A strategy fit for the future

Dean Finch
Group Chief Executive

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Tragic accident in Chattanooga, Tennessee

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

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

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

Our strategy

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1. Delivering operational excellence

We aim to lead the market in delivering excellence, which will raise standards and also drive revenue growth, margin progression and cash generation.

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2. Deployment of technology

Investing in technology to raise customer and safety standards and drive efficiencies throughout our business, generating sales, margin and cash.

Introduction

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

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

Our strategy therefore remains:

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

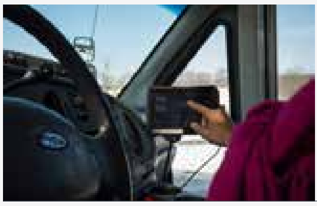
Before expanding on these areas in more detail, I would like to turn to each of our divisions to pick out their highlights and how they are equipped to prosper in the future.

Divisional highlights

North America

North America has had another strong year financially, with revenue growing by 14.3% and profit by 11.9%, both in constant currency. Despite a slight decline caused by the growing transit business, our margins remain industry-leading at 9.6% (2015: 9.8%). Since 2009 North American profits have increased by 188%. This performance reflects our success in tight cost control and organic growth, as well as the benefits of our acquisition strategy. In the last bid season we achieved a price increase of 7.0% on contracts up for renewal, translating into a 3.7% average price increase across the whole portfolio. The early signs this bid season suggest there are similar price increases coming through, which will help offset the continuing pressure on driver wages. We also added more buses, net, through new or expanded existing contracts against those lost through regretted contract exit and enjoyed our best ever school start-up, including proactive driver recruitment in what remains a tight labour market.

Our 2015 acquisitions made returns of around 15-20% in 2016. In 2016, we made a further eight acquisitions and we have a strong pipeline of further opportunities identified. The North America school bus market remains highly fragmented with around 1,000 operators. We are currently the only active major buyer in the market and have built a strong team who have made 20 acquisitions over the last five years, adding $450 million of annual revenue. We believe there continues to be plenty of scope for further expansion through the acquisition of operators near our existing sites where our service excellence and synergies offer the opportunity for significant returns and growth.



Read more p20

3. Growing our business through acquisitions

We continue to look to grow our unique portfolio of international bus, coach and rail businesses through selective bolt-on acquisitions.

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4. Diversification into complementary markets

We continue to look at opportunities to diversify into new markets that are complementary to our existing businesses and are fast growing, urbanising and seeing liberalisation.

Group Chief Executive's review continued

These are good businesses in markets we already know well. Following the successful sale of c2c, the Group now has the opportunity to allocate more capital to our North American acquisition strategy. We will, however, continue to do this in a disciplined manner and seek similar returns to those already achieved.

Spain and Morocco

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

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

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

Our operations team in Khourigba – the newest city in Morocco to be served by ALSA

Rail

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

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

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

UK Coach

UK Coach has again grown in 2016, delivering a revenue increase of 0.6%, profit up over 3% and an industry-leading margin of 11.8% (2015: 11.5%). 2016 saw UK Coach further establish itself as the fair-priced alternative to rail, with high profile successes. We carried around an additional 25,000 customers on affected routes during the strikes on Southern Rail and achieved record-breaking days over the Christmas period where we both carried our highest ever number of passengers in a day and had two days where we took over £1 million in revenue.

Underpinning this success has been National Express Coach's determination to be at the forefront of new technology adoption within the sector. Our recently installed more sophisticated active real-time RMS has, for example, helped us respond quickly and in a more targeted manner to competition. Following a successful first quarter, quarters two and three were much more challenging. Through action taken on targeted routes during the third quarter, we were able to reduce our prices to generate sufficient passenger growth that delivered an overall increase in both revenue and seat utilisation rates by the end of the year. This trend has continued into 2017, with improved seat utilisation rates. This action has helped increase revenue in our core coach business by 1.9% and passenger numbers by around 2% despite the UK Bus and Coach sector experiencing challenging market conditions and provides us with confidence for the future as we compete with both rail and other operators.

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

UK Bus

Across the country the UK Bus industry is experiencing a particularly challenging period. The combination of urban congestion and changing travel patterns is affecting revenue and profit. Across the year the bus division increased commercial revenue by 2%, but this was offset by the expected decline in concessionary income, to deliver overall revenue growth of only 0.1%. Normalised operating profit declined by 5.3%, with margins down to 12.4% (2015: 13.1%).

Within this overall picture, there have been some success stories. Our Platinum services – combining state-of-the-art vehicles with bus priority measures installed by the local authority – have grown patronage by nearly 4% on their routes. Solihull Council's investment in bus prioritisation on Lode Lane has, for example, made our 17,000 morning peak commuters' journeys eight minutes faster and helped drive 5% growth on the services using this route. We are also working through our industry-leading Bus Alliance to rapidly establish and implement

Solihull Council's investment in bus prioritisation at Lode Lane made the journey of our local commuters eight minutes faster and helped drive 25% growth on service using the route

a West Midlands-wide congestion action plan that draws on examples such as this and targets the key pinch points impacting the most significant number of passengers, thereby providing the greatest opportunity for overall improvement.

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

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

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

Group Chief Executive's review continued

In our first full year of operation on the Rhine Münster Express we carried over 20 million passengers

Bahrain

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

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

Strategy

Operational excellence

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

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

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

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

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

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

Our underlying business saw passenger numbers increase by 2.7% – with value fares helping generate growth – and 6.3% when acquisitions are included. Our ability to offer value fares is contingent on our excellence and our focus on cost efficiency. Our choice is stark: we either pass cost efficiency on to a growing number of passengers or cost inefficiency on to fewer passengers. That is why I am delighted with the example of UK Coach reacting so swiftly to challenging market conditions with lower fares to increase passenger numbers sufficiently to generate an overall revenue increase, as well as its record-breaking Christmas. On our Platinum bus routes in the West Midlands, we saw passenger numbers increase by nearly 4% in 2016. In c2c in 2016, new products recently introduced saw significant growth: online advance sales increased by 71% and Senior Rover sales increased by 50%. We have also focused on improving our Spanish marketing with, for example, 2016's Christmas Campaign delivering a 12% increase in revenue driven by an 11% increase in passengers.

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

Investment in technology

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

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

UK Coach has pioneered targeted digital marketing and has further enhanced its approach this year through more personalised and real-time marketing drawing on, for example, a customer's location, their last travel destination and dynamic data such as weather forecasts and ours and competitors' pricing. UK Coach is also developing its capability to target

The Midland Metro began running to Grand Central in May 2016 – the first time trams have run along the streets of Birmingham in over 60 years

social media messages and promotions for specific locations and events and will shortly be trialling location-specific SMS messaging in London. Both UK Bus and UK Coach are developing apps that bring together journey planning, real time information and m-ticketing, making sales easier to existing customers and removing barriers to potential new users.

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

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

Group Chief Executive's review continued

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

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

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

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

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

Acquisitions and new opportunities

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

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

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

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

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

Board changes

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

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

Outlook

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

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

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

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

The acquisition of Clarkes of London provides an opportunity to expand our commuter services in a complementary local market to that served by The Kings Ferry

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

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

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

Dean Finch

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Group Chief Executive
23 February 2017