Independent auditor's report to the members of National Express Group PLC

Opinion
In our opinion:

- the Financial Statements of National Express Group plc (the 'Parent Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2018 and of the Group's profit for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union;
- the Parent Company Financial Statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation.

We have audited the financial statements which comprise:

- the Group Income Statement;
- the Group Statement of Comprehensive Income;
- the Group and Parent Company Balance Sheets;
- the Group and Parent Company Statements of Changes in Equity;
- the Group Statement of Cash Flows;
- the related notes 1 to 39 for the Group Financial Statements; and
- the related notes 1 to 19 for the Parent Company Financial Statements.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company Financial Statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

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

We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the Financial Statements in the UK, including the Financial Reporting Council's (the FRC's) Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: – Impairment of goodwill and other fixed assets; and – North American insurance and other claims provisions. The key audit matters identified in the current year are consistent with the prior year.
Materiality	The materiality that we used for the Group financial statements in the current year was £11.0 million, which was determined on the basis of normalised profit before tax (as defined on page 114). Materiality represents 5% of this profit metric.
Scoping	The Group is organised into four operating divisions, each of which has its own sub-consolidation, plus the head office function. Audit work for these components was completed to levels of materiality between £4.4 million and £7.0 million. The components account for 100% of Group revenue, operating profit and Group net assets. – Full scope audit work was completed on a divisional sub-consolidation basis for UK, North America, Germany and Spain (including Morocco). – Full scope audit procedures have been performed on the Parent Company financial statements. – All other parts of the Group have been subject to analytical review procedures.
Significant changes to our approach	There have been no significant changes to our approach as compared to the prior year.

Conclusions relating to going concern, principal risks and viability statement

Going concern
We have reviewed the directors' statement in Note 2 to the Financial Statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's and Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

We considered as part of our risk assessment the nature of the Group, its business model and related risks including where relevant the impact of Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the Directors' assessment of the Group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the directors' plans for future actions in relation to their going concern assessment.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Principal risks and viability statement
Based solely on reading the Directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the Group's and the Company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 41-44 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation on page 63 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the Directors' explanation on page 45 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to report whether the Directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of goodwill and other fixed assets

Key audit matter description	Total goodwill, intangible assets and property, plant and equipment at 31 December 2018 were £2,852.3 million (2017: £2,601.6 million). The most significant balances relate to the Spanish and the North American divisions which are £1,274.9 million (2017: £1,187.4 million) and £1,326.2 million (2017: £1,174.4 million), respectively. There is a risk surrounding the recoverability of these balances, as assessed annually by management as part of their impairment review, using discounted cash flows on a value in use basis. Potential fraud risks are identified in relation to the key judgements in assessing goodwill and other fixed assets for impairment due to the potential risk of inappropriate management bias. These key judgements include the discount rate and the perpetual growth rate applied in the model and ALSA's margin improvement after the concession renewals. The value in use models are sensitive to changes in these rates, both of which must reflect a long-term view of underlying growth in each respective economy. Estimating a value in use is inherently judgemental, and a range of assumptions can reasonably be applied in determining an appropriate discount rate and perpetual growth rate to use. In Spain the risk in relation to the Spanish concession renewals arises due to the potential pricing impact after the renewals and the subsequent margin recovery. The key judgements are around whether management will retain the concessions and what the margin will be if it does. The Audit Committee Report on page 66 refers to goodwill and fixed asset impairment as a key judgement considered by the Audit Committee. Note 2 to the Financial Statements sets out the Group's accounting policy for testing goodwill and other fixed assets for impairment. The basis for the impairment reviews is outlined in Note 14 to the financial statements, including details of the pre-tax discount rate and terminal growth rate used. Note 14 to the financial statements also includes details of the extent to which the goodwill and fixed asset impairment test is sensitive to changes in the key inputs.
How the scope of our audit responded to the key audit matter	Our procedures for challenging management's methodology and assumptions focussed on the Group's interests in Spain (and Morocco) and North America and included: – validating the integrity of the impairment models through testing of the mechanical accuracy and verifying the application of the input assumptions; – understanding the underlying process used to determine the risk adjusted discount rates; – assessing the appropriateness of any changes to assumptions since the prior period; – challenging the cash flow forecasts with reference to historical forecasts, actual performance and independent evidence to support any significant expected future changes to the business; – understanding and assessing the appropriateness of the key assumptions used in the Spanish concession renewals process and the expected margin impact in the Spanish division; – working with our valuation specialists to benchmark the discount rates and perpetuity growth rates applied to external macro-economic and market data. This involved consideration of the impact of territory-specific risk adjustments to the discount rate and perpetuity growth rates versus the risk adjustments made to the underlying cash flows; and – assessing the appropriateness of the disclosure included in the financial statements including the sensitivity analysis provided.
Key observations	We determined that there is currently sufficient headroom for both the Spain and Morocco division and the North America division such that we concur with management that no impairment is required. In the interests of transparency and consistency, management has again provided detailed sensitivity disclosures, despite concluding no reasonably possible movement in a key assumption would lead to impairment. We concluded that the assumptions applied in the impairment models, when taken in aggregate, are within our acceptable range.

North American insurance and other claims

Key audit matter description	The Group operates two levels of insurance, a self-covering level and an outsourced level. Of the total Group claims provision of £95.6 million at 31 December 2018 (2017: £114.1 million), £90.4 million (2017: £109.2 million) relates to the North American division. This reflects historical claims being managed by the Group, as well as provision for new claims identified in the year, including amounts arising through acquisitions in the year that have required separate fair value consideration. Estimation of insurance and other claims provisions, including those arising on acquisition, is highly judgemental and is based on assessment of the expected settlement of known claims together with an estimate of settlements that will be made in respect of incidents incurred but not reported at the balance sheet date. The measurement of the self-insured claims provision in North America uses a combination of actuarial assumptions around loss development and management judgement to ensure that the Group is appropriately provided. Given the level of complexity and judgement involved in making these estimations, management utilises an independent actuarial expert to calculate a range of potential outcomes for the liability relating to their large portfolio of low value claims. There is a risk of material misstatement, whether due to error or inappropriate management bias, and therefore the eventual outcome could be materially different from that estimated and provided for. The Audit Committee Report on page 66 refers to North American insurance and other claims provisions as a key judgement considered by the Audit Committee. This area has also been highlighted as a key accounting estimate and judgement in Note 2 to the Financial Statements. Details of the Group claims provision are given in Note 26 to the Financial Statements.
How the scope of our audit responded to the key audit matter	– We used our actuarial specialists to challenge the assumptions inherent in the valuation produced by the Group's actuary in North America for the high-volume lower value claims, such as the loss development factors and ultimate expected losses, and to re-perform the actuarial calculation to develop a valuation range. Additionally we have assessed the expert's competence and considered their independence and objectivity. – For the individually large claims not subject to actuarial review, we discussed the nature of each claim with the US general counsel and those responsible for claims handling and tested a sample of items to independent third party reports to assess the expected range of possible outcomes. This included testing the fair value of provisions recognised on acquisitions during the year. – We compared the overall level of provision recorded to the range determined by management and the Group's actuary, to conclude whether the level of provision was appropriate. This involved consideration of the audit evidence supporting the range as well as the independent assessment of the range for higher-volume lower value claims produced by our actuarial specialists.
Key observations	As part of our detailed audit work testing the various aspects of the provision, including new amounts recognised at fair value on acquisition and the income statement charge for the year, we did not identify any material exceptions. As a result we concluded the overall balance sheet position is materially in line with our expectations.

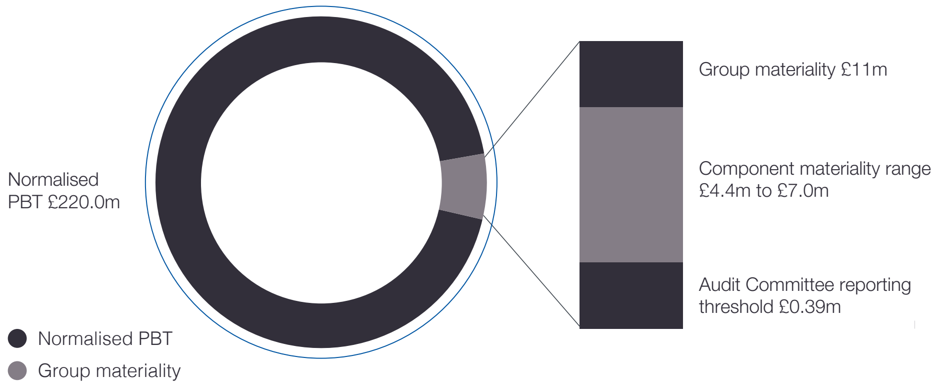
Our application of materiality

We define materiality as the magnitude of misstatement in the Financial Statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the Financial Statements as a whole as follows:

	Group financial statements	Parent Company financial statements
Materiality	£11.0m (2017: £10.0m)	£7.0m (2017: £7.4m)
Basis for determining materiality	5% (2017: 5%) of normalised profit before tax. This materiality level equates to less than 1% (2017: less than 1%) of equity. Normalised profit before tax is disclosed on the face of the Group income statement where it is reconciled to statutory profit before tax. Note 11 to the Financial Statements outlines loss before tax of £1.7 million for discontinued operations.	Parent Company materiality is set at approximately 64% (2017: 74%) of Group materiality, which equates to 0.9% (2017: 0.8%) of Parent Company's net assets.
Rationale for the benchmark applied	Normalised profit is a key performance measure for management, investors and the analyst community, which facilitates the users' understanding of the underlying trading performance. Normalised results are defined as the statutory results excluding intangible amortisation for acquired businesses and result for the year from discontinued operations and in the prior year UK restructuring.	Net assets is considered as an appropriate benchmark for the Parent Company given that it is mainly a holding company.

Materiality



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £385,000 (2017: £350,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our group audit was scoped by obtaining an understanding of the Group and its environment, including group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, as in the prior year, we focussed our group audit scope primarily on the audit work at the four operating divisions (UK, German Rail, ALSA and North America) and the Group head office function. Each operating division produces its own sub-consolidation and was subject to an audit that was scoped relevant to its component materiality level, which was between £4.4 million and £7.0 million (2017: between £3.2 million and £7.4 million). This audit work was performed by Deloitte Touche Tohmatsu Limited member firms. The Group head office work was performed to a component materiality level of £6.4 million, consistent with the prior year.

The four operating divisions and the Group head office function contributed 100% (2017: 100%) of Group revenue and 100% (2017: 100%) of Group operating profit and 100% (2017: 99%) of Group net assets.

An audit of specified account balances was performed by KPMG over the underlying financial statements of the Bahrain joint venture.

At the Parent entity level we also tested the consolidation process.

The Group audit team continued to follow a programme of planned visits designed so that the Senior Statutory Auditor and/or a senior member of the audit team visits each of the three non-UK divisions where the Group audit scope was focussed at least once a year in addition to the work performed at the Group head office. In relation to the current year audit the Senior Statutory Auditor and/or a senior member of the audit team visited Spain, North America and Germany at least twice. Senior members of the audit team also visited the Group's operations in Morocco and the joint venture in Bahrain during the year. Likewise, the Group audit team has maintained appropriate oversight over both UK divisions for component reporting and reviewing purposes.

Outside of the planned visits, regular discussions were held with the component audit teams throughout the year to direct and supervise the planning and execution of their audit work.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the Financial Statements and our auditor's report thereon.

Our opinion on the Financial Statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Financial Statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- Fair, balanced and understandable – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit Committee reporting – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the audit committee; or
- Directors' statement of compliance with the UK Corporate Governance Code – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

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 Group's and the Parent Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

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

Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- enquiring of management, internal audit and the audit committee, including obtaining and reviewing supporting documentation concerning the Group's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- discussing among the engagement team including significant component audit teams and involving relevant internal specialists, including tax, valuations, pensions and IT regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential fraud risks in relation to:
  - the estimation of North American insurance and other claims given the level of judgement involved;
  - the management assumptions on the Spain concession renewal, perpetual growth rate and discount rate applied to the goodwill impairment model; and
  - the completeness and accuracy of deferred revenue in relation to pre-booked tickets and pre-paid travelcards in the UK components and the cut off of contractual revenue in Spain division;
- obtaining an understanding of the legal and regulatory framework that the Group operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Group. The key laws and regulations we considered in this context included the Companies Act 2006, Listing Rules, Pension legislation, Tax legislation, and Regulations from the Traffic Commissioners.

Audit response to risks identified

As a result of performing the above, we identified the North American insurance and other claims as a key audit matters. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to that key audit matter(s).

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the Financial Statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the Audit Committee and in-house and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- completed focussed testing on the deferred revenue balance at 31 December 2018 in UK Bus and UK Coach by recalculating the deferred income held by each of the divisions based on journeys paid for vs. travelled by the year end and formed an expectation of revenues in ALSA through examining a sample of key contracts;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC and overseas tax authorities in the jurisdictions in which the Group operates; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

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

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and the Parent Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records Under the Companies Act 2006 we are required to report to you if, in our opinion: – we have not received all the information and explanations we require for our audit; or – adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or – the Parent Company Financial Statements are not in agreement with the accounting records and returns.	**We have nothing to report in respect of these matters.**
Directors' remuneration Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns.	**We have nothing to report in respect of these matters.**

Other matters

Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the Board on 14 June 2011 to audit the Financial Statements for the year ending 31 December 2011 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 8 years, covering the years ending 31 December 2011 to 31 December 2018.

Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

Use of our report

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

Stephen Griggs (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London
28 February 2019