

Company number: 00232767

National Express Limited
Annual Report and Financial Statements
For the year ended 31 December 2017

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National Express Limited
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For the year ended 31 December 2017

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National Express Limited

Strategic Report

The Directors' present the Strategic Report for the year ended 31 December 2017. The Directors in preparing the Strategic Report, have complied with Section 414c of the Companies Act 2006.

Principal activities

The Company administers and markets a national integrated network of scheduled express coach services throughout the United Kingdom.

The Company's website, www.nationalexpress.com, provides information on timetables, fares and further information on the business.

Review of business and outlook

National Express Limited continues to focus on providing frequent coach services at competitive prices. 2017 was impacted by the terrorist events in March, May and June where demand dropped most severely on routes to London, however by flexing prices in response to market conditions we returned to growth, with an improved passenger volume growth on the core network of 0.9%. This has been supported by increasing our sales distribution through the development of existing partnerships, dynamic and real time pricing through the revenue management system (RMS) and investment in our customer facing digital proposition.

Results and dividends

Turnover decreased in the year by 0.7% to £254.4 million compared to £256.2 million in 2016, reflecting the sale of Hotel Hoppa, part of the non-core business, in November 2017. Core passenger journey growth was 0.9% with 19.63 million passengers been carried on the white coach network (2016: 19.46 million).

Operating costs increased in the year by 0.04% to £239.2 million compared to £239.1 million in 2016. Mileage decreased in the year by 3.3% to 72.9 million miles compared to 75.4 million miles in 2016 as the business focused on the efficiency of its operation.

During the year, the Company concluded an asset sale and leaseback transaction, monetising the value in our Heathrow coach depot and recording a profit of £2.5m.

The profit for the year after taxation amounted to £15.9 million (2016: £15.8 million).

Net assets increased to £69.8 million (2016: £35.3 million), reflecting the investment of £37.2m in National Express Holding GmbH.

The Company has paid an interim dividend in the year £20,000,000 (2016: £nil). The directors do not propose the payment of a final dividend (2016: £nil).

National Express Limited

Strategic Report (continued)

Future developments

The Directors' focus is volume and revenue growth whilst ensuring cost control is maintained.

Key risks and uncertainties

The Company is subject to internal and external risk factors. External risks include general economic conditions, Brexit, fuel costs and regulatory changes. Internal risks include failure of internal controls, regulatory compliance and employee disputes.

Economic conditions – Revenue for National Express Limited may be affected by lower passenger demand. This can be managed through proactive cost control, revenue management systems and the careful economic modelling of new and existing contracts.

Fuel costs – Fuel costs constitute a high proportion of the costs of National Express Limited and consequentially, to the extent that price increases cannot be passed on to the customers, increases in fuel costs will affect profitability, in order to mitigate this financial volatility we hedge our fuel.

The Directors evaluate the above risks and the results are discussed at management level prior to being presented to the Board.

Further discussion of these risks and uncertainties, in the context of the Group as a whole, is provided in the Business Review of the National Express Group PLC 2017 Annual Report and Consolidated Financial Statements.

Approved and authorised for issue by the board of directors



Tom Stables
Director
27 September 2018

Registered Office:
National Express House
Birmingham Coach Station
Mill Lane
Digbeth
Birmingham
England
B5 6DD

National Express Limited

Directors' Report

The Directors present the Annual Report and audited financial statements for the year ended 31 December 2017.

Principal activities and future developments

The principal activities, results and dividends, and future developments of the Company are described in the Strategic Report.

Going concern

The financial statements have been prepared on a going concern basis.

Health and Safety

The Company has continued to demonstrate continuous improvement in 2017 making good progress in improving safety through strong leadership commitment, evidence of continuous improvement and industry leading best practice. To underpin the success the Company has gained external recognition through the verification of its safety management system and associated arrangements to an internationally recognised standard through the British Safety Council.

The 'Driving Out Harm' safety management systems are externally verified annually and have been recognised during 2017 in the following areas:

- Attained re-certification to BS OHSAS18001 internationally recognised safety standard until 2020
- British Safety Council 5 Star recognition for excellence in safety management systems for 4th consecutive year with an audit score of 96.14%
- British Safety Council 'Sword of Honour' Winner – 3rd consecutive year; and
- ROSPA Gold Award for Excellence in Safety – 3rd consecutive year

To benchmark the Company's achievements its British Safety Council audit score of 96.14% was audited against a new and improved specification, and we were successful in achieving the British Safety Councils 'Sword of Honour' for the 3rd consecutive year, demonstrating a proven track record of excellence in managing risks to workers' health and safety from the organisations activities.

An excellent achievement which recognises the 'best of the best' in health and safety management and having attained our 5 Star status in October 2017 for the fourth consecutive year, we are eligible to apply for the 2018 Sword of Honour Award.

National Express Limited

Directors' Report (continued)

Environment

The Company has been profiled to establish environmental risk, legal obligations, impacting activities, measurement and monitoring opportunities and tenancy arrangements to determine overall environmental impact for each site.

During 2017 environmental assessments have been conducted for the Company's owned operational sites. These assessments are designed to benchmark each sites state of readiness prior to 3rd party assessment.

Synergies have been established within the current health and safety management system to embed environmental management.

The setting of individual site environmental targets has improved performance of our key performance indicators, which relate to our significant environmental impacts i.e. energy, incidents, fuel and emissions. All vehicles are a minimum Euro V, with 47.2% being Euro VI.

Operational review

During 2017 National Express Limited have invested in our customer facing digital proposition and digital revenue has increased by 3% over 2016:

- new App was launched and is now rated 4.5 stars (2.5 in 2016)
- new website booking engine has driven conversion up 1.5% to 18.5%. Clicks to purchase now only 11 (down from 18); and
- ticketing systems refreshed with new ticketing machines both in stations and on-board vehicles

The Company invested in new routes: Luton Airport to Paddington and South Coast to Scotland, increased its frequency on Gatwick-London and provided more links from Heathrow to Birmingham and Manchester Airports.

Following the continued success of Christmas Day services additional services have been launched enhancing the customer offer and delivering additional revenue growth.

The Company invested in the next generation of coach product as it launched the double decker and the Levante 3, with seat reservation successfully trialled on 11 routes.

Punctuality improved to 89.1% (+2.2%) and this resulted in overall customer satisfaction at 86% (+3%). Key measures of satisfaction: +3% Punctuality, +2% for Driver, +2% for Coach Environment.

National Express Limited have also focused on building their contract capabilities, increasing airport work at Stansted and increase in the number of festivals.

National Express Limited

Directors' Report (continued)

Employees

The Company is a non-discriminatory employer operating an Equal Opportunities Policy which aims to eliminate unfair discrimination, harassment, and victimisation and bullying. The Company is committed to ensuring that all individuals are treated fairly, with respect and are valued irrespective of disability, race, gender, health, social class, sexual preference, marital status, nationality, religion, employment status, age, beliefs or membership or non-membership of a trade union.

The Company's policy is to continue to employ those who become disabled in service and recruitment policies ensure that disabled persons are considered fairly for positions within the Company. Training is adjusted to cater for an individual disability and disabled employees share the same conditions of service as other staff in relation to career development and promotion.

The Company uses consultative procedures agreed with its staff and elected representatives with a view to ensuring that employees are aware of the financial and economic factors which affect the Company's performance and prospects. In addition the Company issues a periodic briefing to all employees informing them of developments within the Company, whilst the National Express Group's magazine keeps employees in touch with the world wide activities of the Group. The Company maintains a companywide intranet service.

The Company has a personal development review process (PDR) where each employee has 1-2-1 meetings with their manager where their personal development is discussed and employees can raise any concerns they have.

The Company participates in the Group wide annual Employee Survey to monitor employee satisfaction. Results are followed through using employee focus groups to understand the key issues raised in the survey. Each business area has an engagement champion who partners line managers to make improvements to positively influence the survey results in future and to address issues identified from the focus groups. The engagement champions attend engagement events held on a quarterly basis to share best practice and lessons learned from each business area.

The Company has introduced a mediation scheme as an additional way for employees to resolve issues in an adult to adult manner before either party feels the need to invoke the formal grievance process. Mediation gives both parties to a dispute the chance to meet in a confidential environment to find a future focussed mutually agreeable solution. This has a more positive effect on ongoing relationships and gets rid of the win/lose outcomes associated with the grievance process as employees determine the outcome.

National Express Limited

Directors' Report (continued)

Directors

The Directors of the Company who served during the year and up to the date of signing were those listed below.

T F Stables

K Gale

E H Lunt (resigned 9 March 2018)

C Hardy (appointed 12 January 2017)

E M Rickard (appointed 12 January 2017)

Directors' indemnity

Under the Company's Articles of Association the Company provides an indemnity for its Directors and officers in accordance with the provisions of the Companies Act 2006.

Auditor

Deloitte LLP have indicated their willingness to be re-appointed for another term. Appropriate arrangements have been put in place for them to be re-appointed as auditor in the absence of an Annual General Meeting.

Directors' statement as to disclosure of information to the auditor

The Directors who held office at the date of approval of the Directors Report confirm that:

- to the best of the Directors knowledge there is no information relevant to the preparation of their audit report to which the Company's auditor is unaware; and
- the Directors have taken all steps that a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditor is aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Approved and authorised for issue by the board of directors



Tom Stables

Director

27 September 2018

Registered Office:

National Express House

Birmingham Coach Station

Mill Lane

Birmingham, B5 6DD

National Express Limited

Directors' Responsibilities Statement

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework". Under company law the Directors' must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditor's Report to the Members of National Express Limited

Opinion

In our opinion the financial statements of National Express Limited (the 'company'):

- give a true and fair view of the state of the Company's affairs as of 31 December 2017 and of its loss for the year ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006

We have audited the financial statements which comprise:

- the profit and loss account;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 26

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis of Opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of a least twelve months from the date when the financial statements are authorised for issue

We have nothing to report in respect of these matters.

Independent Auditor's Report to the Members of National Express Limited (continued)

Other information

The directors are responsible for the other information. The other information comprises the information included in the strategic report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Independent Auditor's Report to the Members of National Express Limited (continued)

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Peter Gallimore FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Birmingham, United Kingdom
27 September 2018

National Express Limited
Profit and Loss Account
For the year ended 31 December 2017

	Note	2017 £'000	2016 £'000
Turnover	3	254,420	256,200
Other operating income	4	282	302
		<u>254,702</u>	<u>256,502</u>
Operating costs	5	(239,234)	(239,120)
Operating profit	5	<u>15,468</u>	<u>17,382</u>
Interest receivable	8	153	78
Profit before tax		<u>15,621</u>	<u>17,460</u>
Taxation	9	280	(1,695)
Profit after tax		<u>15,901</u>	<u>15,765</u>

All activities relate to continuing operations.

National Express Limited
Statement of Comprehensive Income
For the year ended 31 December 2017

	2017 £'000	2016 £'000
Profit for the financial year	15,901	15,765
(Loss)/Gain on cash flow hedges (note 22)	(890)	11,282
Deferred tax on cash flow hedges (note 14)	146	(1,847)
Total comprehensive income relating to the financial year	15,157	25,200

National Express Limited

Balance Sheet

As at 31 December 2017

	Note	2017 £'000	2016 £'000
Fixed assets			
Intangible assets	11	14,102	7,340
Tangible assets	12	10,661	21,042
Investments	13	37,392	210
Deferred taxation	14	1,697	820
		<u>63,852</u>	<u>29,412</u>
Current assets			
Stocks	15	547	570
Debtors	16		
- due within one year		22,126	16,875
- due after one year		784	1,459
Derivative financial instruments	18	361	-
Cash at bank and in hand		37,008	29,481
		<u>60,826</u>	<u>48,385</u>
Creditors: amounts falling due within one year	17	(50,038)	(40,961)
Net current assets		<u>10,788</u>	<u>7,424</u>
Total assets less current liabilities		<u>74,640</u>	<u>36,836</u>
Derivative financial instruments	18	-	(529)
Provisions for liabilities	19		
- due within one year		(2,197)	(973)
- due after one year		(2,675)	-
Net assets		<u>69,768</u>	<u>35,334</u>
Capital and reserves			
Called up share capital	20	2,386	2,386
Share premium	21	37,181	-
Capital reserve		(4,446)	(4,446)
Hedging reserve	22	300	(444)
Profit and loss account		34,347	37,838
Shareholders' funds		<u>69,768</u>	<u>35,334</u>

The financial statements of National Express Limited, were approved and authorised for issue by the Board of Directors' on 27 September 2018 and were signed on its behalf by:

Tom Stables
Director



National Express Limited
Statement of Changes in Equity
For the year ended 31 December 2017

	Share Capital	Share Premium	Capital Reserve	Hedging Reserve	Profit & Loss Account	Total
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2016	2,386	-	(4,446)	(9,879)	21,465	9,526
Hedge movements (net of deferred tax)	-	-	-	9,435	-	9,435
Share based payments (note 6)	-	-	-	-	608	608
Dividend paid (note 10)	-	-	-	-	-	-
Profit for the year			-	-	15,765	15,765
At 31 December 2016	2,386	-	(4,446)	(444)	37,838	35,334

	Share Capital	Share Premium	Capital Reserve	Hedging Reserve	Profit & Loss Account	Total
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2017	2,386	-	(4,446)	(444)	37,838	35,334
Hedge movements (net of deferred tax)	-	-	-	744	-	744
Issued shares (note 21)	-	37,181	-	-	-	37,181
Share based payments (note 6)	-	-	-	-	608	608
Dividend paid (note 10)	-	-	-	-	(20,000)	(20,000)
Profit for the year	-	-	-	-	15,901	15,901
At 31 December 2017	2,386	37,181	(4,446)	300	34,347	69,768

National Express Limited

Notes to the Financial Statements

For the year ended 31 December 2017

1. General information

National Express Limited is a private company limited by shares incorporated in the United Kingdom and registered England and Wales under the Companies Act.

The financial information is presented in pounds sterling because that is the currency of the primary economic environment in which the Company operates.

This financial information comprises separate financial statements. The Company is exempt from the preparation of consolidated financial statements, because it is included in the group financial statements of National Express Group PLC. The group financial statements of that company are available to the public and can be obtained as set out in note 26.

2. Significant accounting policies

Basis of accounting

The Company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council. These financial statements were prepared in accordance with FRS 101 (Financial Reporting Standard 101) 'Reduced Disclosure Framework' as issued by the Financial Reporting Council.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to business combinations, share-based payment, non-current assets held for sale, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash-flow statement, standards not yet effective, impairment of assets and related party transactions. Where required, equivalent disclosures are given in the group financial statements of National Express Group PLC. The group financial statements of National Express Group PLC are available to the public and can be obtained as set out in note 26.

The financial statements are prepared under the historical cost convention and are prepared in accordance with applicable United Kingdom standards. The accounting policies have been applied consistently in the current and prior periods. Derivatives are accounted for at fair value.

Adoption of new and revised Standards

Amendments to IFRSs and the new Interpretation that are mandatorily effective for the current year In the current year, the Company has applied a number of amendments to IFRSs and a new Interpretation issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that

National Express Limited

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

2. Significant accounting policies (continued)

Adoption of new and revised Standards (continued)

begins on or after 1 January 2017. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Going concern

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future being at least twelve months from the date of signing the financial information. Accordingly, the financial information has been prepared on a going concern basis.

Significant accounting adjustments and key sources of estimation uncertainty

The preparation of financial statements in conformity with generally accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Although these estimates are based on management's best knowledge, actual results may ultimately differ from those estimates.

The key accounting estimates and judgements are:

Pensions and other post-retirement benefits

Determining the amount of the Company's retirement benefit obligations and the net costs of providing such benefits requires assumptions to be made concerning long-term interest rates, inflation, salary and pension increases, investment returns and longevity of current and future pensioners. Changes in these assumptions could significantly impact the amount of the obligations or the cost of providing such benefits. The Company makes assumptions concerning these matters with the assistance of advice from independent qualified actuaries. Details of the assumptions made are set out in note 23.

Insurance

The estimation of the insurance provisions is based on an assessment of the expected settlement on known claims together with an estimate of settlements that will be made in respect of incidents occurring prior to the Balance Sheet date but for which claims have not been reported. The Company makes assumptions concerning these judgemental matters with the assistance of advice from independent qualified actuaries

National Express Limited

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

2. Significant accounting policies (continued)

Share based payments

The company issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant by an external valuer using a stochastic model. Non-market-based performance-related vesting conditions are not taken into account when estimating the fair value; instead those non-market conditions are taken into account in calculating the current best estimate of the number of shares that will eventually vest and at each balance sheet date before vesting. The cumulative expense is calculated based on that estimate.

Market-based performance conditions are taken into account when determining the fair value and at each balance sheet date before vesting, the cumulative expense is calculated irrespective of whether or not the market conditions are satisfied, provided that all other performance conditions are met. For non-market based performance conditions at each balance sheet date before vesting, the cumulative expense is calculated based on the company's estimate of the number of shares that will eventually vest, and the movement in cumulative expense since the previous balance sheet date is recognised in the profit and loss account, with a corresponding entry in equity.

Turnover

Revenue is recognised by reference to the stage of completion of the customer's travel or service provided under contractual arrangements as a proportion of the total services to be provided.

Insurance

The Company's policy is to self-insure high frequency claims within the business. To provide protection above these types of losses, the Company purchases insurance cover from a selection of proven and financially strong insurers. These insurance policies provide individual claim cover subject to excess limits and aggregate stop losses for total claims within the excess limits. A provision is made on a discounted basis for the estimated cost to the Company to settle claims for incidents occurring prior to the Balance Sheet date, subject to the overall stop loss.

Intangible assets and amortisation

Intangible assets are amortised at rates calculated to write off the assets on a straight-basis over 7-10 years. Impairment of intangible assets is only reviewed where circumstances indicate that the carrying value of an asset may not be fully recoverable.

National Express Limited

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

2. Significant accounting policies (continued)

Investments

Investments in subsidiaries are stated at cost less provision for any impairment in carrying value.

Property, plant and equipment

Tangible fixed assets are stated at original cost or subsequent valuation, less accumulated depreciation and any provision for impairment.

Freehold land is not depreciated. Other tangible fixed assets are depreciated on a straight-line basis over their estimated useful lives as follows:

Freehold buildings	50 years
Leasehold property	over the lesser of the period of the lease or 50 years
Plant and equipment	3 – 10 years
Public service vehicles	7 – 10 years

The carrying values of property, plant and equipment are reviewed for impairment at each balance sheet date or if events or changes in circumstances indicate the carrying value may not be recoverable.

Taxation

The charge for taxation is based on the profit for the year and takes into consideration timing differences arising as a result of different treatments of certain items for taxation and accounting purposes.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the balance sheet and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

National Express Limited

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

2. Significant accounting policies (continued)

Taxation (continued)

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Lease commitments

Rentals paid under operating leases are charged to the Profit and Loss Account on a straight-line basis over the term of the lease.

Stock

Stocks are valued at the lower of cost and net realisable value after making due allowances for obsolete and slow moving stock.

Pension costs

The Company is part of a multi-employer defined benefit pension scheme that also incorporates other companies within the National Express Group. As the majority of the staff in the scheme are Group staff, the Company is unable to identify its share of the underlying assets and liabilities, therefore it treats the scheme as if it were a defined contribution scheme and recognises charges as and when contributions are due to the scheme.

Goodwill impairment

Determining whether goodwill is impaired requires an estimate of the value in use of the cash-generating unit to which goodwill has been allocated. The value in use calculation requires the Company to estimate the future cash flows expected to arise from its

National Express Limited
Notes to the Financial Statements (continued)
For the year ended 31 December 2017

2. Significant accounting policies (continued)

Goodwill impairment (continued)

cash-generating unit and a suitable discount rate in order to calculate present value. Details of the assumptions used and key sensitivities are set out in note 11 to these financial statements.

Financial Instruments

The Company determines the classification of its financial instruments at initial recognition. The Company classifies its financial assets in the following categories: at fair value through profit and loss, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired.

Financial assets at fair value through profit and loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

Financial assets at fair value through profit and loss are initially recognised at fair value, and transaction costs are expensed in the Income Statement. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit and loss' category are presented in the Income Statement within finance costs in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the Balance Sheet date which are classified as non-current assets.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in the category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the Balance Sheet date.

National Express Limited

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

2. Significant accounting policies (continued)

Impairment of non-financial assets

All non-current assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, except for indefinite life intangible assets and goodwill which are reviewed annually. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount which is higher of an asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which they have separately identifiable cash inflows.

In assessing value in use, the estimated risk adjusted future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money. Impairment losses are recognised in the Income Statement in expense categories consistent with the function of the impaired asset.

Except for goodwill impairments, a review is made at each reporting date of any previous impairment losses to assess whether they no longer exist or may have decreased. If such indication exists, the asset's recoverable amount is estimated and any previously recognised impairment loss is reversed only if there has been a change in the estimates used to assess the recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased, subject to a limit of the asset's net book value had no previous impairment loss been recognised. Such reversal is recognised in the Income Statement. Future depreciation or amortisation is then adjusted to allocate the asset's revised carrying amount over its remaining useful economic life. Impairment to goodwill cannot be reversed.

3. Turnover

The turnover is from the Company's principal activity of road passenger transport and related activities. Revenue, all of which arises in the United Kingdom, is stated net of value added tax where applicable.

4. Other operating income

	2017	2016
	£'000	£'000
Rent receivable	<u>282</u>	<u>302</u>

All other operating income relates to continuing operations

National Express Limited

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

5. Operating profit

Operating profit for the year has been arrived at after charging/(crediting):

	2017	2016
	£'000	£'000
Cost of stock recognised as expense	4,495	3,561
External charges	170,513	170,120
Royalty paid to parent undertaking	12,735	12,827
Audit of the financial statements	42	39
Profit on the disposal of fixed assets	(3,490)	(1,530)
Staff costs (note 6)	42,938	44,402
Depreciation	3,913	2,684
Amortisation	519	423
Operating lease charges		
- plant and equipment	4,832	3,983
- land and buildings	2,297	2,171
Management fee	440	440
	<u>239,234</u>	<u>239,120</u>

6. Staff costs

(a) Staff costs including Directors costs

	2017	2016
	£'000	£'000
Wages and salaries	38,424	39,970
Social security costs	3,593	3,576
Pension costs	921	856
	<u>42,938</u>	<u>44,402</u>

(b) The average monthly number of employees during the year was as follows:

	2017	2016
Managerial and administrative	193	189
Operational	<u>1,153</u>	<u>1,163</u>
	<u>1,346</u>	<u>1,352</u>

National Express Limited

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

6. Staff costs (continued)

Share based payments

The charge in respect of share-based payment transactions included in the profit and loss account for the year is as follows:

	2017 £'000	2016 £'000
Charge arising from share and share option plans	<u>608</u>	<u>608</u>

During the year ended 31 December 2017, National Express Limited had two share-based payment arrangements: 1) Long Term Incentive Plan (LTIP) and 2) Deferred Annual Share Bonus Plan which are described in notes 7(b) to the National Express Group PLC 2017 Annual Report and Financial statements.

There were no options outstanding at 31 December 2017 (2016: nil) which had exercise prices.

The options have a weighted average contractual life of one year (2016: one year). In 2017, options were exercised regularly throughout the year and the weighted average share price at exercise was 361p (2016: 347p).

7. Directors' emoluments

	2017 £'000	2016 £'000
Directors		
Aggregate emoluments and benefits	2,183	925
Company contributions to money purchase pensions, relating to five directors in the year (2016: four)	60	59
Highest Paid Director		
Aggregate emoluments and benefits	763	498
Pension	9	35

Retirement benefits, in respect of services to the Company, are accruing to nil Directors (2016: nil) under a defined benefit scheme.

The Directors of the Company are also Directors of a number of other companies in the National Express Group. The Directors received total remuneration for the year of £2,243,000 (2016: £984,000) from National Express Limited of which they estimate £786,000 (2016: £12,000) relates to qualifying services to other Group companies.

National Express Limited

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

8. Interest receivable

	2017	2016
	£'000	£'000
Interest receivable	<u>153</u>	<u>78</u>

9. Taxation

(a) Analysis of taxation charge in the year	2017	2016
	£'000	£'000
<i>UK corporation tax:</i>		
UK corporation tax on results for the period	1,365	2,878
Adjustments in respect of prior periods	<u>(768)</u>	<u>(1,681)</u>
Total corporation tax	597	1,197
<i>Deferred tax:</i>		
Effects of changes in tax rate	-	484
Adjustments in respect of prior periods	(842)	67
Origination and reversal of timing differences	<u>(35)</u>	<u>(53)</u>
Total deferred tax (note 14)	(877)	498
Tax on profit	<u>(280)</u>	<u>1,695</u>

(b) Factors affecting the current corporation tax charge in the year

The tax assessed on the profit for the year differs from the standard rate of corporation tax in the UK. The differences are reconciled below:

	2017	2016
	£'000	£'000
Profit before taxation	15,621	17,460
Profit multiplied by standard rate of corporation tax in the UK of 19.25% (2016: 20.00%)	3,007	3,492
Effect of:		
Expenses not deductible for tax purposes	-	128
Capital losses received for nil payment	(1,722)	(173)
Adjustments in respect of prior years - CT	(768)	(1,681)
Adjustments in respect of prior years - DT	(842)	(53)
Effect of change in tax rate in the year	45	(18)
Total tax charge (note 9a)	<u>(280)</u>	<u>1,695</u>

National Express Limited

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

9. Taxation (continued)

Reductions in the future UK corporation tax rates from 20% to 19% and then 18% were substantively enacted in July 2015 and will take effect in April 2017 and April 2020 respectively. The Finance Act 2016 which was substantively enacted on September 2016, included provisions to reduce the corporation tax to 17% from April 2020. Accordingly, deferred tax balances have been revalued to the lower rate of 17% in these accounts. To the extent the deferred tax reverses before 1 April 2020 then the impact on the net deferred tax liability will be reduced.

10. Dividends paid and proposed

	2017 £'000	2016 £'000
Declared and paid during the year:		
Ordinary dividend of £20,000,000 at £8.38 per share (2016: £nil).	20,000	-

11. Intangible assets

	Software £'000	Goodwill £'000	Total £'000
Cost or Valuation:			
At 1 January 2017	3,907	5,071	8,978
Additions	423	-	423
Disposals	-	-	-
Re-classification	12,144	-	12,144
At 31 December 2017	16,474	5,071	21,545
Amortisation:			
At 1 January 2017	1,638	-	1,638
Charge for the year	519	-	519
Disposals	-	-	-
Re-classification	5,286	-	5,286
At 31 December 2017	7,443	-	7,443
Net book value:			
At 31 December 2017	9,031	5,071	14,102
At 31 December 2016	2,269	5,071	7,340

The re-classification of assets between Intangible and Tangible relates to change of accounting treatment of software development costs. There is no impact to the Profit and Loss of this change.

National Express Limited
Notes to the Financial Statements (continued)
For the year ended 31 December 2017

11. Intangible assets (continued)

Goodwill relates to acquisition of National Express Operations Limited and National Express (Stansted) Limited by National Express Limited in 2004. The value in use of the UK Coach division exceeds its carrying amount by £627m. The cash-generating units' carrying value is £8.1 million (2016: £8.1 million). The recoverable amount of indefinite life intangible assets has been determined based on a value in use calculation using cash flow projections based on financial budgets and forecasts approved by National Express PLC covering a five year period. The assumptions including growth rates and operating margins, are based on historical experience and detailed budget plans as well as management's assessment of current market and economic conditions. Growth has then been extrapolated forward from the end of the forecasts.

The calculation of value in use for cash-generation is most sensitive to the assumptions over discount rates and the growth rate used to extrapolate the cash flows beyond the three year period of the management plan.

The key assumptions used for cash-generation are:

- (a) Pre-tax discount rate applied to cash flow projections 7.5% (2016: 8.2%)
- (b) Growth rate used to extrapolate cash flows beyond five years 2.6% (2016: 2.6%)

The Directors consider the assumptions used to be consistent with the historical performance and to be realistically achievable in light of economic and industry measures and forecasts.

National Express Limited

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

12. Tangible fixed assets

	Freehold land and buildings	Short leasehold properties	Public service vehicles	Plant and equipment	Total
	£'000	£'000	£'000	£'000	£'000
Cost or Valuation:					
At 1 January 2017	4,769	13,829	12,389	23,474	54,461
Additions	-	168	90	3,684	3,942
Disposals	(4,267)	(98)	(6,001)	(1,698)	(12,064)
Re-classification	-	-	-	(12,144)	(12,144)
At 31 December 2017	502	13,899	6,478	13,316	34,195
Depreciation:					
At 1 January 2017	1,784	10,823	9,748	11,064	33,419
Charge for the year	161	558	489	2,705	3,913
Disposals	(1,508)	(90)	(5,257)	(1,657)	(8,512)
Re-classification	-	-	-	(5,286)	(5,286)
At 31 December 2017	437	11,291	4,980	6,826	23,534
Net book value:					
At 31 December 2017	65	2,608	1,498	6,490	10,661
At 31 December 2016	2,985	3,006	2,641	12,410	21,042

The Company concluded an asset sale and leaseback at Sipson Road, its Heathrow depot in December 2017.

13. Investments

	2017 £'000
Cost and valuation at 1 st January 2017	210
Investment in National Express Holdings GmbH	37,182
Cost and valuation at 31 st December 2017	37,392

National Express Limited

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

13. Investments (continued)

	Country of incorporation	Principal activity	Class and percentage of share held
<i>Subsidiary undertaking:</i>			
National Express Rail GmbH, 50668 Cologne, Germany	Germany	Trading	100% of ordinary shares
National Express Holding GmbH, 40470 Dusseldorf, Germany	Germany	Holding	100% of ordinary shares
National Express Germany GmbH, 60487 Frankfurt am Main, Germany	Germany	Holding	100% of ordinary shares
National Express Sudwest GmbH, 40470 Dusseldorf, Germany	Germany	Holding	100% of ordinary shares

All the above companies operate principally in their country of incorporation. All holdings are of £1 ordinary shares. The percentage holdings shown above are the interest in the nominal value of the shares held and in all cases the percentage of voting rights held is the same.

14. Deferred taxation

	2017
	£'000
As at 1 January 2017	820
Profit and Loss	181
SOCI	(146)
Adjustments in respect of prior year	842
As at 31 December 2017	<u>1,697</u>

The elements of deferred taxation are as follows:

	2017	2016
	£'000	£'000
Accelerated capital allowances	1,738	703
Other timing differences	(41)	117
Deferred tax	<u>1,697</u>	<u>820</u>

There are no amounts of un-recognised deferred taxation in 2017 (2016: £nil).

National Express Limited

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

15. Stocks

	2017	2016
	£'000	£'000
Raw materials and consumables	400	428
Fuel	147	142
	<u>547</u>	<u>570</u>

If stocks were stated at replacement cost, the amounts above would not change materially.

16. Debtors

	2017	2016
	£'000	£'000
Amounts falling due within one year:		
Trade debtors	9,101	6,155
Amounts due from Group undertakings	1,838	151
Other debtors	1,645	1,889
Accrued income	5,937	5,351
Prepayments	3,605	3,329
	<u>22,126</u>	<u>16,875</u>
Amounts falling due after more than one year:		
Prepayments	65	281
Other debtors	719	1,178
	<u>784</u>	<u>1,459</u>

17. Creditors

	2017	2016
	£'000	£'000
Amounts falling due within one year:		
Trade creditors	22,513	23,216
Amounts due to group undertakings	9,428	3,848
Corporation tax	1,087	156
Other taxes and other social security costs	1,008	1,053
Other creditors	2,249	2,083
Deferred income	5,256	5,885
Accruals	8,497	4,720
	<u>50,038</u>	<u>40,961</u>

National Express Limited

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

18. Derivative financial instruments

The Company has the following derivatives that are designated and effective as hedging instruments carried at fair value:

	2017 £'000	2016 £'000
Cash flow hedges		
Fuel derivative liabilities	(361)	529

The Company is exposed to movements in commodity prices as a result of its fuel usage. It is the policy of the ultimate parent, National Express Group PLC, to hedge this exposure in order to provide a level of certainty as to its cost in the short term and to reduce the year on year impact of price fluctuations over the medium term. This is achieved by entering into fuel derivatives.

The fuel derivative financial instruments are accounted for as cash flow hedges. They are initially recognised at fair value and subsequently re-measured to fair value at each reported Balance Sheet date. The fair value is calculated by reference to fuel prices at the period end.

19. Provisions for liabilities

	Exceptional	Insurance	Total
Amounts falling due within one year:			
	£'000	£'000	£'000
At 1 January 2017	41	932	973
Provided during the year	1,141	1,451	2,592
Released during the year	(41)	(598)	(639)
Utilised during the year	-	(729)	(729)
At 31 December 2017	1,141	1,056	2,197
Amounts falling after within one year:			
	£'000	£'000	£'000
At 1 January 2017	-	-	-
Provided during the year	2,675	-	2,675
At 31 December 2017	2,675	-	2,675

National Express Limited

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

19. Provisions for liabilities (continued)

The insurance claims provision arises from estimated exposures at the year end, the majority of which will be utilised in the next six years and comprises provisions for existing claims arising in the UK only.

The exceptional provision falling due within one year relates to provisions for the closure of the Sipson Road depot. All provisions are planned to be utilised within 12 months.

The exceptional provision falling after one year relates to the onerous lease provision following the closure of the Sipson Road depot of £2,650,000 and dilapidation provision of £25,000 for offices at Dover.

20. Share capital

	2017 £'000	2016 £'000
Authorised		
2,400,000 Ordinary shares of £1 each	<u>2,400</u>	<u>2,400</u>
Allotted, called-up and fully paid		
2,386,242 Ordinary shares of £1 each	<u>2,386</u>	<u>2,386</u>

21. Share premium

	2017 £'000	2016 £'000
Share premium	<u>37,181</u>	<u>-</u>

During the year two ordinary £1 shares were issued for a consideration of £37,181,000.

22. Hedging reserve

The hedging reserve represents the cumulative amount of gains and losses on hedging instruments deemed effective in cash flow hedges. The cumulative deferred gain or loss on the hedging transaction impacts the profit and loss account, or is included as a basis adjustment to the non-financial hedged item, consistent with the applicable accounting policy.

National Express Limited

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

23. Pensions and other post-employment benefits

The Company along with fellow companies within the UK Coach business (UK Coach), is a member of the National Express Group PLC multi-employer funded defined benefit scheme and is unable to identify its share of the underlying assets and liabilities on a consistent and reasonable basis, and therefore has accounted for the scheme as if it were a defined contribution scheme under IAS 19. Contributions to this scheme are determined by independent professionally qualified actuaries. At the latest actuarial valuation of the scheme carried out on 5 April 2016, the Group scheme assets were £114.8 million and percentage of funding was 97%.

National Express Group PLC expects to contribute approximately £10.0m to its pension plans in 2018.

The valuations conducted for financial reporting purposes are based on the triennial actuarial valuations and are presented in the table below.

Date of actuarial valuation	UK Coach 5 April 2016
Actuarial method used	Projected Unit
Rate of investment returns per annum	0%-2.1%
Increase in earnings per annum	-%
Scheme assets taken at market value	£114.8m
Funding level	97%

The most recent triennial valuations are then updated by independently professionally qualified actuaries for financial reporting purposes, in accordance with IAS 19. The main actuarial assumptions underlying the IAS 19 valuations are:

	2017 UK Coach	2016 UK Coach
Rate of increase in salaries	2.5%	2.5%
Rate of increase in pensions	3.2%	3.3%
Discount rate	2.5%	2.7%
Inflation assumption (RPI)	3.2%	3.4%
Inflation assumption (CPI)	2.2%	2.4%
Post-retirement mortality in years:		
Current pensioners at 65- male	23.1	23.0
Current pensioners at 65- female	25.9	25.8
Future pensioners at 65- male	24.8	24.9
Future pensioners at 65- female	27.8	27.5

The table presented below discloses the surplus of the scheme for which UK Coach are a part of however the actual surplus specific to National Express Limited is not identifiable.

National Express Limited

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

23. Pension and other post-employment benefits (continued)

As at 31 December 2017	2017 £m
Equities	-
Bonds	185.3
Property	-
Other	(51.3)
Fair value of scheme assets	134.0
Present value of scheme liabilities	(90.8)
Defined benefit pension surplus	<u>43.2</u>

The UK Coach plan is now closed to all future accrual.

Details of this scheme and the underlying actuarial assumptions thereto can be found in the 2017 Annual Report and Financial Statements note 34 of National Express Group PLC, the ultimate holding Company.

The Company also participates in a defined contribution scheme, the West Midlands Pension Scheme, a non-contracted out money purchase scheme.

The employers pension charge for the year amounted to £921,000 (2016: £856,000), of which £921,000 (2016: £856,000) was in relation to the defined contribution scheme and £nil (2016: £nil) was in relation to the defined benefit scheme. Unpaid contributions at the year-end amounted to £106,000 (2016: £115,000).

24. Operating lease commitments

At the balance sheet date, the Company has entered into operating leases on certain properties, public service vehicles and various items of plant and equipment as follows. The figures represent future minimum rental payments for these commitments:

	Land and buildings		Plant and equipment	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Leases expiring:				
Within one year	2,968	2,544	3,204	3,736
Within two to five years	10,471	8,755	7,357	9,034
After five years	25,072	21,289	-	1,330
	<u>38,511</u>	<u>32,588</u>	<u>10,561</u>	<u>14,100</u>

National Express Limited
Notes to the Financial Statements (continued)
For the year ended 31 December 2017

25. Related party transactions

The Company has taken advantage of the exemption in FRS 101 from disclosing transactions with related parties that are wholly owned subsidiaries of National Express Group PLC

26. Ultimate Holding and Controlling Company

The Company's immediate parent Company is National Express Holdings Limited, a Company registered in England and Wales.

The Company's ultimate parent and controlling Company and the largest and smallest Company in which the Company's results are consolidated is National Express Group PLC, registered in England and Wales. Copies of National Express Group PLC financial statements are available to the public and may be obtained from the registered office:

The Company Secretary
National Express Group PLC
National Express House
Birmingham Coach Station
Mill Lane
Birmingham
B5 6DD