Annual Report and Accounts:

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

Cautionary statement

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

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

Chris Davies
Group Finance Director

28 February 2019

Definitions

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

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

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

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

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

Organic growth is defined as growth from continuing business as at the end of the comparable reporting year.

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

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

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

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

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

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

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

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

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

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 2018

	Note	**Normalised result 2018 £m**	**Separately disclosed items 2018 £m**	**Total 2018 £m**	Normalised result 2017 £m	Separately disclosed items 2017 £m	Total 2017 £m
Continuing operations							
Revenue	3	**2,450.7**	**–**	**2,450.7**	2,321.2	–	2,321.2
Operating costs before UK restructuring		**(2,193.0)**	**(42.3)**	**(2,235.3)**	(2,079.7)	(38.0)	(2,117.7)
UK restructuring		**–**	**–**	**–**	–	(5.6)	(5.6)
Operating costs		**(2,193.0)**	**(42.3)**	**(2,235.3)**	(2,079.7)	(43.6)	(2,123.3)
Group operating profit	3	**257.7**	**(42.3)**	**215.4**	241.5	(43.6)	197.9
Share of results from associates and joint ventures		**0.9**	**–**	**0.9**	(3.5)	–	(3.5)
Finance income	4	**9.8**	**–**	**9.8**	10.0	–	10.0
Finance costs	4	**(48.4)**	**–**	**(48.4)**	(48.0)	–	(48.0)
Profit before tax		**220.0**	**(42.3)**	**177.7**	200.0	(43.6)	156.4
Tax charge	5	**(49.0)**	**10.0**	**(39.0)**	(48.0)	20.0	(28.0)
Profit after tax for the year from continuing operations		**171.0**	**(32.3)**	**138.7**	152.0	(23.6)	128.4
Profit for the year from discontinued operations	6	**–**	**–**	**–**	–	5.9	5.9
Profit for the year		**171.0**	**(32.3)**	**138.7**	152.0	(17.7)	134.3
Profit attributable to equity shareholders		**168.0**	**(32.3)**	**135.7**	148.7	(17.7)	131.0
Profit attributable to non-controlling interests		**3.0**	**–**	**3.0**	3.3	–	3.3
		171.0	**(32.3)**	**138.7**	152.0	(17.7)	134.3
Earnings per share:	8						
– basic earnings per share				**26.6p**			25.7p
– diluted earnings per share				**26.5p**			25.5p
Normalised earnings per share:							
– basic earnings per share		**32.9p**			29.1p		
– diluted earnings per share		**32.8p**			29.0p		
Earnings per share from continuing operations:							
– basic earnings per share				**26.6p**			24.5p
– diluted earnings per share				**26.5p**			24.4p

Separately disclosed items includes intangible amortisation for acquired businesses, result for the year from discontinued operations and in the prior year, UK restructuring and US tax reform. The Board believes that this gives a more comparable year-on-year indication of the operating performance of the Group and allows the users of the financial statements to understand management's key performance measures. Further details relating to separately disclosed items are provided in note 3.

Group Statement of Comprehensive Income
For the year ended 31 December 2018

	2018 £m	2017 £m
Profit for the year	**138.7**	134.3
Items that will not be reclassified subsequently to profit or loss:		
Actuarial losses on defined benefit pension plans	**(24.9)**	(14.0)
Deferred tax on actuarial losses	**4.0**	2.1
	(20.9)	(11.9)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on retranslation of foreign operations (net of hedging)	**30.1**	(15.2)
Cost of hedging	**1.4**	–
Exchange differences on retranslation of non-controlling interests	**0.4**	0.7
Loss on cash flow hedges	**(6.3)**	(18.5)
Reclassification adjustments for gains or losses included in profit	**(11.5)**	23.6
Tax on exchange differences	**(2.2)**	1.0
Deferred tax on cash flow hedges	**3.1**	(3.4)
	15.0	(11.8)
Comprehensive expenditure for the year	**(5.9)**	(23.7)
Total comprehensive income for the year	**132.8**	110.6
Total comprehensive income attributable to:		
Equity shareholders	**129.4**	106.6
Non-controlling interests	**3.4**	4.0
	132.8	110.6

Group Balance Sheet
At 31 December 2018

	Note	2018 £m	2017 £m
Non-current assets			
Intangible assets		**1,797.5**	1,633.4
Property, plant and equipment		**1,054.8**	968.2
Non-current financial assets		**14.9**	21.5
Deferred tax assets		**42.7**	41.4
Investments accounted for using the equity method		**12.9**	11.3
Trade and other receivables		**3.0**	20.1
Defined benefit pension assets	10	**14.9**	43.2
		2,940.7	2,739.1
Current assets			
Inventories		**27.4**	24.9
Trade and other receivables		**408.6**	356.3
Derivative financial instruments		**7.9**	15.4
Current tax assets		**0.8**	1.5
Cash and cash equivalents		**117.5**	314.3
Total current assets		**562.2**	712.4
Assets classified as held for sale		**22.8**	–
Total assets		**3,525.7**	3,451.5
Non-current liabilities			
Borrowings		**(1,029.3)**	(1,058.0)
Derivative financial instruments		**(12.6)**	(1.3)
Deferred tax liability		**(63.0)**	(60.0)
Other non-current liabilities		**(25.2)**	(36.0)
Defined benefit pension liabilities	10	**(131.7)**	(137.7)
Provisions		**(49.2)**	(65.4)
		(1,311.0)	(1,358.4)
Current liabilities			
Trade and other payables		**(870.5)**	(672.4)
Borrowings		**(59.3)**	(167.4)
Derivative financial instruments		**(16.9)**	(9.8)
Current tax liabilities		**(8.4)**	(11.6)
Provisions		**(58.7)**	(65.5)
Total current liabilities		**(1,013.8)**	(926.7)
Liabilities directly associated with assets classified as held for sale		**(3.7)**	–
Total liabilities		**(2,328.5)**	(2,285.1)
Net assets		**1,197.2**	1,166.4
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		**(7.0)**	(6.0)
Other reserves		**196.2**	181.6
Retained earnings		**426.6**	410.9
Total shareholders' equity		**1,174.3**	1,145.0
Non-controlling interests in equity		**22.9**	21.4
Total equity		**1,197.2**	1,166.4

D Finch
Group Chief Executive
28 February 2019

C Davies
Group Finance Director

Group Statement of Changes in Equity
For the year ended 31 December 2018

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Own shares £m	Other reserves £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
At 1 January 2018	**25.6**	**532.7**	**0.2**	**(6.0)**	**181.6**	**410.9**	**1,145.0**	**21.4**	**1,166.4**
Change in accounting policies[1]	**–**	**–**	**–**	**–**	**–**	**(27.8)**	**(27.8)**	**(3.4)**	**(31.2)**
At 1 January 2018 (restated)	**25.6**	**532.7**	**0.2**	**(6.0)**	**181.6**	**383.1**	**1,117.2**	**18.0**	**1,135.2**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**135.7**	**135.7**	**3.0**	**138.7**
Comprehensive income for the year	**–**	**–**	**–**	**–**	**14.6**	**(20.9)**	**(6.3)**	**0.4**	**(5.9)**
Total comprehensive income	**–**	**–**	**–**	**–**	**14.6**	**114.8**	**129.4**	**3.4**	**132.8**
Shares purchased	**–**	**–**	**–**	**(9.7)**	**–**	**–**	**(9.7)**	**–**	**(9.7)**
Own shares released to satisfy employee share schemes	**–**	**–**	**–**	**8.7**	**–**	**(8.7)**	**–**	**–**	**–**
Share-based payments	**–**	**–**	**–**	**–**	**–**	**7.0**	**7.0**	**–**	**7.0**
Tax on share-based payments	**–**	**–**	**–**	**–**	**–**	**1.2**	**1.2**	**–**	**1.2**
Dividends	**–**	**–**	**–**	**–**	**–**	**(70.8)**	**(70.8)**	**–**	**(70.8)**
Dividends paid to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(0.6)**	**(0.6)**
Acquisition of non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**2.1**	**2.1**
At 31 December 2018	**25.6**	**532.7**	**0.2**	**(7.0)**	**196.2**	**426.6**	**1,174.3**	**22.9**	**1,197.2**

[1] Opening balances have been restated for the adoption of IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from contracts with customers' (see note 1).

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Own shares £m	Other reserves £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
At 1 January 2017	25.6	532.7	0.2	(7.8)	194.1	362.0	1,106.8	18.7	1,125.5
Profit for the year	–	–	–	–	–	131.0	131.0	3.3	134.3
Comprehensive income for the year	–	–	–	–	(12.5)	(11.9)	(24.4)	0.7	(23.7)
Total comprehensive income	–	–	–	–	(12.5)	119.1	106.6	4.0	110.6
Shares purchased	–	–	–	(8.1)	–	–	(8.1)	–	(8.1)
Own shares released to satisfy employee share schemes	–	–	–	9.9	–	(9.9)	–	–	–
Share-based payments	–	–	–	–	–	6.3	6.3	–	6.3
Tax on share-based payments	–	–	–	–	–	(1.6)	(1.6)	–	(1.6)
Dividends	–	–	–	–	–	(64.7)	(64.7)	–	(64.7)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	(1.1)	(1.1)
Payments for equity in non-controlling interests	–	–	–	–	–	(0.3)	(0.3)	(0.2)	(0.5)
At 31 December 2017	25.6	532.7	0.2	(6.0)	181.6	410.9	1,145.0	21.4	1,166.4

Group Statement of Cash Flows
For the year ended 31 December 2018

	Note	2018 £m	2017 £m
Cash generated from operations	11	**361.2**	359.0
Tax paid		**(21.1)**	(14.1)
Interest paid		**(43.0)**	(62.5)
Interest received		**9.7**	13.1
Net cash flow from operating activities		**306.8**	295.5
Cash flows from investing activities			
Payments to acquire businesses, net of cash acquired	9	**(107.4)**	(48.2)
Deferred consideration for businesses acquired	9	**(38.5)**	(49.0)
Proceeds from the disposal of business, net of cash disposed	9	**–**	42.8
Purchase of property, plant and equipment		**(160.6)**	(124.6)
Proceeds from disposal of property, plant and equipment		**48.9**	17.9
Payments to acquire intangible assets		**(5.8)**	(11.9)
Proceeds from disposal of intangible assets		**10.0**	–
Receipts relating to associates and investments		**1.1**	–
Net cash flow from investing activities		**(252.3)**	(173.0)
Cash flows from financing activities			
Finance lease principal payments		**(49.9)**	(34.4)
Increase in borrowings		**–**	328.1
Repayment of borrowings		**(94.4)**	(356.7)
(Payments)/receipts for the maturity of foreign currency contracts		**(27.6)**	5.7
Purchase of own shares		**(9.7)**	(8.1)
Dividends paid to non-controlling interests		**(0.6)**	(1.1)
Payments for equity in non-controlling interests		**–**	(0.2)
Dividends paid to shareholders of the Company	7	**(70.8)**	(64.7)
Net cash flow from financing activities		**(253.0)**	(131.4)
Decrease in cash and cash equivalents		**(198.5)**	(8.9)
Opening cash and cash equivalents		**314.3**	324.4
Decrease in cash and cash equivalents		**(198.5)**	(8.9)
Foreign exchange		**1.9**	(1.2)
Closing cash and cash equivalents		**117.7**	314.3
Cash and cash equivalents in continuing operations		**117.5**	314.3
Cash and cash equivalents classified in assets held for sale		**0.2**	–
Closing cash and cash equivalents		**117.7**	314.3

Notes to the Consolidated Accounts
For the year ended 31 December 2018

1. General information
Basis of preparation

The results are based on the Group Financial Statements, which have been been prepared in accordance with International Financial Reporting Standards ('IFRS') and interpretations of the International Financial Reporting Interpretations Committee ('IFRIC') as adopted by the European Union ('EU'), and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.
These results are presented in pounds Sterling and all values are rounded to the nearest one hundred thousand pounds (£0.1m) except where otherwise indicated.

Going concern

The Directors have reviewed assumptions about current trading performance, and have taken account of reasonably possible adverse changes to performance impacting availability of resources over the time period assessed. The Directors confirm that they have a reasonable expectation that the Group has adequate resources to continue in operation for the period to 31 December 2019, and accordingly the Directors continue to adopt the going concern basis of accounting in preparing the financial statements.

Accounting policies

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

IFRS 9 and IFRS 15 came into effect on 1 January 2018 and have been applied by the Group for the first time. The nature and effect of the changes from adopting these new accounting standards are described below.

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

i) IFRS 9 'Financial Instruments'

This standard addresses the classification, measurement and derecognition of financial assets and liabilities. The standard also introduces new rules for hedge accounting and a new impairment model for financial assets.

Classification and measurement changes

The Group continued measuring at fair value all financial assets previously held at fair value under IAS 39. In addition, equity investments in non-listed companies, which have historically been recognised at cost less impairment, are now classified and measured as equity instruments designated at fair value through other comprehensive income. The Group elected to classify these investments under this category as it intends to hold these investments for the foreseeable future. On transition, the carrying value of the investments was reduced by £0.7m as a result of the change.

There are no changes in classification and measurement for the Group's financial liabilities.

Impairment

Under IFRS 9, the Group's accounting for impairment losses for financial assets has changed by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss approach. The Group has applied the simplified approach to measuring impairment losses and records lifetime expected losses on all trade receivables. At 1 January 2018 this resulted in an additional allowance for impairment of £16.7m and deferred tax asset of £3.9m. The change primarily relates to older dated contract receivables in ALSA and North America where perceived risk of default is considered greater due to ageing. However, the increase purely reflects the requirement under IFRS 9 to make a forward looking assessment of risk of future default on existing receivables and does not reflect an actual increase in incurred credit losses.

Hedge accounting

Hedge accounting for the year has been prepared in accordance with IFRS 9. There has been no financial impact to the opening position or any material impact to the movements in the year as a result of the new standard and our hedging relationships remain highly effective.

Accounting policies continued

ii) IFRS 15 'Revenue from contracts with customers'

IFRS 15 establishes the principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from customers. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to the customer.

The Group has applied the new rules prospectively from 1 January 2018, having performed a detailed assessment of the effects of applying the new standard. As part of the assessment, management identified a transitional reduction to receivables of £23.6m and deferred tax assets of £5.9m. The majority of this relates to variable consideration for certain transport contracts in ALSA. Under IAS 18, this revenue had been recognised on the basis that future receipt was considered probable. Under IFRS 15, the new variable consideration requirement of 'highly probable' led to a derecognition of the revenue and related receivable as at the date of transition. The remainder of the adjustment relates to long-term contract revenue for software goods and services in North America, where application of the standard has resulted in a greater deferral of revenue to match delivery of the performance obligation.

With the exception of the above, revenue has not been impacted by the new standard. Just over half of the Group's revenue is derived from documented contracts that cover periods of at least one year, and the significant remainder relate to ticket and other sales to travelling customers, and shorter-term contracts such as private hire.

For documented contracts, a detailed assessment was performed and management concluded that revenues are being appropriately recognised across the periods of the contract, as the services are transferred to the customer. Ticket sale revenue and private hire are also compliant with the new standard, with ticket sales recognised when the passenger makes the journey, or spread according to the term of the ticket, and private hire recognised in the period in which the service is provided to the customer.
With regard to disclosures, a new numerical disaggregation of revenue has been presented in note 3. A brief description of the types of revenue included in the note is as follows:

Contract revenues

For the purposes of disclosures, the Group has applied the term contract revenues to describe documented contracts that typically cover periods of at least one year, excluding concessions and subsidies. The contracts primarily relate to home to school and transit contracts in North America, urban bus contracts in Spain and coach contracts in the UK.

Revenues relating to the provision of transport services are recognised as the services are provided and in accordance with the terms of the contract. Revenue relating to any additional performance measures in the contract are recognised when the performance has been met and in accordance with the terms of the contract.

If the consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring services to the customer. The variable consideration is estimated at contract inception and constrained until the associated uncertainty is resolved and when it becomes highly probable that a significant revenue reversal will not occur.

Passenger revenues

Passenger revenues primarily relate to ticket sales in the UK, German Rail, intercity coach services in Spain and urban bus services in Morocco.

Revenue is recognised by reference to the date of customer travel. Revenue from tickets that cover more than one day, for example monthly travel cards and season tickets, are initially deferred as a liability and released to the income statement over the period of the ticket.

Deferred income liability is reduced when an eligible cancellation arises. Also, where applicable, deferred income is reduced for ticket breakage, being the portion of future travel that is not expected to be exercised.

Booking fees are non-refundable and recognised at the point of sale, reflecting fulfilment of the performance. Other ancillary revenues relating to ticket sales are recognised at point of sale or, if material and related to a future performance period, recognised by reference to that period.

Accounting policies continued
Loyalty points issued to customers are recorded and valued by management. Where material, the cumulative redeemable value of the points is deducted from the related revenue and deferred as a liability until the points are redeemed.

Passenger revenue in German Rail is allocated between the various transport providers in each region by the tariff authority responsible for that region, and is recognised based on passenger counts, tariff authority estimates and historical trends.

Grants and subsidies
Grants and subsidies relating to the provision of transport services are recognised as the services are provided and in accordance with the terms of the contract.

German Rail contracts are service concession arrangements and accounted for under IFRIC 12. In accordance with that standard, income received from the public transport authority (‘PTA’) is recognised in line with the requirements of IFRS 15. Subsidy income from the PTA is recognised over the life of the franchise and by using the input method to measure progress against the performance obligation. The amount recognised in each period is based on a percentage of completion, applying net costs incurred as a proportion of total expected net costs, which is what the subsidy is intended to compensate.

In accordance with IFRS 15, costs payable to the PTA are netted against subsidy income.

Private hire
Private hire operations are contracts provided in the UK, ALSA and North America divisions and are typically of a short duration.

Revenue is recognised over the period in which the private hire is provided to the customer.

Other revenues
Other revenues primarily comprise non-passenger services in Spain, transit software income in North America and advertising revenues.

Revenues for non-passenger services are recognised when the performance of the service has been fulfilled and in accordance with the terms of the contract. Transit software income is recognised when the benefit of the software or service has been passed to the customer. Advertising revenue is recognised over the period of the advertising contract.

iii) Reconciliation of the opening balance sheet
For both IFRS 9 and IFRS 15, the Group has applied the exemptions to not restate prior year financial information. The impacts of the new standards have been recognised as transitional adjustments to the opening balance sheet and are summarised as follows:

	31 December 2017	IFRS 9 £m	IFRS 15 £m	1 January 2018
Non-current financial assets	**8.1**	(0.7)	–	7.4
Trade and other receivables	**356.3**	(16.7)	(23.6)	316.0
Net deferred tax liability	**(18.6)**	3.9	5.9	(8.8)
Net assets	**1,166.4**	**(13.5)**	**(17.7)**	**1,135.2**
Retained earnings	**410.9**	(13.5)	(14.3)	383.1
Non-controlling interests in equity	**21.4**	–	(3.4)	18.0
Total equity	**1,166.4**	**(13.5)**	**(17.7)**	**1,135.2**

New standards and interpretations not applied

At the date of authorisation of these Financial Statements, the Group has not applied the following standards that have been issued but are not yet effective:

Title of standard	IFRS 16 Leases
Nature of change	IFRS 16 will result in an increase in the number of leases being recognised on the balance sheet as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals will be recognised. The income statement will also be affected, with the operating lease expense being replaced by a combination of depreciation on the right of use asset and interest on the financial liability. Short-term and low-value leases can be made exempt. Under this option the leases continue to be charged to the income statement on a straight-line basis over the term of the lease.
Impact	During 2018, the Group has performed a detailed impact assessment of IFRS 16. This assessment focused on all of the Group's existing lease portfolio, as well as considering other contractual arrangements to determine if they constituted a lease under the definitions of the new standard. As at the reporting date, the Group has non-cancellable operating lease commitments of £690m. However, of these commitments, £436m relates to German Rail rolling stock assets that do not meet the definition of a lease under IFRS 16. This reflects the fact that the lessor, not the Group, directs how and for what purpose the assets are used and, in the case of one contract, that the lessor also has the substantive right to substitute the assets. This is consistent with our application of IFRIC 12, where we have service concession arrangements and do not have control of the assets. In addition, approximately £15m of commitments relate to low value leases, which the Group will elect to exempt and continue to expense on a straight-line basis in the Income Statement. For the remaining lease commitments, and after taking into account discounting to present value, on 1 January 2019 the Group expects to recognise right-of-use assets and lease liabilities in the range of £190.0m to £210.0m. Our review of other contractual arrangements across the Group is substantively complete, and no arrangements have been identified that meet the definition of a lease under IFRS 16. This review has included an assessment of the UK coach operations where vehicles are provided by third party operators. Management concluded that for the majority of these arrangements the third party operators have a substantive right to substitute vehicles over the term of the agreement and therefore a lease arrangement does not exist. The remaining UK coach operator contracts were determined to be leases but are short-term in nature and therefore exempted. By way of indication, management have estimated that had IFRS 16 be adopted for 2018 the effect on profit before tax would be negligible. Under the new standard, statutory operating cash flow would have been approximately £53m higher and financing cash flows lower by the same amount, reflecting the re-classification of principal lease repayments into cash flows from financing activities.
Date of adoption	IFRS 16 will be adopted on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

The following amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements:

- IFRIC 23 Uncertainty over Tax Treatments.
- Prepayment Features with Negative Compensation (Amendments to IFRS 9).
- Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28).
- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19).
- Annual Improvements to IFRS Standards 2015–2017 Cycle – various standards.
- Amendments to References to Conceptual Framework in IFRS Standards.
- IFRS 17 Insurance Contracts.

2. Exchange rates

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

	2018 Closing rate	**2018 Average rate**	2017 Closing rate	2017 Average rate
US Dollar	**1.28**	**1.34**	1.35	1.29
Canadian Dollar	**1.74**	**1.73**	1.70	1.67
Euro	**1.11**	**1.13**	1.13	1.14

If the results for the year to 31 December 2017 had been retranslated at the average exchange rates for the year to 31 December 2018, North America would have achieved normalised operating profit of £91.1m on revenue of £982.1m, compared with normalised operating profit of £94.3m on revenue of £1,017.2m as reported, and ALSA would have achieved a normalised operating profit of £95.8m on revenue of £670.1m, compared with normalised operating profit of £94.9m on revenue of £663.5m as reported.

3. Segmental analysis

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

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

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

- UK – Bus and coach operations
- German Rail – Rail operations
- ALSA (predominantly Spain and Morocco) – Bus and coach operations
- North America (USA and Canada) – School bus and transit bus operations
-

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

Revenue

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

	2018					
Analysis by class and reportable segment:	**Contract revenues £m**	**Passenger revenues £m**	**Grants and subsidies £m**	**Private hire £m**	**Other revenues £m**	**Total £m**
UK	**29.2**	**456.8**	**56.0**	**14.6**	**20.4**	**577.0**
German Rail	**–**	**47.2**	**16.3**	**–**	**4.3**	**67.8**
ALSA	**189.3**	**430.3**	**10.2**	**62.8**	**52.5**	**745.1**
North America	**967.9**	**–**	**–**	**78.2**	**14.7**	**1,060.8**
Total	**1,186.4**	**934.3**	**82.5**	**155.6**	**91.9**	**2,450.7**
Analysis by major service type:						
Passenger transport	**1,186.4**	**934.3**	**82.5**	**155.6**	**13.7**	**2,372.5**
Other products and services	**–**	**–**	**–**	**–**	**78.2**	**78.2**
Total	**1,186.4**	**934.3**	**82.5**	**155.6**	**91.9**	**2,450.7**

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

3. Segmental analysis continued

Analysis by class and reportable segment	Contract revenues £m	Passenger revenues £m	Grants and subsidies £m	Private hire £m	Other revenues £m	Total £m
	2017					
UK	26.7	443.4	58.6	9.2	23.6	561.5
German Rail	–	42.3	34.9	–	1.8	79.0
ALSA	183.9	405.2	17.9	33.5	23.0	663.5
North America	924.2	–	–	78.3	14.7	1,017.2
Total	1,134.8	890.9	111.4	121.0	63.1	2,321.2
Analysis by major service type:						
Passenger transport	1,134.8	890.9	111.4	121.0	17.5	2,275.6
Other products and services	–	–	–	–	45.6	45.6
Total	1,134.8	890.9	111.4	121.0	63.1	2,321.2

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

Operating profit

Operating profit is analysed by reportable segment as follows:

	Normalised operating profit 2018 £m	**Intangible amortisation for acquired businesses 2018 £m**	**Segment result 2018 £m**	Normalised operating profit 2017 £m	Intangible amortisation for acquired businesses 2017 £m	UK restructuring 2017 £m	Segment result 2017 £m
UK	**79.9**	**(1.0)**	**78.9**	70.9	(0.7)	(5.6)	64.6
German Rail	**3.0**	**(0.9)**	**2.1**	5.2	(1.0)	–	4.2
ALSA	**105.3**	**(11.1)**	**94.2**	94.9	(10.0)	–	84.9
North America	**96.9**	**(29.3)**	**67.6**	94.3	(26.3)	–	68.0
Central functions	**(27.4)**	**–**	**(27.4)**	(23.8)	–	–	(23.8)
Operating profit from continuing operations	**257.7**	**(42.3)**	**215.4**	241.5	(38.0)	(5.6)	197.9
Share of results from associates and joint ventures	**0.9**	**–**	**0.9**	(3.5)	–	–	(3.5)
Net finance costs	**(38.6)**	**–**	**(38.6)**	(38.0)	–	–	(38.0)
Profit before tax	**220.0**	**(42.3)**	**177.7**	200.0	(38.0)	(5.6)	156.4
Tax charge			**(39.0)**				(28.0)
Profit after tax for the year from continuing operations			**138.7**				128.4
Profit for the year from discontinued operations			**–**				5.9
Profit for the year			**138.7**				134.3

In February 2017 the Group disposed of its final UK rail franchise, c2c, as part of a broader UK strategic review in which the Group discontinued all activity in UK Rail. Consequent on this exit and given the simplified UK footprint, the Group also reorganised its UK management structure to reduce costs and facilitate better, clearer decision-making. The cost relating to this restructuring was £5.6m. Further details are provided in Note 6.

3. Segmental analysis continued

Depreciation

Depreciation is analysed by reportable segment as follows:

	2018 £m	2017 £m
UK	**19.7**	21.8
German Rail	**0.6**	0.2
ALSA	**44.0**	39.3
North America	**68.8**	73.6
Central functions	**0.7**	0.7
Total	**133.8**	135.6

4. Net finance costs

	2018 £m	2017 £m
Bond and bank interest payable	**(36.8)**	(38.0)
Finance lease interest payable	**(4.4)**	(3.9)
Other interest payable	**(3.8)**	(2.7)
Unwind of provision discounting	**(1.2)**	(1.3)
Net interest cost on defined benefit pension obligations	**(2.2)**	(2.1)
Finance costs	**(48.4)**	(48.0)
Other financial income	**9.8**	10.0
Net finance costs	**(38.6)**	(38.0)
Of which, from financial instruments:		
Financial liabilities measured at amortised cost	**(40.6)**	(40.7)
Derivatives	**9.3**	9.3
Loan fee amortisation	**(1.5)**	(1.2)

5. Taxation

(a) Analysis of taxation charge in the year

	2018 £m	2017 £m
Current taxation:		
UK corporation tax	**2.9**	5.0
Overseas taxation	**16.0**	14.5
Current income tax charge	**18.9**	19.5
Adjustments with respect to prior years – UK and overseas	**(0.1)**	1.2
Total current income tax charge	**18.8**	20.7
Deferred taxation:		
Origination and reversal of temporary differences – continuing operations	**17.7**	19.5
Adjustments with respect to prior years – UK and overseas	**0.8**	(13.7)
Deferred tax charge	**18.5**	5.8
Total tax charge for the Group	**37.3**	26.5
Amounts relating to discontinued items	**1.7**	1.5
Total tax charge for the continuing Group	**39.0**	28.0

The tax charge for the continuing Group is disclosed as follows:		
Tax charge on profit before separately disclosed items	**49.0**	48.0
Tax credit on separately disclosed items	**(10.0)**	(20.0)
	39.0	28.0

In the current year, the tax credit on separately disclosed items of £10.0m relates to tax relief on intangible amortisation and is determined by reference to the tax rates in the jurisdiction to which the intangible amortisation relates. The effective tax rate relating to intangible amortisation is significantly higher than the UK tax rate of 19.0% due to the weighting of intangibles in jurisdictions with higher tax rates than the UK, specifically the US (26%) and Spain (25%).

In the prior year, the tax credit on separately disclosed items of £20.0m comprised an £11.4m tax credit on intangibles, a £7.5m net credit in relation to the tax rate reduction and a tax credit of £1.1m on other items.

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

	2018 £m	2017 £m
Current taxation:		
Credit on exchange movements offset in reserves	**0.5**	1.0
	0.5	1.0
Deferred taxation:		
Deferred tax credit on actuarial losses	**4.0**	2.1
Deferred tax charge on cash flow hedges	**3.1**	(3.4)
Deferred tax credit on foreign exchange differences	**(2.7)**	–
Deferred tax charge on share-based payments	**1.2**	(1.6)
	5.6	(2.9)

6. Discontinued operations and assets and liabilities held for sale

On 24 June 2018 the Group handed back the Midland Metro tram operations to the West Midlands Combined Authority. This operation was recognised as discontinued in the 2017 Annual Report, along with the disposal of the Thameside ‘c2c’ franchise which was sold to Trenitalia.

Details of the discontinued operations are as follows:

	2018 £m	2017 £m
Revenue	**5.1**	29.7
Operating costs	**(6.8)**	(31.2)
Trading loss before tax	**(1.7)**	(1.5)
One-off costs relating to discontinued operations	**–**	(7.0)
Gross profit on disposal of discontinued operation	**–**	12.9
Net (loss)/profit from discontinued operations before tax	**(1.7)**	4.4
Attributable income tax credit	**1.7**	1.5
Net profit from discontinued operations attributable to equity shareholders	**–**	5.9

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

	2018 £m	2017 £m
Cash inflow/(outflow) from operating activities	**0.4**	(14.8)
Cash outflow from investing activities	**–**	(0.5)
Net cash inflow/(outflow)	**0.4**	(15.3)

7. Dividends paid and proposed

	2018 £m	2017 £m
Declared and paid during the year		
Ordinary final dividend for 2017 paid of 9.25p per share (2016: 8.41p)	**47.3**	42.9
Ordinary interim dividend for 2018 of 4.69p per share (2017: 4.26p)	**23.5**	21.8
	70.8	64.7
Proposed for approval (not recognised as a liability at 31 December)		
Ordinary final dividend for 2018 of 10.17p per share (2017: 9.25p per share)	**51.9**	47.3

8. Earnings per share

	2018	2017
Basic earnings per share	**26.6p**	25.7p
Normalised basic earnings per share	**32.9p**	29.1p
Basic earnings per share from continuing operations	**26.6p**	24.5p
Diluted earnings per share	**26.5p**	25.5p
Normalised diluted earnings per share	**32.8p**	29.0p
Diluted earnings per share from continuing operations	**26.5p**	24.4p

Basic EPS is calculated by dividing the earnings attributable to equity shareholders of £135.7m (2017: £131.0m) by the weighted average number of ordinary shares in issue during the year, excluding those held by the Group's Employee Benefit Trust which are treated as cancelled.

Basic EPS for continuing operations is calculated by dividing the earnings from the continuing Group attributable to equity shareholders of £135.7m (2017: £125.1m). Basic and diluted EPS in the year for discontinued operations was nil (2017: 1.2p) and nil (2017: 1.1p) respectively.

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

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

	2018	2017
Basic weighted average shares	**510,682,902**	510,407,865
Adjustment for dilutive potential ordinary shares	**2,197,926**	2,336,951
Diluted weighted average shares	**512,880,828**	512,744,816

The normalised basic and normalised diluted earnings per share have been calculated in addition to the basic and diluted earnings per share required by IAS 33 since, in the opinion of the Directors, they reflect the underlying performance of the business' operations more appropriately.

The reconciliation of the earnings and earnings per share to their normalised equivalent is as follows:

			2018			2017
	£m	**Basic EPS p**	**Diluted EPS p**	£m	Basic EPS p	Diluted EPS p
Profit attributable to equity shareholders	**135.7**	**26.6**	**26.5**	131.0	25.7	25.5
Intangible amortisation for acquired businesses	**42.3**	**8.3**	**8.2**	38.0	7.4	7.4
UK restructuring costs	**–**	**–**	**–**	5.6	1.1	1.1
Separately disclosed tax	**(10.0)**	**(2.0)**	**(1.9)**	(20.0)	(3.9)	(3.9)
Profit for the year from discontinued operations	**–**	**–**	**–**	(5.9)	(1.2)	(1.1)
Normalised profit attributable to equity shareholders	**168.0**	**32.9**	**32.8**	148.7	29.1	29.0

9. Business combinations

(a) Acquisitions – North America

During the year, the North America division acquired 100% control of seven businesses in the US, none of which are individually material:

- Quality Bus Service LLC – school bus and charter bus services in Sparrowbush, NY
- Aristocrat Limousine & Bus Company – charter bus services in Parsippany, NJ
- A&S Transportation Inc – school bus transportation services in Naples, FL
- A1A Transportation Inc – school bus transportation services in Davie, FL
- Wise Coaches, Inc. – motor coach and charter bus services in Nashville, TN
- Kiessling Transit, Inc. – paratransit bus services in Norfolk, MA
- Wehrle Bus Service – school bus transportation services in Cliffwood, NJ

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

	£m
Intangible assets	21.9
Property, plant and equipment	8.1
Trade and other receivables	6.3
Cash overdraft	(2.4)
Trade and other payables	(22.7)
Provisions	(17.4)
Deferred tax assets	8.9
Net assets acquired	2.7
Goodwill	74.7
Total consideration	77.4
Represented by:	
Cash consideration	56.6
Overdraft acquired in the businesses	(2.4)
Deferred consideration	23.2
	77.4

Given the proximity of acquisitions to the year end, and as permitted by IFRS 3 Business Combinations, the fair value of acquired identifiable assets and liabilities have been presented on a provisional basis.

Trade and other receivables had a gross contractual value of £6.9m and fair value of £6.3m. At the acquisition date, the best estimate of the contractual cash flows not to be collected was £0.6m.

Goodwill of £74.7m arising from the acquisitions consists of certain intangible benefits that cannot be separately identified and measured due to their nature. This includes control over the acquired businesses and increased scale in our North American operations, along with synergy benefits expected to be achieved. The amount of goodwill that is expected to be deductible for income tax purposes is £19.7m.

Included in the deferred consideration shown above is contingent consideration of £16.8m relating to seven acquisitions. For these acquisitions, the Group is required to pay an indemnity contingent on the performance of sellers' indemnification obligations or other post-closing obligations under the acquisition agreements. The payments are dependent on meeting the respective conditions, with a minimum expected undiscounted payment of £nil and maximum expected undiscounted payment of £16.8m. Based on projections, the Group expects the maximum amount to be paid. The amount recognised is undiscounted as the effect of discounting is not material.

The acquired businesses contributed £35.5m of revenue and £9.6m to the Group's profit for the periods between the dates of control and the Balance Sheet date. Had the acquisitions been completed on the first day of the financial year, the Group's continuing revenue for the year would have been £2,476.5m and the Group's continuing operating profit would have been £216.0m.

(b) Acquisitions – ALSA

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

- Argabus SA (100%) – commuter urban and charter bus services in Madrid area, Spain
- BC Tours (75%) – tourist charter, other transportation services and coastal trade in Palma de Mallorca, Spain
- Autos Cal Pita SA (97%) – regional and charter bus services in Galicia, Spain

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

	£m
Intangible assets	33.9
Property, plant and equipment	13.0
Trade and other receivables	4.3
Cash and cash equivalents	23.6
Debt and debt equivalents	(1.8)
Trade and other payables	(11.9)
Deferred tax liabilities	(8.6)
Minority Interests	(2.1)
Net assets acquired	50.4
Goodwill	19.9
Total consideration	70.3
Represented by:	
Cash consideration	44.1
Payments for cash acquired in the businesses	23.6
Deferred consideration	2.6
	70.3

Trade and other receivables had a fair value and a gross contractual value of £4.3m. The best estimate at acquisition date of the contractual cash flows not to be collected was £nil.

Goodwill of £19.9m arising from the acquisitions consists of certain intangible benefits that cannot be separately identified and measured due to their nature. This includes control over the acquired businesses and increased scale in our operations in Spain, along with synergy benefits expected to be achieved. None of the goodwill recognised is expected to be deductible for income tax purposes.

Included in the consideration shown above is contingent consideration of £2.6m relating to Autos Cal Pita SA. The Group is required to pay consideration on renewal of contracts on a one year to two year basis. The payment is dependent on meeting the respective conditions, with a minimum expected undiscounted payment of £nil and maximum expected undiscounted payment of £2.6m. Based on projections, the Group expects the maximum amount to be paid. The amount recognised is undiscounted as the effect of discounting is not material.

The acquired businesses contributed £34.2m of revenue and £6.5m to the Group’s profit for the periods between the dates of acquisition and the Balance Sheet date. Had the acquisitions been completed on the first day of the financial year, the Group’s continuing revenue for the year would have been £2,461.9m and the Group’s continuing operating profit would have been £216.1m.

(c) Acquisitions – UK

During the year the UK division acquired 100% control of Stewarts Coach Group Limited.

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

	£m
Goodwill	0.2
Property, plant and equipment	6.0
Trade and other receivables	1.9
Cash and cash equivalents	1.5
Debt and debt equivalents	(6.6)
Trade and other payables	(2.6)
Provisions	(1.3)
Deferred tax liabilities	(0.6)
Net assets acquired	(1.5)
Goodwill	10.7
Total consideration	9.2
Represented by:	
Cash consideration	6.7
Payments for cash acquired in the businesses	1.5
Deferred consideration	1.0
	9.2

Trade and other receivables had a fair value and a gross contractual value of £1.9m. The best estimate at acquisition date of the contractual cash flows not to be collected was £nil.

Goodwill of £10.7m arising from the acquisitions consists of certain intangible benefits that cannot be separately identified and measured due to their nature. This includes control over the acquired business and synergy benefits expected to be achieved. None of the goodwill recognised is expected to be deductible for income tax purposes.

Included in the consideration shown above is contingent consideration of £1.0m. The Group is required to pay consideration contingent on pre-determined revenue and EBIT thresholds being met for the period to 31 March 2019. The payment is dependent on meeting the respective conditions, with a minimum expected undiscounted payment of £nil and maximum expected undiscounted payment of £1.0m. Based on projections, the Group expects the maximum amount to be paid. The amount recognised is undiscounted as the effect of discounting is not material.

The acquired businesses contributed £4.0m of revenue and £1.1m to the Group's profit for the periods between the dates of acquisition and the Balance Sheet date. Had the acquisitions been completed on the first day of the financial year, the Group's continuing revenue for the year would have been £2,455.1m and the Group's continuing operating profit would have been £215.2m.

(d) Acquisitions – further information

Deferred consideration of £38.3m was paid in the year relating to acquisitions in North America in earlier years. Total cash outflow in the year from acquisitions in the North America division was therefore £94.9m, comprising consideration for current year acquisitions of £54.2m and deferred consideration of £38.3m, plus overdraft acquired in the businesses of £2.4m.

In addition for North America, during the year there was a reduction to the provisional fair values of businesses acquired in the prior year of £12.5m, with a resultant increase in goodwill.

Deferred consideration of £0.2m was paid in the year relating to acquisitions in the ALSA division in earlier years. Total cash outflow in the year from acquisitions in the ALSA division was therefore £44.3m, comprising consideration of £67.7m and deferred consideration of £0.2m, less cash acquired in the businesses of £23.6m.

Total cash outflow in the year from acquisitions in the UK division was £6.7m, comprising consideration of £8.2m, less cash acquired in the businesses of £1.5m.

Total acquisition transaction costs of £2.2m were incurred in the year to 31 December 2018.

(e) Disposals
On 10 February 2017, the Group disposed of the National Express Essex Thameside ‘c2c’ franchise to Trenitalia. The consideration received was £71.8m. Cash in the business on disposal was £14.9m and cash outflows relating to costs of disposal were £14.1m, therefore the net cash inflow in the prior year from the disposal was £42.8m.

Further details of this disposal are disclosed in note 6.

10 Pensions and other post-employment benefits
(a) Summary of pension benefits and assumptions
The UK division (‘UK’) and National Express Group PLC (the ‘Company’) both operate defined benefit pension schemes.

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

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

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

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

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

The Group expects to contribute £7.8m into its defined benefit pension plans in 2019.

The total pension cost charged to operating profit in the year for the Group was £10.3m (2017: £8.7m), of which £4.9m (2017: £3.9m) relates to the defined contribution schemes.

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

	2018 £m	2017 £m
Company	**14.9**	43.2
Pension assets	**14.9**	43.2
UK	**(127.3)**	(133.8)
Other	**(4.4)**	(3.9)
Pension liabilities	**(131.7)**	(137.7)
Total	**(116.8)**	(94.5)

11. Cash flow statement

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

Total operations	**2018 £m**	2017 £m
Net cash inflow from operating activities		
Profit before tax from continuing operations	**177.7**	156.4
Loss before tax from discontinued operations (note 6)	**(1.7)**	(1.5)
Total profit before tax	**176.0**	154.9
Net finance costs	**38.6**	38.0
Share of results from associates and joint ventures	**(0.9)**	3.5
Depreciation of property, plant and equipment	**133.8**	135.6
Intangible asset amortisation	**47.0**	41.6
Amortisation of fixed asset grants	**(0.5)**	(1.0)
Gain on disposal of property, plant and equipment	**(8.4)**	(5.4)
Gain on disposal of intangible assets	**(8.3)**	–
Share-based payments	**6.4**	5.3
Increase in inventories	**(1.4)**	(0.5)
Increase in receivables	**(57.7)**	(52.7)
Increase in payables	**86.3**	62.5
Decrease in provisions	**(49.7)**	(22.8)
Cash generated from operations	**361.2**	359.0

(b) Analysis of changes in net debt

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

* Excludes accrued interest on long-term borrowings

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

Borrowings include non-current interest-bearing borrowings of £1,029.3m (2017: £1,058.0m).

Other non-cash movements in net debt include finance lease additions of £5.4m (2017: £60.4m) and a £0.3m net reduction from the amortisation of loan and bond arrangement fees (2017: £1.2m). A £3.7m decrease to the fair value of the hedging derivatives is offset by opposite movements in the fair value of the related hedged borrowings. This comprises a £3.0m fair value increase in bonds and a £0.7m fair value increase in other debt payable.

11. Cash flow statement continued

	At 1 January 2017 £m	Cash flow £m	Acquisitions £m	Exchange differences £m	Other movements £m	At 31 December 2017 £m
Components of financing activities:						
Bank and other loans	(13.3)	(98.7)	(3.7)	0.8	(0.7)	(115.6)
Bonds	(983.2)	126.8	–	1.9	2.6	(851.9)
Fair value of interest rate derivatives	14.4	–	–	–	(4.1)	10.3
Fair value of foreign exchange swaps	(3.9)	(5.7)	–	11.1	–	1.5
Cross currency swaps	11.1	–	–	(10.1)	–	1.0
Finance lease obligations	(159.5)	34.4	(0.6)	13.0	(60.4)	(173.1)
Other debt payable	(72.4)	0.5	–	(2.8)	1.1	(73.6)
Total components of financing activities	(1,206.8)	57.3	(4.3)	13.9	(61.5)	(1,201.4)
Cash	72.3	38.7	(9.1)	(1.2)	–	100.7
Overnight deposits	3.5	1.4	–	–	–	4.9
Other short-term deposits	248.6	(39.9)	–	–	–	208.7
Cash and cash equivalents	324.4	0.2	(9.1)	(1.2)	–	314.3
Other debt receivables	0.5	0.2	–	–	–	0.7
Fair value of foreign exchange swaps	3.9	5.7	–	(11.1)	–	(1.5)
Net debt*	(878.0)	63.4	(13.4)	1.6	(61.5)	(887.9)

* Excludes accrued interest on long-term borrowings.

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

	2018 £m	2017 £m
Decrease in cash and cash equivalents in the year	**(198.5)**	(8.9)
Cash inflow from movement in other debt receivables	**1.4**	0.2
Cash inflow from movement in debt and finance leases	**142.1**	58.7
Change in net debt resulting from cash flows	**(55.0)**	50.0
Change in net debt resulting from non-cash movements	**(8.6)**	(59.9)
Movement in net debt in the year	**(63.6)**	(9.9)
Opening net debt	**(887.9)**	(878.0)
Net debt	**(951.5)**	(887.9)

13. Post Balance Sheet events

In January 2019, the Group entered into a £500 million bridging-to-bond facility in anticipation of the refinancing of the Group's €250 million floating rate note maturing in May 2020 and £225 million bond maturing in June 2020. The facility is for an initial period of 18 months and includes committed options to extend the maturity date until January 2022.

14. Financial information

The financial information set out above does not constitute the Group's statutory financial statements for the years ended 31 December 2018 or 2017, but is derived from those financial statements. Statutory financial statements for 2017 have been delivered to the Registrar of Companies and those for 2018 will be delivered following the Company's annual general meeting. The auditors have reported on those financial statements; their reports were unqualified, did not draw attention to any matters by way of emphasis without qualifying their report and did not contain statements under s498(2) or (3) Companies Act 2006.

The Annual Report will be posted to shareholders on 29 March 2019 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.