

national express



# Focusing on our strategy

Annual Report and Accounts 2012

## Who we are

National Express Group is a leading transport provider delivering services in the UK, North America, Spain and Morocco.

## Our vision

Is to earn the lifetime loyalty of our customers by consistently delivering frequent, high performing public transport services which offer excellent value.

## Our strategy

We are focused on the following:

**Delivering operational excellence**  
*read more on pages 11 and 16*

**Driving organic growth**  
*read more on pages 12 and 17*

**Generating superior cash and returns**  
*read more on pages 13 and 18*

**Delivering new opportunities from capital-light markets**  
*read more on pages 13 and 19*

Unless otherwise stated, all profit, margin and EPS data refer to normalised results, which can be found on the face of the Group Income Statement in the first column. The definition of normalised profit is as follows: statutory result excluding profit or loss on the sale of business, exceptional profit or loss on sale of non-current assets and charges for goodwill impairment, intangible asset amortisation, exceptional items and tax relief thereon. The Board believes that the normalised result gives a better indication of the underlying performance of the Group.

Commercial revenue growth refers to revenue generated by passenger transport, excluding concessionary and subsidy income.

Operating margin is the ratio of normalised operating profit to revenue for continuing businesses.

Operating cash flow is intended to be the cash flow equivalent of normalised operating profit. Free cash flow is intended to be the cashflow equivalent of normalised profit after tax. A reconciliation is set out in the table within the Finance Director's review on page 21.

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

EBITDA is 'Earnings Before Interest, Tax, Depreciation and Amortisation'. It is calculated by taking normalised operating profit and adding depreciation, fixed asset grant amortisation, normalised profit on disposal of non-current assets and share-based payments. It is defined in line with the Group's banking documentation.

The EPS generated by the Rail business is calculated using the normalised operating profit of the Rail division taxed at the UK tax rate.

## Overview

An overview of National Express Group, our key highlights and how we have performed this year.

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## Delivering on our strategy

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## Financial statements

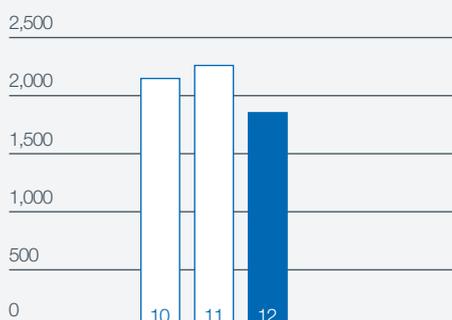
The audited financial statements of National Express Group for the year ended 31 December 2012.

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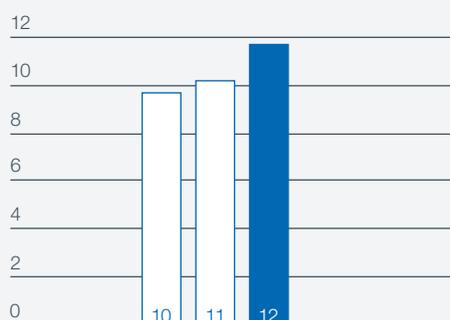
# Delivering financial returns, managing uncertainty

- Third successive year of margin growth, up 150 basis points to 11.6%
- Third year of growing non-rail profit, at £185.2 million (2011: £181.8m)
- Delivered £34 million of cost savings in year
- Improved operational performance with industry-leading businesses
- Delivered a Group non-rail ROCE improvement of 14% over three years to 10.6%
- Generated £140 million of free cash flow (before rail franchise handover) and funded over £125 million of organic capital investment
- Won nearly £2 billion of new contracted revenue in the last 12 months
- Successfully integrated Petermann with annualised synergies of \$10 million delivered
- Diversified our risk by broadening our product range and entering new markets
- Strong balance sheet with long term funding maturity
- Final proposed dividend of 6.6p; total dividend for year 9.75p, up 3% year-on-year

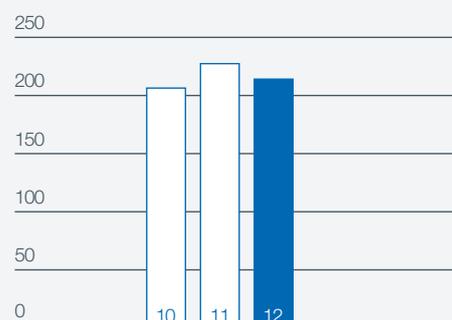
**Group revenue**  
**£1,831.2m**



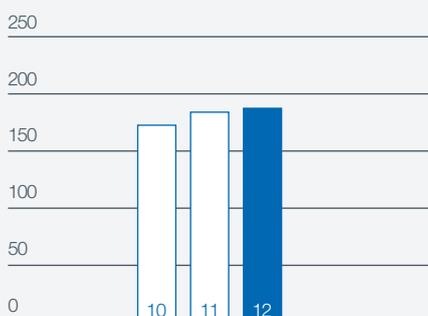
**Operating margin**  
**11.6%**



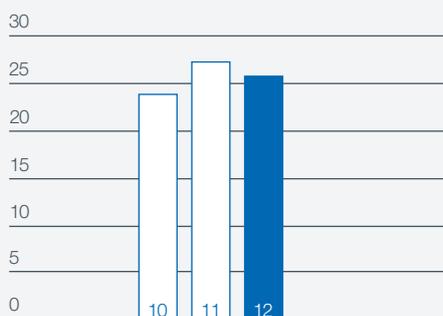
**Group operating profit**  
**£211.9m**



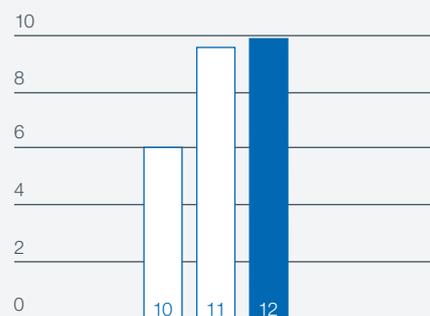
**Non-Rail operating profit**  
**£185.2m**



**Earnings per share**  
**25.5p**



**Dividend per share**  
**9.75p**



# An integrated approach

Below is a snapshot showing the foundations of our Group and our progress during the year.

## How we create value

### Our business

A leading transport provider delivering services in the UK, North America, Spain and Morocco.



### Our strategy

2012 has been another year of good progress in delivering on each part of this strategy.

#### Driving organic growth

[12](#) [17](#) Read more

#### Generating superior cash and returns

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#### Delivering operational excellence

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#### Delivering new opportunities

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## How we manage our business

### Our Board of Directors

Balance is considered a key requirement for the composition of the Board, not only in terms of the Executives and Non-Executives, but also with regard to the mix of skills, experience, knowledge, independence and diversity.

2012 saw the appointment of Jackie Hunt to the National Express Group PLC Board. She was joined by Sir John Armitt at the start of the year, who has since become our Chairman. Additionally, both Miranda Curtis and John Devaney stepped down from the Board.

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Full biographies at: [nationalexpressgroup.com/aboutus/ourmanagement.aspx](http://nationalexpressgroup.com/aboutus/ourmanagement.aspx)



**Sir John Armitt**  
Chairman



**Dean Finch**  
Group Chief Executive



**Jez Maiden**  
Group Finance Director

## The journey so far

2010

2011



## Risks

Our risk management process:

- provides a framework to identify, assess and manage risks to the Group's overall strategy and the contribution of its individual divisions;
- gives business unit management tools to identify and manage risks;
- allows Group management to identify and manage the risks that are likely to have a more significant impact on the financial results and strategy and share common issues and solutions; and
- allows the Board to fulfil its governance responsibilities.

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## Our markets

### Spain

ALSA has a leading position in a regulated and highly segmented market. Concessions exclusive to each operator.

[24](#) Read more

### North America

One third of school bus market outsourced. Public funding pressures are driving conversion to outsourcing. New opportunities in transit and para-transit.

[28](#) Read more

### UK Bus

Largest five operators represent 70% of the UK market. Primarily a deregulated market.

[32](#) Read more

### UK Coach

The UK scheduled coach market leader operating in a highly deregulated market. Selective competition from other coach operators and rail.

[36](#) Read more

### UK Rail

Regulated environment and evolving franchise model.

[40](#) Read more

## Governance

National Express is committed to operating its businesses in a responsible manner. Our corporate governance framework forms an integral part of this approach in order to safeguard shareholder value.

Our company-wide policies and procedures, including risk management, are considered as part of the overall governance of the business.

This report focuses on the Group's approach to corporate governance as provided in the UK Corporate Governance Code 2011 which is applicable to the company for the financial year being reported. The Group also has regard to developing corporate governance best practice including matters contained in various investor guidelines.

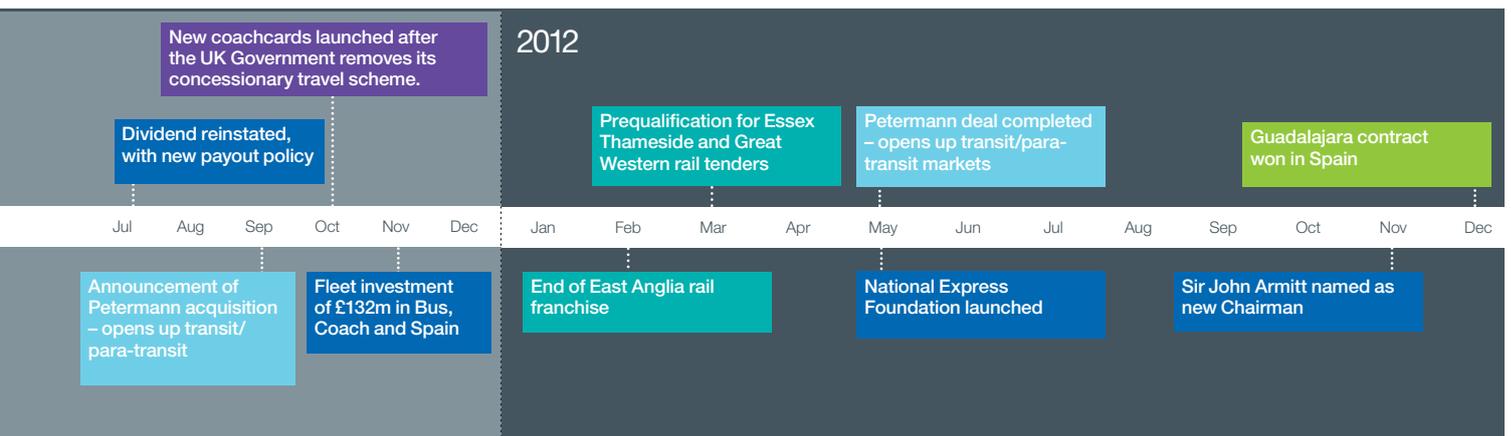
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## Living our values

We share a common set of values across the business which help us deliver our strategy. They are embedded in our day-to-day operations and shape how we conduct our business.



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# A leading global transport provider

Delivering services in the UK, North America, Spain and Morocco. Every year more than 800 million journeys are made on our buses, trains, light rail services and coaches.



Spain: Bus and Coach



North America: Bus



UK: Bus

## Segment description

- ALSA

Our Spanish business, ALSA, operates long distance, regional and urban bus and coach services across Spain and in Morocco.

ALSA was acquired by National Express in 2005, and our position in Spain was strengthened with the acquisition of Continental Auto in 2007. Apart from its bus and coach services, the business also operates service areas and other transport-related businesses, such as fuel distribution.

- Durham School Services
- Stock Transportation
- Petermann

The main focus of our business in North America is student transportation and operates in 32 US states and four Canadian provinces.

The business is the second largest private operator of school buses in North America.

We are also building the number of transit and para-transit contracts we operate in the US.

- National Express West Midlands
- National Express Coventry
- National Express Dundee
- Midland Metro

National Express is the market leader in the UK's largest urban bus market outside of London. We also run services in Coventry and Dundee.

In addition, we operate the Midland Metro light rail service between Birmingham and Wolverhampton.

## Financial highlights

**Revenue**  
£535.0<sup>m</sup>

**Operating profit**  
£83.8<sup>m</sup>

**Revenue**  
£578.3<sup>m</sup>

**Operating profit**  
£59.1<sup>m</sup>

**Revenue**  
£269.0<sup>m</sup>

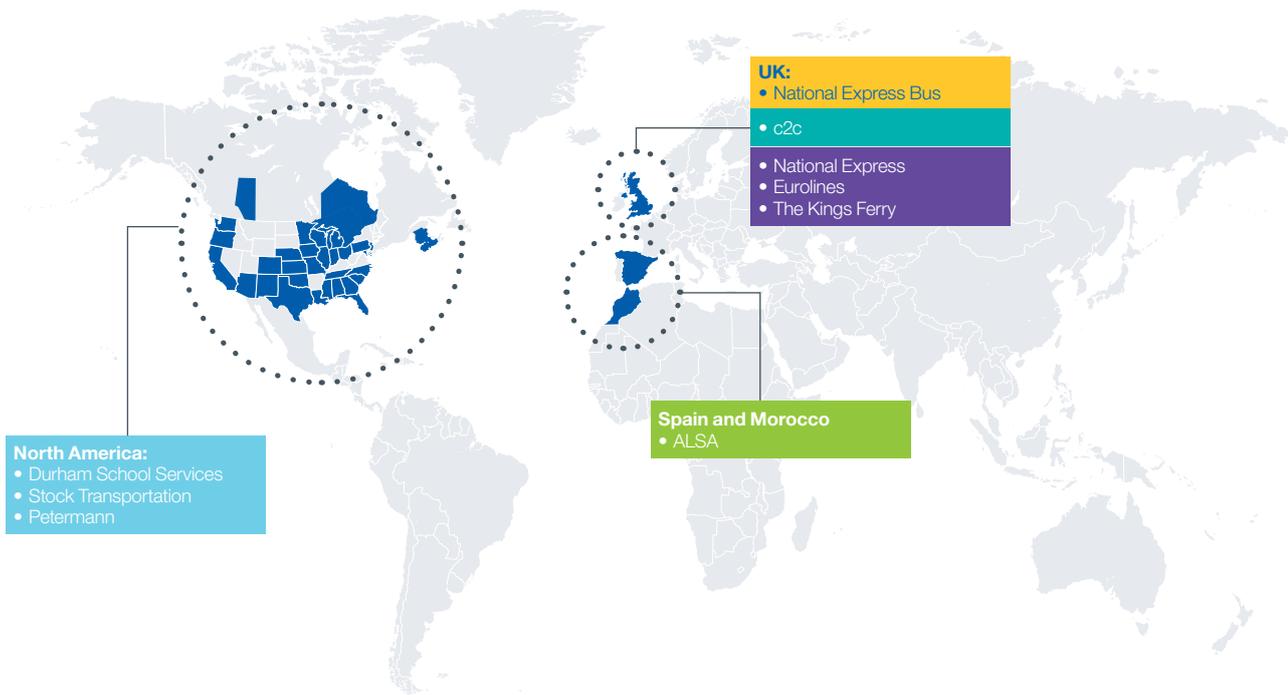
**Operating profit**  
£34.1<sup>m</sup>

## More information

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UK: Coach

- National Express
- Eurolines
- The Kings Ferry

National Express is the largest operator of scheduled coach services in the UK. The business operates high frequency services linking around 1,000 destinations across the country.

We are the UK partner in the Eurolines network which serves over 500 destinations across Europe and North Africa.

**Revenue**  
£255.1m

**Operating profit**  
£20.6m

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UK: Rail

- c2c

National Express operates the industry-leading c2c franchise which serves London and South Essex.

It is an important commuter route serving 25 stations on the line out of Fenchurch Street station, London.

We ran National Express East Anglia until February 2012.

**Revenue**  
£195.1m

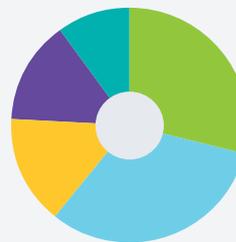
**Operating profit**  
£26.7m

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### National Express Group

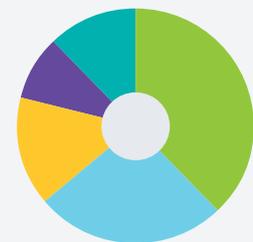
The Group operates in the UK, North America, Spain and Morocco and at the end of the year we employed 42,000 people and operated over 25,000 vehicles. Passengers made more than 800 million journeys on our services in 2012.

The National Express name first appeared on UK coaches in 1972, and the company was listed on the London Stock Exchange in 1992.



Group revenue by market

- Spain 29%
- North America 32%
- UK Bus 15%
- UK Coach 14%
- UK Rail 10%



Group operating profit by market

- Spain 38%
- North America 26%
- UK Bus 15%
- UK Coach 9%
- UK Rail 12%

Revenue and profit percentage in Sterling.

# Driving value for shareholders

We have set out a strategy to drive further value from our core bus and coach operations, and from our market opportunities.

Bus		
UK	North America	Spain
<p><b>How our business works</b> National Express West Midlands is the market leader in the largest single urban network in the UK deregulated market. The deregulated model allows for total flexibility in both fares and service. The business has a high regional market share, with strong competition from multiple operators on specific routes. Modal competition is principally from private cars.</p>	<p><b>How our business works</b> In North American school bus, the Group's operations are carried out by our subsidiaries, Durham School Services (US), Petermann (US) and Stock Transportation (Canada). The outsourced (private operator) market is only around one third of the total, with the remainder being in-sourced; that is, owned and run by the school boards themselves. Contracts typically run from three to five years. Once secured, contracts have low revenue risk over the contract life.</p>	<p><b>How our business works</b> ALSA has a strong position in the outsourced urban bus market in Spain, operating city bus services on behalf of urban councils and transport consortia. The outsourced market in Spain represents smaller cities and suburban services; the major cities are still run in-house by municipalities or consortia. Contracts typically last from 10 to 20 years. It also has a fast-growing business in Morocco, running services in Marrakech and Agadir, where ALSA takes revenue risk.</p>
<p><b>How we build long term value</b> Revenue and profitability are driven by the scale of operations delivering frequent, reliable and affordable services across a broad network. Passenger growth is supported by sustainable investment in a high quality fleet.</p>	<p><b>How we build long term value</b> We are the second largest private operator in North America with high contract retention and a focus on customer service. Management of capital is key; most new contracts require investment in new buses and asset utilisation is low, due to the part time usage of these specialised vehicles. Scale is beneficial but not overarching – economies can be achieved through procurement, centralisation of administration and business development.</p>	<p><b>How we build long term value</b> Revenue is driven by contractual obligations over fares and kilometres operated. We manage profit by maintaining a tight control over costs. ALSA continues to target and win new city contracts in both mainland Spain and Morocco, and is well-positioned for further outsourcing opportunities.</p>
<p><b>Key risks to manage</b></p> <ul style="list-style-type: none"> <li>• Recovery of higher fuel cost</li> <li>• Economy still fragile</li> <li>• Annualisation of BSOG cut</li> <li>• Pensions accounting impact</li> </ul>	<p><b>Key risks to manage</b></p> <ul style="list-style-type: none"> <li>• Recovery of higher fuel cost</li> <li>• Legislation/regulatory change</li> <li>• Ancillary/discretionary route reduction</li> </ul>	<p><b>Key risks to manage</b></p> <ul style="list-style-type: none"> <li>• Recovery of higher fuel cost</li> </ul>
<p> <a href="#">Read more</a></p>	<p> <a href="#">Read more</a></p>	<p> <a href="#">Read more</a></p>

## Our business model

National Express operates principally in outsourced public transportation markets. Growth in these markets is driven by increasing social mobility, GDP and the outsourcing of public provision of services. The forecast trend is for ongoing deregulation in both developed and developing economies.

The Group uses its operational expertise, experience and accumulated know-how to provide best in class transport services, which in turn drives revenue and profit growth. There are some economies of scale in procurement, insurance, overhead costs and financing. Private transport operators can provide a higher standard of service and better value for money than public or state management. National Express can leverage this expertise across different modes of transport and in different geographies.

The structurally cash-generative nature of the business, as many of our customers pay in advance, enables us to combine sustainable investment in existing operations with the opportunity to add shareholder value either through high-return growth or the return of capital.

Coach		Rail
Spain	UK	UK
<p><b>How our business works</b> The intercity coach market in Spain is regulated and supported by long term concession agreements provided to operators in exchange for public service obligations. Concessions typically run for 10 to 15 years. Public transport is seen as an essential service in Spain.</p> <p>Concessions are operated exclusively, resulting in competition being primarily intermodal, i.e. with rail, low cost airlines and the car, rather than other coach and bus operators (where competition is at point of tender).</p>	<p><b>How our business works</b> 'National Express' is the national coach network operator in the UK, offering great value and accessible travel to all. It operates the only scheduled national UK coach network and the largest in Europe, in a deregulated market where we have flexibility over pricing and supply. Competition is modal, against rail and private car. National Express runs 500 coaches a day serving around 1,000 domestic destinations.</p>	<p><b>How our business works</b> National Express has a strong operational skills base in UK rail, one of the few privatised systems in Europe. The UK rail industry comprises franchises awarded on an exclusive operation basis to private operators. Prices are predominantly fixed around track access, rolling stock and franchise payments. Franchisees therefore primarily target passenger volume growth, whilst fulfilling their service obligations.</p>
<p><b>How we build long term value</b> ALSA is the largest private operator of coaches in Spain. Its portfolio provides a balance between: long distance coach operations, which receive no subsidy and take revenue risk in return for flexibility over the number of services operated and a regulated maximum fare; and regional coach operations which may be partly subsidised by the autonomous Governments.</p>	<p><b>How we build long term value</b> National Express has a flexible, outsourced business model, where third party providers supply 80% of the coaches and responsibility for sales lies with the company. With 90% brand recognition, the National Express coach business benefits from its integrated network and scale, offering breadth and interconnectivity, where competitors offer only point-to-point services with limited infrastructure.</p>	<p><b>How we build long term value</b> The Group ran two franchises in 2012, operating National Express East Anglia until February 2012 and c2c throughout the year. c2c is the UK's best performing franchise. The Group is now starting to exploit its rail expertise in deregulating markets outside the UK, particularly in Germany where it has now been selected to run its first two contracts.</p>
<p><b>Key risks to manage</b></p> <ul style="list-style-type: none"> <li>• Recovery of higher fuel cost</li> <li>• Threat from RENFE (rail)</li> <li>• Weaker consumer demand</li> <li>• Transport law reform</li> </ul>	<p><b>Key risks to manage</b></p> <ul style="list-style-type: none"> <li>• Competition – rail</li> <li>• Government policy – BSOG elimination</li> </ul>	<p><b>Key risks to manage</b></p> <ul style="list-style-type: none"> <li>• Department for Transport bid delays</li> <li>• London/city employment trends</li> </ul>
<p> <a href="#">Read more</a></p>	<p> <a href="#">Read more</a></p>	

# Delivering shareholder value

I am pleased to report that National Express has delivered a good revenue and profit performance as part of another strong set of results for 2012.

## Dear shareholder,

I am delighted to have joined the Group in January this year, taking over as Chairman from John Devaney who has led the company with clarity of purpose through a challenging but successful period. I look forward to building on the solid foundations that he has put in place.

National Express continues to be one of the strongest performing providers of public transportation. The strength and resilience of the Group lies in our unique, diversified portfolio of high quality businesses, operating in Bus, Coach and Rail, providing excellent geographic access to those markets. Transport trends over the last 20 years have been positive and National Express benefits from a combination of highly visible revenues from long term contracts and deregulated operations addressing a socially important need.

Our UK Bus, UK Coach and Rail operations, and the divisions in Spain and North America, are well managed and flexible businesses with a track record of successive margin improvement, delivered by completing a highly successful turnaround programme begun in 2010. Our strength in delivering operational excellence has seen National Express invest in new vehicles, technology and people, which have helped to drive underlying revenue and improve margins. Across the Group, we continue to focus on achieving greater cost efficiencies, reducing variable costs by flexing operational mileage, and offering highly competitive prices with a quality service others find difficult to match, driving organic growth.

In 2012 we acquired the Petermann school bus business in North America, a strategically significant acquisition which has been successfully integrated into the Group. Along with two other smaller acquisitions, this has also provided a platform for us to establish and advance our North American Transit business.



Sir John Armit

National Express continues to be an impressive cash generator. Our balance sheet is underpinned by an appropriate dividend and funding structure. The Group has strong liquidity and investment grade debt with a long maturity profile. The Board is committed to a gearing policy which provides security but at the same time allows us to invest for the future. Public transport markets are growing and liberalising around the world. This offers a range of market opportunities for National Express in passenger transport contracts and concessions in selected target markets.

**Dividend**

The quality of our business and our chosen strategy enable us to generate an improving return on capital. The Board has an attractive and sustainable dividend policy which is appropriate for the current business environment, where, alongside our opportunities, challenges will continue in a world of austerity. Our aim is to pay a dividend that is covered approximately twice by our Bus and Coach earnings. The Board is recommending that the final dividend for 2012 is increased by 0.1 pence, to 6.6 pence, which, when added to the interim dividend of 3.15 pence, represents an increase of 3% for the year as a whole. Subject to approval by shareholders, the final dividend will be paid on 17 May to shareholders registered at 26 April 2013.

**Board**

On behalf of the whole Board, I would like to thank our departing Chairman, John Devaney, for the fortitude and energy with which he has led National Express since 2009. We welcomed Jackie Hunt to the Board during 2012 and she has quickly brought her strong financial skills and listed company experience to our discussions.

**Our values**

During my initial visits around the business, I have been impressed by the high level of commitment shown by the Group's management and employees to its core values. Our employees place great value on safety, customer service, their colleagues and the communities in which we operate. Doing their difficult but often rewarding jobs, our employees will ensure the long term sustainability of the Group.

**Our future**

With the right strategy and initiatives in place, I am excited about the opportunities available for us and believe we will add to our pipeline of long term contracts and concessions within the coming months. These have the potential to deliver further growth and returns to shareholders.



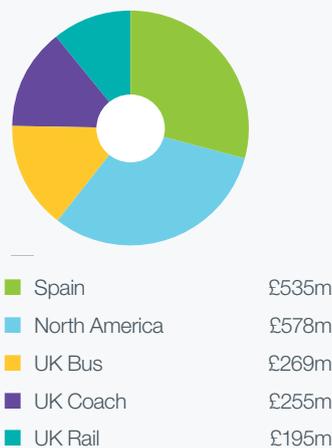
**Sir John Armitt**  
 Chairman  
 28 February 2013

**Investment case**

**1. A best in class public transport operator**

	Margin %	Best in class %
Spain	15.7	NX
N America	10.2	NX
UK Bus	12.7	17
UK Coach	8.1	NX
Rail	13.7	NX
Group	11.6	NX

**2. Well balanced portfolio with diversified exposure to modes of transport and geographies**



**3. Credible strategy**

**Delivering operational excellence**

- Margin at 11.6% – best in class in 4 out of 5 divisions
- Record non-Rail profit at £185 million – third successive year of growth

**Driving organic growth**

- Revenue up 7%
- New contracts secured – nearly £2 billion in revenue

**Generating superior cash and returns**

- Free cash flow of £141 million – investing for growth
- Non-Rail pre-tax ROCE stable at 10.6%

**Delivering new opportunities**

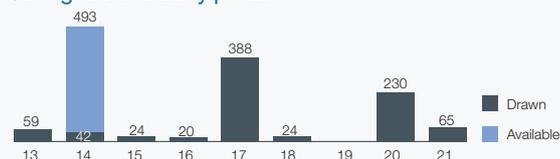
- Delivery of \$10 million annualised synergies from Petermann school bus acquisition
- \$65 million revenue US Transit business established

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**4. Stable financial footing, with a commitment to investment grade credit rating and medium term financing**

Gearing ratios	2012	2011	Covenant
Net debt/ EBITDA	2.5x	1.9x	<3.5x
Interest cover	6.7x	7.2x	>3.5x
Ratings	Grade	Outlook	
Moodys	Baa3	Positive	
Fitch	BBB-	Stable	

**Strong debt maturity profile**



**5. Dividend policy offering growth on a sustainable non-rail earnings basis**

		2012 p	2011 p
Basic EPS	Non-rail	21.6	20.7
	Rail	3.9	6.3
	<b>Group</b>	<b>25.5</b>	<b>27.0</b>
Dividend		<b>9.75</b>	<b>9.5</b>

# Building on our strengths

National Express enjoys leading positions in all of its principal markets, which have attractive medium and long term growth characteristics.



Dean Finch

## Introduction

The Group ended 2012 having established itself in a number of new and growing markets: in particular, public transit in North America, German Rail and German Coach. We are convinced that our strategy of pursuing organic growth in our core markets, deploying our expertise in new markets where we have an existing geographic presence, and focused debt reduction, will enable the Group to deliver superior returns to its shareholders.

This has been a challenging year for the Group. We have overcome the loss of the National Express East Anglia franchise, rising fuel costs, economic recession and austerity in many of our markets. Group profit before tax has reduced by £16 million year-on-year, entirely reflecting the loss of one million senior citizen passengers due to the withdrawal of their concessionary scheme by the UK Government.

In each of our markets, we have taken considerable steps to improve the quality of our services, to reduce costs and grow revenues. Group revenue increased by 7%, benefitting from acquisitions and after adjusting for rail franchises handed back at end of contract term. Group operating margin has improved by 150 basis points to a best-in-class 11.6%. Operating profit for the year was £211.9 million (2011: £225.2m) as we made substantial progress in mitigating almost £50 million of profit headwinds. Profit before tax was £164.1 million (2011: £180.2m).

As many of the UK's rail franchises reach the end of their current contract terms, National Express stands out as a diversified bus and coach operator. Our non-rail businesses generated a record operating profit of £185.2 million (2011: £181.8m). We remain the leading operator by margin in most of our businesses. Our core markets are sustained by long term, positive trends, such as outsourcing, deregulation and the ever-increasing cost of fuel and motoring. For our customers, we provide safe, reliable and frequent public transport services at low prices in times of austerity.

For our investors, we are focused on driving our return on capital, generating strong cash flows and enhancing future earnings through leadership in our existing and developing markets.

## Highlights

In 2012 we achieved some impressive results, delivered by our high quality divisional management teams:

- UK Bus achieved revenue (+2%), profit (+4%) and margin (+30 basis points) growth. We invested in over 200 new buses over the last 18 months, carried out network reviews in two major locations and limited fare increases, recognising the pressure on household budgets. In doing so, we have more than compensated for the £4 million BSOG fuel duty rebate reduction. Passenger satisfaction increased by 4% in the Passenger Focus Bus Passenger Survey.
- In North America revenue grew by 19% overall, through organic growth, a strong bid season with 97% contract retention and 26 new contract wins, and the successful acquisition and integration of the Petermann school bus business. Operating profit grew by 22% to \$94 million, including the delivery of in-year synergies of \$7 million from Petermann and a first contribution from our small but fast-growing Transit division.
- In Spain, ALSA has shown a remarkable ability to continue to grow revenue and maintain profit. Overall revenue growth of 4% was driven by strong urban bus operations and a resilient intercity coach business. We delivered profit unchanged at €103 million. Operating cash generation has been exceptional, increasing by over €70 million to €125 million. The quality and flexibility of ALSA's business model gives us confidence for the future.
- Rail once again delivered a very strong performance. Operating profit of £27 million and a margin of 13.7% were generated by best-in-class operations. c2c is the leading franchise in the UK for punctuality and customer service. It also won Rail Operator of the Year at the National Transport Awards and was voted the best commuter service in the UK by Which? magazine.
- We put together two very strong bids for the Essex Thameside and Great Western rail franchises. Whilst we are disappointed that the UK Government's delay to the re-franchising process and cancellation of the Great Western bid process has wasted significant investment in the bids, we hope to extend the existing c2c contract and look forward to restarting that franchise tender process later in 2013. Our c2c credentials were also fundamental to being selected for our first German regional rail contracts in February 2013. This is an exciting opportunity for us to develop our position in this large and liberalising market.
- Our UK Coach result in 2012 was disappointing. We over-estimated our ability to mitigate the loss of the Government's senior citizen concession funding. However, we grew our non-concession passenger volumes by 5% and started to implement structural changes in revenue, cost and organisation.

Alongside a record profit performance from our non-rail businesses, we have achieved strong results in our other key performance metrics:

- We generated £141 million of free cash flow (before rail franchise handover). We funded £125 million of organic capital investment, delivering 1,300 new vehicles into our fleet to drive passenger and contract growth. We invested nearly £160 million in new acquisitions to build scale and market presence. We maintained our non-rail pre-tax return on capital at 10.6%.
- We are making excellent progress in improving our core safety performance, through our investment in Group-wide safety programmes. Responsible major injuries fell 67% and lost time injuries 23% on 2011. Alongside our responsibility to be a safe operator, this will reduce future costs.
- We made good progress in developing new businesses, with our US Transit business achieving annual revenue of \$65 million by the end of the year and the first two contract wins under our ownership secured, alongside our German Rail success in February 2013.

## Strategy

Two years ago I set out a strategy to drive further value from our core bus and coach operations and from our market opportunities. We have focused on improving profitability by delivering operational excellence and driving organic growth across our divisions. We have targeted strong cash generation. We have sought to build on this platform and expand into new markets. 2012 has been another year of good progress in delivering on each part of this strategy.

### 1. Delivering operational excellence

Delivering operational excellence across National Express requires:

- Consistent service performance for our customers;
- Continuous cost efficiency improvement; and
- Living our core values every day.

Operational excellence is crucial to our goal of achieving best-in-class margins. We outperformed our competitors in 2012 in North America school bus, Spain, UK Coach and Rail. In UK Bus we have almost doubled the margin over three years and have plans to match the best industry performer. Our operational excellence initiatives create more sustainable, efficient businesses for the longer term.

**“We have focused on improving profitability by delivering operational excellence and driving organic growth across our divisions.”**

In 2012 we delivered a number of initiatives to ensure consistent service performance. Our c2c rail franchise achieved outstanding passenger service, scoring a record 93% satisfaction in the National Passenger Survey and carrying two million passengers during the London Olympics. In Morocco, we extended the Agadir bus network, driving passenger revenue growth of over 50%. UK Coach implemented new customer service standards and improved its passenger survey rating in every category as a result, whilst UK Bus implemented automatic vehicle location to enable better schedule management and provide real-time information to passengers.

We are also relentlessly driving cost efficiencies to protect and grow margins across the Group. Technology is helping us to drive savings in every division. GPS technology and vehicle telemetry are bringing fuel savings in Spain, North America, UK Bus and UK Coach. We are now able to achieve better route management, monitor driving style and reduce the amount of engine idling, as well as ensuring strong cost control where routes and schedules vary, for example in school bus operations.

Our business models are flexible, allowing us to adjust mileage as appropriate. In Spain, we reduced kilometres operated in the intercity coach business by 4% to match lower passenger demand by flexing our outsourced supply. In UK Bus network optimisation reduced mileage by 1% whilst better meeting passenger needs. In the core UK Coach business we increased mileage by 3% to support new routes.

We continue to identify ways to make savings through structural change. UK Coach is consulting with employees to close its Crawley base, to reduce overhead cost without compromising network efficiency, saving £0.5 million a year. Our global procurement team delivered over £12 million of annual savings by leveraging the Group's scale in fleet, IT, telecoms and engineering.

We are also making progress in developing the Group's culture around our four core values that we believe will support a sustainable revenue and profit stream in the long term – Safety, Customer, People and Community. Our 'Driving Out Harm' safety programme has brought a significant reduction in injuries and is helping to reduce the number of vehicle accidents; these have a direct financial benefit but, importantly, help create a better environment for our customers and employees. Our Customer initiative seeks to earn the lifetime loyalty of our passengers. In 2012, we introduced global standards and monitoring, improving customer satisfaction in all divisions. Amongst our People initiatives, we have pooled contract management expertise to develop new opportunities and an international management scheme to reflect our business development. In the UK, we launched the National Express Foundation to provide support to community groups and students in the West Midlands, East London and South Essex. More information on our progress is set out in our corporate responsibility reporting.

 [Read more](#)

## 2. Driving organic growth

In 2012 we achieved commercial revenue growth in each of our divisions, as we:

- Grew passenger volumes in UK Coach, c2c and Morocco;
- Increased contracted volumes in Spanish urban bus and North America school bus;
- Secured new bid wins in Spain and North America; and
- Integrated bolt-on acquisitions with growth and margin potential.

The Group continues to build a strong pipeline of contracted revenues, with £3.6 billion, equivalent to 3.1 years of Group revenues that are either contracted or operated on an exclusive concession basis. We have added just under £2 billion of new revenue during the last 12 months. In North America this included 26 new school bus contracts, of which eight were conversion opportunities, adding a total of 1,300 new buses. We also won our first two contracts in the recently launched Transit business. At ALSA we have added eight new contracts, including an extension to services in Agadir and contracts in Cadiz and Guadalajara, which were secured through competitive bids against existing operators. In Germany, we have recently been selected to run our first two rail contracts, starting in late 2015.

Average revenue yield increased by 2% in 2012. Contract prices increased in School Bus, reflecting improving market conditions and customer recognition of the quality of service we offer. In our Urban contracts in Spain we secured an average price increase of 3%. In UK Bus, commercial revenue increased by 3%, delivered through fare increases that remain affordable for our customers. In UK Coach we reduced average commercial yield by 4%, driving a 5% increase in passenger journeys and supporting our value positioning.

We operate in highly competitive markets and our customers are affected by austerity. Looking to the future, therefore, we must strive to improve further the value we offer, the service we deliver and ensure we are always competitive. We will continue to drive growth, through investment in technology and through initiatives to better manage fleet utilisation. In UK Coach, the first stage of an improved revenue management system will be implemented later in 2013, with a more advanced package to follow. This will allow better real-time management of fares, promoting travel on less utilised services and ensuring fares are always competitive. This in turn should deliver healthy organic growth, supported by our initiatives to improve understanding, targeting and marketing to key customer segments. In UK Bus we will pilot commercial smart cards from the second quarter of 2013, supported by investment this year in £25 million of new buses in the West Midlands, including 30 hybrid vehicles, as we focus on increasing and sustaining the number of passenger journeys. In Spain, as well as all of our UK operations, we are developing mobile applications that will make ticket purchasing and real-time tracking of vehicles easier for our customers, improving the quality of their journeys.

 [Read more](#)

### 3. Generating superior cash and returns

Through successful implementation of our strategy, National Express:

- Continues to deliver excellent cash generation;
- Underpins its operations with a sound debt and dividend policy; and
- Is growing non-rail return on capital through disciplined capital deployment across the Group.

Long term cash generation is a key tenet for us, driving shareholder value creation and supporting future returns to shareholders.

2012 has been another good year for the Group in this regard, as strong EBITDA, efficient cash management and selective capital deployment have combined to increase operating cash flow significantly. Operating cash flow increased by £50 million to £209.6 million, with operating cash conversion of 99%. Spain alone generated £101 million of cash this year; of key importance, we are being paid promptly by our municipal customers, with 2012 seeing a £20 million reduction in outstanding receivables balances. Our free cash flow of £141 million and low debt position supported an investment of nearly £160 million in acquisitions – of Petermann school bus and the creation of our US Transit business, as well as funding the handover of the East Anglia franchise.

The focus on cash generation will continue. Our target is to generate £125 million to £150 million per annum in free cash flow over the next two years. Our gearing policy is to maintain net debt between 2 and 2.5 times EBITDA. In 2012 our gearing was at the upper end of our range. We plan to reduce this to 2 times by the end of 2014, enabling further choices over future investment and return of capital to shareholders.

Pre-tax return on capital employed (ROCE) from the non-rail business (the rail business does not utilise capital) was maintained at 10.6% in 2012. We will continue to target capital deployment carefully, combining it with further improvement of margins to enhance ROCE, and releasing capital where appropriate. Our fleet is well-invested across the Group, and we are committed to maintaining an appropriate level of investment in each business. This will see us add 115 buses in UK Bus in 2013 and 230 vehicles in ALSA. In North America we will continue to cascade existing fleet, improving utilisation as we consolidate the Petermann fleet into our operations. In addition, our range of new market opportunities are capital-light, allowing ROCE to continue to improve over time, a key measure of shareholder value creation for us.

 [Read more](#)

### 4. Delivering new opportunities from capital-light markets

Our strategy is also to target geographies which have, or are, liberalising their public transport markets. This is:

- Creating a pipeline of long term, sustainable transport operations;
- Leveraging the Group's expertise running passenger transport services in adjacent markets; operating in the same or similar modes of transport; and building scale in selected geographies; and
- Representing primarily capital-light opportunities which will not require significant asset investment.

National Express is unique amongst its peers in owning a diversified portfolio of assets that provides a platform for growth in attractive markets. ALSA has a strong reputation outside Spain. In Morocco we expect to bid for further urban contracts, alongside our existing Marrakech and Agadir operations which have driven recent revenue and profit growth. As the largest scheduled European coach operator, we are launching 'city2city' in April in Germany's newly liberalised coach market, taking the best of the ALSA and UK Coach business models.

Within eight months of initial acquisition in 2012, we built a Transit business in North America that had annual revenue of \$65 million. In addition, we have a bid pipeline of \$100 million of revenue opportunities, with total capital requirements of only \$7 million. Like urban contracts in Spain and Morocco, these can be mobilised rapidly on award and are profitable from the start.

Building on the strong credentials of our leading c2c franchise, we invested in a bid team in German rail early in 2012. We are very pleased to have been selected for our first rail contracts in Germany, which are due to start operations in late 2015. This will expand into a portfolio of low risk, smaller rail contracts in regional rail franchises. These contracts offer a similar profile to a UK franchise in duration, capital requirement and margin, but with less revenue and guarantee risk.

We will continue to expand the Group's capability to secure contracts to operate public transportation services. As the leading public transport operator by profitability in Europe, we are currently looking at a number of opportunities where we can use National Express' intellectual capital and reputation to explore new markets.

 [Read more](#)

### Prospects for the future

In 2013 we expect to make good progress in growing our business in UK Bus, UK Coach and North America. In Spain, we have already submitted our first intercity coach concession bid and are focused on protecting and growing our market share during the renewal process. In Rail, we are in discussions to extend our c2c franchise and will participate in future franchise opportunities.

Looking to the future, we believe we have the right strategy in place to deliver long term value for our shareholders. Firstly, we will continue to drive organic growth and better margins, by focusing on improving the quality and value offered by our operations, attracting customers, increasing revenue and creating a more efficient cost base. Secondly, we will drive cash generation, reducing gearing to two times over the next two years and deploying capital in a cautious, targeted way. Thirdly, we will continue to add to the significant pipeline of bid and market opportunities in North America, Europe and North Africa, where our expertise in operating bus, coach and rail services is already proving successful.



**Dean Finch**  
Group Chief Executive  
28 February 2013

## Our vision

Our vision is to earn the lifetime loyalty of our customers by consistently delivering frequent, high performing public transport services which offer excellent value.

## Our values

### Safety

More than anything else, we value the safety of our customers, employees and the public generally.

 [Read more](#)



### Customers

We will place customers at the heart of our business. Nobody will try harder for our customers than we do.

 [Read more](#)



### People

Enabling all our people to reach their full potential and to give their best as individuals and in teams.

 [Read more](#)



### Community

We will advance the social, environmental and economic conditions in the communities where we operate.

 [Read more](#)



## Focused on our strategy

### Strategic priorities



#### Delivering operational excellence

### Performance in 2012

- Group operating margin improved by 150 basis points to 11.6%. Best in class in four out of five divisions
- Record non-rail profit of £185 million
- c2c is the top performing rail franchise in the UK
- Group-wide safety programme delivering results – 67% drop in major injuries



#### Driving organic growth

- Commercial revenue growth across the UK and North America
- School bus – 1,300 school buses won in 26 new contracts, including eight conversion opportunities
- New contracts secured in Spain: Guadalajara, Granada bus station
- Passenger revenue growth of 19% in Morocco



#### Generating superior cash and returns

- Operating cash flow increased by £50 million to £209.6 million
- Operating cash conversion of 99%
- Free cash flow of £141 million

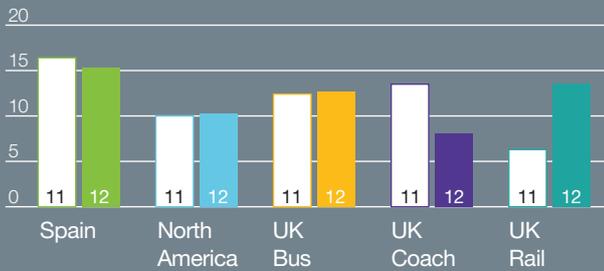


#### Delivering new opportunities from capital-light markets

- Delivery of \$10 million of annualised synergies from Petermann acquisition
- Within eight months we have built a Transit business with annual revenue of \$65 billion – target opportunities of \$300 million
- Prequalified for five German rail contracts and now selected for two of those, due to start in late 2015
- Set up German coach operations based on outsourced UK Coach model, launching in April 2013
- Completed two high quality UK Rail bids. Awaiting resumption of franchise tendering process

### Key Performance Indicators (KPIs)

Metric: Margin %

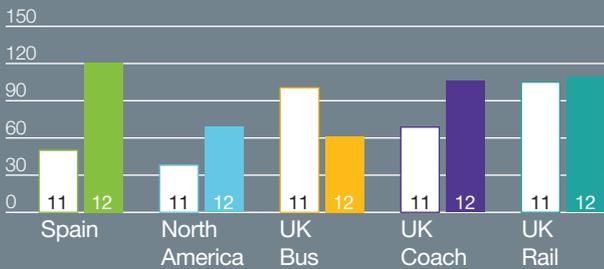


Metric: Underlying\* revenue growth %

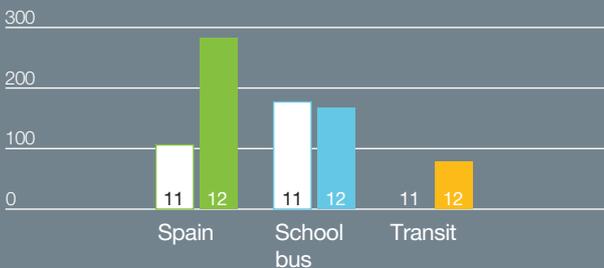


\* Like-for-like, commercial or continuing business.

Metric: Operating cash conversion %



Metric: Contract wins by value (£m)



### Opportunities ahead 2013

Continue to drive organic growth and better margins, by focusing on improving the quality and value offered by our operations, attracting customers, increasing revenue and creating a more efficient cost base.

Targeting cash generation of £125-£150 million in 2013 and 2014, reducing gearing to two times over that period.

Continue to add to the significant pipeline of bid and market opportunities in North America, Europe and North Africa, where our expertise in bus, coach and rail services is already proving successful.



# Delivering operational excellence



## Operational excellence

Investing in technology is generating both operational efficiencies and passenger benefits.

In October we opened our new Bus Control Centre in Birmingham. This allows us to monitor the location of buses while they're in service, and manage their frequency. By December, punctuality had improved by 7%.

Our rail franchise, c2c, set a new UK record for annual train punctuality of 97.5% – more than 6% better than the national average. It also came top in the National Passenger Survey, with 93% overall passenger satisfaction.

**Our new UK Bus control centre helped punctuality improve by 7% in December**

 [Read more](#)



# Driving organic growth

2

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## Organic growth

We carried 15% more passengers in Morocco last year and increased our revenue there by 19%. On top of that we completed a highly effective network review in Agadir, and won a five-year extension to the Marrakech bus contract.

Meanwhile in Spain, we secured a new arrangement to operate Granada's bus station, as well as a 12-year contract for city bus services in Guadalajara.

Further cities in both countries are expected to look to outsource bus transportation.

### Revenue growth in Morocco in 2012

19%

 Read more



## Generating superior returns

The £140 million of free cash flow we generated last year helped fund investment of almost £160 million in new acquisitions to build scale and market presence. We also funded £125 million of organic capital investment, delivering 1,300 new vehicles into our fleet to drive passenger and contract growth.

Our range of new market opportunities are capital-light, which will allow return on capital to improve over time. Last year it was stable at 10.6%.

## Generating superior cash and returns gives us choices over future investment

### Free cashflow generation in 2012

# £140<sup>m</sup>

 Read more



# Generating superior cash and returns

# Delivering new opportunities from capital-light markets



## New opportunities

Building up from three small acquisitions, our new North American Transit division began operating its first competitively tendered contract in December across three cities in North Carolina. The two-year contract, worth \$12 million, will see us carrying 500,000 passengers a year. The Transit team has also won a second bid, for para-transit in Ohio, and has a strong pipeline of bid opportunities.

**\$7.3 billion – annual value of American transit and para-transit markets**

[Read more](#)



# Driving strong results and cash

Cash generation is core to the strategy at National Express, representing a key driver of shareholder value alongside the maximising of returns on capital employed.

## Revenue

Group revenue in 2012 was £1,831.2 million (2011: £2,238.0m), with the reduction reflecting the handover of the National Express East Anglia (NXEA) franchise in February. On a constant currency basis and adjusted for the rail handover, total revenue grew by over 7%. Yield improvement has delivered organic growth in four out of the five divisions. Like-for-like volume growth was achieved in UK Bus, Rail and North America. In Spain, North America and Germany we have now added £2 billion of total revenue from new contracts in the last 12 months.

## Normalised results

Group operating profit decreased to £211.9 million (2011: £225.2m), reflecting the loss of rail earnings from NXEA. Strong performance in non-rail operating profit, increasing to a record level of £185.2 million from £181.8 million in 2011, enabled the Group to offset a number of other headwinds, such as a reduction in fuel duty rebate in UK Bus and UK Coach (£4 million), an increase in the hedged price of fuel (£10 million) and adverse foreign exchange movements on translation of overseas earnings (£5 million). We were unable to mitigate the cut in senior citizen coach concessions (£16 million).

We have generated incremental profit in the following key areas during the year:

- Organic growth – £21 million driven by yield and passenger increases in UK Bus, core UK Coach services, UK Rail and Morocco, as well as contract increases in Urban Spain, North America and Olympic-related work.
- Acquisitions and synergies – the profit from the Petermann and Transit acquisitions, along with efficient execution of synergies, to secure £11 million in year.



Jez Maiden

Efficiency and other cost savings have also been made, as follows:

- Procurement savings of £12 million in communications, IT, parts and outsourcing of support services.
- Managing costs – £19 million from overhead efficiencies, insurance and other savings.
- Fuel efficiency – volume savings of £3 million derived from adjustments to mileage in Spain, UK Bus and North America, as well as benefits from vehicle telemetry improving consumption.

Group operating margin increased by 150 basis points to 11.6% from 10.1%. Four of our five divisions achieved industry leading margins.

Net finance costs increased to £49.2 million (2011: £46.4m), reflecting the impact on debt from the acquisition of Petermann and other businesses. The tax charge was £32.7 million (2011: £41.5m), an effective tax rate of 19.9% (2011: 23.0%). Profit for the year was £131.4 million (2011: £138.7m), giving a basic EPS of 25.5 pence (2011: 27.0p).

### Statutory results

Total exceptional costs for the year were £42.6 million (2011: £nil). Items charged as exceptional reflect one-off operating cost investments in the future. We treat UK Rail bid costs and business development costs for new businesses as exceptional costs. UK Rail bid costs for the Essex Thameside and Great Western tenders were £16.3 million. Bid costs in German rail were £1.3 million, reflecting the simpler tendering approach and reduced risks involved, and leading to our first contract success in February 2013. We spent £3.0 million in business development activity around our pipeline of new opportunities, covering the development of a German Coach model for launch in 2013 and new market opportunities elsewhere. The acquisition and integration costs for the Petermann and Transit transactions were £13.4 million. Other restructuring and rationalisation costs of £8.6 million

represent the one-off impact of cost rationalisation for future savings, such as closing a UK Coach depot, reducing future pension costs and risks, fleet rationalisation to improve capital efficiency, and significant headcount reductions across the Group.

Intangible asset amortisation was £51.7 million (2011: £50.8m) and relates principally to the value of the Group's concessions in Spain and contracts in North America.

Group statutory profit after tax was £61.3 million (2011: £102.6m). Diluted earnings per share were 11.7 pence (2011: 19.8p).

### Cash management

Cash generation is core to the strategy at National Express, representing a key driver of shareholder value alongside the maximising of returns on capital employed. This year the Group increased operating cash generation by £50 million and operating cash flow for 2012 was £209.6 million (2011: £159.8m), as set out below, representing a 99% conversion rate (2011: 71%).

	2012 £m	2011 £m
Normalised operating profit	211.9	225.2
Depreciation	109.8	105.5
Grant amortisation, profit on disposal and share-based payments	(0.5)	2.4
<b>EBITDA</b>	<b>321.2</b>	<b>333.1</b>
Net replacement capital expenditure	(108.6)	(110.2)
Working capital movement	6.7	(52.5)
Pension contributions above normal charge	(9.7)	(10.6)
<b>Operating cash flow</b>	<b>209.6</b>	<b>159.8</b>

### Improvements in normalised non-Rail operating profit 2012

						£34m	£(10)m	£(29)m		
£182m	£(5)m	£(22)m	£155m	£11m	£21m				£3m	£185m
2011 operating profit	FX	Concession & rebate removal	Rebase operating profit	M&A/synergy	Incremental organic growth	Managing cost efficiency	Fuel	Inflation	Other	2012 operating profit

Working capital movement improved year-on-year by £59.2 million, through improving receivables management in the contract businesses and including a €22 million reduction in receivables with Spanish municipalities. We continued to invest in the fleet, with replacement capital expenditure in line with depreciation. The Group is well invested in its fleet and the average age has remained unchanged at six years.

	2012 £m	2011 £m
Operating cash flow	209.6	159.8
Payments to associates and minorities	(8.2)	(8.4)
Net interest	(47.3)	(44.6)
Taxation	(13.3)	(8.4)
<b>Free cash flow</b>	<b>140.8</b>	98.4
UK Rail franchise exit	(87.0)	(5.8)
<b>Cash flow after rail handover</b>	<b>53.8</b>	92.6

Free cash flow, prior to rail franchise handover, similarly grew by £42.4 million and reached £140.8 million (2011: £98.4m). During the year we paid the last instalment of £9 million to close out our Eurostar associate investment. Cash tax payments increased marginally due to timing differences in Spain related to Government austerity measures. During the year the Group paid out £87.0 million in rail franchise exit cash for the NXEA franchise (£80.0m) and a final residual payment for East Coast (£7.0m).

	2012 £m	2011 £m
<b>Free cash flow</b>	<b>53.8</b>	92.6
Net growth capital expenditure	(16.8)	(35.6)
Financial investments and shares	(0.8)	(2.7)
Exceptional cash flow	(40.7)	(8.2)
Acquisitions and disposals	(157.8)	(7.6)
Cash flow on the maturity of foreign exchange contracts	8.9	(12.8)
Foreign exchange and other non-cash movements	8.2	(3.2)
Dividends	(49.3)	(45.8)
<b>Net funds flow</b>	<b>(194.5)</b>	(23.3)

Growth capital investment, predominantly expenditure on school buses in North America, has reduced with a greater focus on winning lower capital conversion contracts.

Acquisition costs of £157.8 million related primarily to the Petermann school bus business, which completed in May. Other smaller acquisitions included the purchase of two businesses to complete our platform for growth in US transit operations. The dividend grew in line with the increases in the 2011 final payment and the interim dividend paid in September.

Group net debt at 31 December 2012 was £828.2 million (2011: £633.7m).

### Capital returns

The Group's objective is to maximise long term shareholder returns through the disciplined deployment of the funds at its disposal. Our portfolio of assets has a mix of attributes that produce stable profitability, organic growth and exciting strategic opportunities. In 2012 we selectively invested in the asset intensive UK Bus, Spain and School Bus businesses, driving growth and concession renewal. The main opportunities in the future, in current and new markets, are predominantly 'capital-light', including US Transit, German Coach and German Rail.

We use pre-tax return on capital employed (ROCE) as a key performance indicator in the delivery of strategic investment. Internal capital allocation decisions are made with a 12% pre-tax return on capital hurdle rate, based on exceeding the estimated post-tax weighted average cost of capital of 8%.

In 2012 Group pre-tax ROCE was 12.2% (2011: 14.1%). The change has been significantly influenced by the handover of the NXEA rail franchise, which had a sizeable negative capital employed. The Group's non-rail ROCE was stable at 10.6% in 2012.

### Treasury management

#### Funding sources

The Group has a strong funding platform that underpins the delivery of its strategy. Its sources of finance have an attractive mix of long term public and private market debt, fixed term finance leases and a bank facility that remains substantially undrawn, providing significant committed headroom and liquidity for the Group to fund its operations and growth requirements. At 31 December 2012 headroom including cash was almost £500 million.

National Express has substantial long term, non-bank debt comprising of two Sterling denominated bonds: a 2017-dated £350 million bond at 6.25% and a 2020-dated £225 million bond at 6.625%. Both bonds are investment grade rated, at BBB- with Fitch (Stable outlook) and Baa3 from Moodys, who recently upgraded its outlook to Positive. During the year the Group also completed a private placement note purchase agreement for €78.5 million at 4.55%, due in 2021. The Group has finance leases of \$207 million, that provide low cost financing to purchase vehicles primarily in North America.

The Group had, at 31 December 2012, drawn £81 million of the £500 million unsecured committed Revolving Credit Facility, arranged with a broad multi-national banking group. The facility itself is due to be refinanced by August 2014.

### Covenant compliance

The Group has a prudent approach to covenant compliance on its banking debt which is to maintain its debt gearing ratio at between 2.0 and 2.5 times EBITDA. At 31 December 2012 its covenant ratios were as follows:

- Debt gearing ratio (net debt to EBITDA): 2.5 times (2011: 1.9 times), covenant not to exceed 3.5 times.
- Interest cover (EBITDA to net interest): 6.7 times (2011: 7.2 times), covenant not to be less than 3.5 times.

### Interest rate and currency hedging

The Group hedges its exposure to interest rate movements to maintain a balance between fixed and floating interest rates on borrowings. To achieve the desired fixed to floating ratio the Group has entered into a series of interest rate swaps that have the effect of converting fixed rates into floating rate debt. The net effect of these transactions was that, at 31 December 2012, the proportion of Group net debt at fixed rates was 63% (2011: 84%).

The Group's material exposure to foreign exchange is limited to translation of its earnings and assets, as its overseas activities are naturally hedged by earning revenue and incurring costs in local currencies. In order to hedge its exposure to currency fluctuations with regards to its banking covenants, the Group held debt in Euros (€215 million) and US dollars (\$207 million) at 31 December 2012. This can include the use of foreign exchange contracts to create synthetic debt positions.

### Fuel risk management

The Group consumes approximately 230 million litres of fuel each year for which it is at risk (ie there is no direct fuel escalator in the contract or concession price), mostly of Ultra Low Sulphur Diesel and gasoline, which represented a total cost (including delivery and taxes) to the Group in 2012 of £163 million (9% of Group revenue), at an average fuel cost of 43 pence per litre. The Group has adopted a forward fuel buying policy in order to secure a degree of certainty in its planning. The Board's policy is to hedge fully a minimum of 15 months' demand across all exposed businesses, together with at least 50% of the next nine months' consumption in contract businesses. Based on expected hedgable consumption, a proportion of this is fixed for the future. Currently, the Group is 100% fixed for 2013 at an average price of 49 pence/litre (excluding delivery and tax), 100% fixed for 2014 at an average price of 50p and 10% fixed for 2015 at 49p.

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

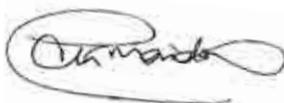
### Pensions

The Group's principal defined benefit pension schemes are all in the UK. At 31 December 2012 these schemes had a combined deficit under IAS19 of £19.3 million, an increase from a deficit of £1.8 million at 31 December 2011, due to lower asset return and liability discount rates. The National Express Group Staff Pension Plan (UK Coach plan) is now closed to all future accrual. A funding plan aimed at bringing the plan to self sufficiency over a six year period was agreed in 2010; National Express contributes £4.2 million per annum to this scheme. In 2011 UK Bus agreed a £5.5 million annual deficit repayment plan with the trustees of the West Midlands Passenger Transport Authority Pension Fund (WM plan) to fund a £71 million scheme funding deficit. The plan remains open to accrual for existing active members only. This scheme was further de-risked during the year by securing future payments for existing pensioners in a £272 million insurance buy-in to the scheme.

The IAS19 valuations by division at 31 December 2012 were as follows:

- UK Bus (under the WM plan and the Tayside Transport Superannuation Fund): £32.9 million deficit (2011: £16.8m deficit).
- UK Coach plan: £16.6 million surplus (2011: £18.6m surplus).
- UK Rail: £1.8 million deficit (2011: £2.2m deficit).  
The Group's Rail business participates in the Railways Pension Scheme. This exposure transfers to an incoming operator in the event of a franchise termination, as happened on the East Anglia franchise.

2013 will see the introduction of updated provisions under IAS19. The overall increase in pension costs charged to the Income Statement is expected to be £2 million. No cash change is involved in this accounting change.



**Jez Maiden**  
Group Finance Director  
28 February 2013

# Resilient to austerity pressures

Revenue for ALSA in 2012 was £535.0 million (2011: £551.1m) and normalised operating profit £83.8 million (2011: £90.1m). In local currency, revenue was €659.1 million (2011: €635.4m) and normalised operating profit was €103.3 million (2011: €103.9m).



**Javier Carbajo**  
Chief Executive, ALSA

## KPIs – measuring our progress

Revenue growth\*  
**4%**



### Why we measure

Each National Express division is targeting revenue growth as a core driver of value.

### 2012 performance

Underlying revenue growth in Urban Spain and Morocco and new contracts and acquisitions, such as Bilbao, have offset a decrease in underlying Intercity revenue.

\* Local currency.

Margin  
**15.7%**



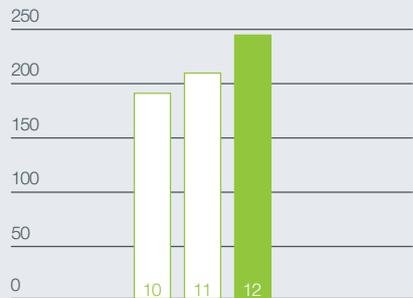
### Why we measure

Normalised operating margin reflects operational efficiencies and cost control.

### 2012 performance

Flexibility in matching supply to demand protected divisional margins.

Passenger journeys  
**242.3m**



### Why we measure

Passenger journeys are reflective of underlying demand for bus and coach travel. National Express is targeting increased passenger ridership as a long term driver of sustainable value.

### 2012 performance

Increase in total journeys from underlying growth in Morocco, plus new Bilbao operations.

**Results**

ALSA's performance was resilient in the face of a difficult year, growing revenue by 4% and holding profit almost flat at €103.3 million. Set against the background of economic uncertainty and austerity measures in Spain, this highlights the quality of the division's management and its mix of businesses.

Total revenue at ALSA grew by 4% in local currency (a 3% decrease in Sterling terms) to €659.1 million (2011: €635.4m). The growth was generated by a strong performance in the urban bus business in Spain and Morocco, whilst a decline in the intercity coach business was offset by new wins and acquisitions. Revenue in the non-core auxiliary operations declined by 15%, in line with the wider economic situation, but remains profitable.

Operating profit in local currency was €103.3 million (2011: €103.9m), with the improved revenue and lower costs offsetting a €9 million impact from fuel. A weaker Euro reduced Sterling profit by 7% (£6 million) to £83.8 million (2011: £90.1m). The operating margin remains best-in-class for a bus and coach operation.

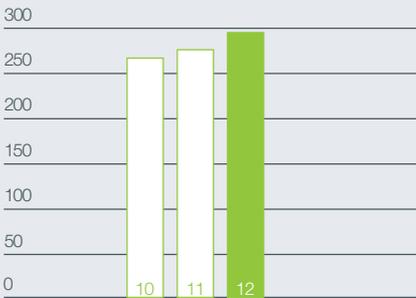
Cash generation was very strong, increasing by €73 million year-on-year to €125 million. Much of this was from improved working capital, mainly in cash collection from municipalities.

Total revenue in the intercity coach business was flat; underlying revenue fell 2% reflecting lower passenger volumes in the third quarter, as lower discretionary expenditure reduced summer travel, a trend which has been maintained since. A concession was secured, serving routes around Pamplona. By contrast, underlying urban bus revenue in Spain grew by 4%, and 21% overall with the acquisition of a major contract in Bilbao, whilst underlying bus revenue in Morocco grew by 19%, benefitting from a new contract and network review.

“These results highlight the quality of the division’s management and its mix of businesses.”

**Mileage**

292.6<sup>km</sup>



**Why we measure**

Mileage is a both a key cost management tool and also an indicator of organic growth. The ALSA model allows for flexibility in kilometres operated to match demand.

**2012 performance**

Total mileage increased as a result of new business, such as in Pamplona and Bilbao. Underlying Intercity mileage decreased 4% and Urban Spain by 3%.

**Revenue per km**

€1.84



**Why we measure**

With a regulated maximum fare, this measures the effectiveness of our fares strategy as we flex mileage to meet demand.

**2012 performance**

An increase delivered by cuts in underlying mileage and price increases of 2% in Intercity and 3% in Urban.

**Lost time injuries (per 1,000 FTE)**

23.1



**Why we measure**

Safety is a key National Express value, with a Group-wide objective of reducing injuries to employees and making our customers feel secure. This will support sustainable revenue growth and save costs (maintenance, insurance, claims).

**2012 performance**

A 41% reduction as a result of major investment in the safety improvement programme.

## Market overview

### Market size

€3.5bn

Regulated bus and intercity coach market.

### Market composition

ALSA has the leading position in a highly fragmented market.

### Market trends

Slight decline in bus and coach market passenger volumes since mid 2012, reflecting resilience in public transport trends compared to other modes of transport and wider austerity impact in Spain. Passenger growth in Morocco.

### Market features

Regulated and highly segmented market, with three levels of Government regulation: national (long distance coach), regional (regional coach) and city (urban bus). Each concession is exclusive to the operator, based on compliance with the public service obligation. Flexibility required to meet changing demand.

### Customers

Urban: all ages, work and study, multiple trips per week.

Intercity: mostly young people, few trips per year; for leisure, visiting family; on regional services also work and study.

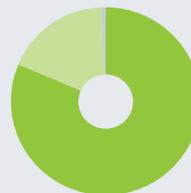
### Competition

Intercity competition from state-backed rail and low cost airlines (cutting capacity in 2013). Bus and coach concessions are awarded through competitive public tender, typically every ten years.

### Concessions

172

ALSA has 141 intercity coach concessions, 31 urban bus contracts and one other concession.



### Group revenue by market

- Intercity coach concessions
- Urban bus contracts
- Other concessions

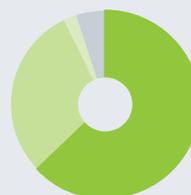
### Labour

Historically less flexible labour market reflecting domestic practices; unionised. Austerity measures driving some reform.

### Growth

New business growth from concession renewal, urban contract wins in Spain and Morocco.

### ALSA revenue split



- Passenger
- Contract
- Subsidy
- Other

## Operational excellence

Given the challenging economic backdrop and increased fuel costs, ALSA responded by carefully matching mileage operated to customer demand, reducing overhead costs, identifying new opportunities and delivering a quality service to maximise contract bonus potential.

ALSA's ability to manage supply to meet fluctuating demand on a daily basis, by adding or removing services in real time, protected margins in the intercity business in particular, where underlying mileage was reduced to match demand. In urban bus in Spain we reduced marginal services to accommodate customer budgetary requests. In return, future investment requirements have been reviewed and deferred. Improvements introduced by the Government in labour flexibility have helped to restrain wages, and efficiency benefits have been achieved.

Major improvements have been made in safety during the year and lost time injuries in Spain improved by 41%. Significant progress has also been made in Morocco.

## Growth

Growth opportunities are high on the agenda. The urban business in Morocco increased patronage by 15%, securing a new contract and completing a highly effective network review in Agadir. Over time we anticipate that further cities in both Spain and Morocco will look to outsource bus transportation and there will be opportunities as some competitors are unable to continue to fund services and capital requirements.

During the year we renewed the contract to operate Granada bus station, as well as competitively winning the Guadalajara urban tender. We obtained a five year extension to the Marrakech bus contract. We also acquired, at low cost, some bolt-on investments that are expected to add value over time, such as a contract in Bilbao.

### Cash generation

In June we received €25 million through a central Government scheme to clear overdue local authority debt. In addition, we have continued to maintain tight control over working capital. Total receivables at the year end were €35 million against a peak of €64 million in the first quarter, and overdue amounts are now only €8 million (against €21m at the end of 2011).

### Future prospects

The bus and coach market in Spain continues to be fundamentally attractive. Provision of public transport is a key social commitment by the Government and a combination of ALSA's high level of investment in fleet and technology, its reputation for quality of operations and its financial strength make it a best-in-class participant in that market.

The Government's national intercity coach concession tendering process has also recently restarted after a delay of 12 months. ALSA will submit strong and competitive bids in order to retain our franchises. The first tender has now been submitted and the result is likely to be announced in the coming months. We expect the Government to continue to adjust the national coach tendering process, including the likely introduction of a fee equal to one percent of revenue on new concession awards as part of a proposed change to transport legislation.

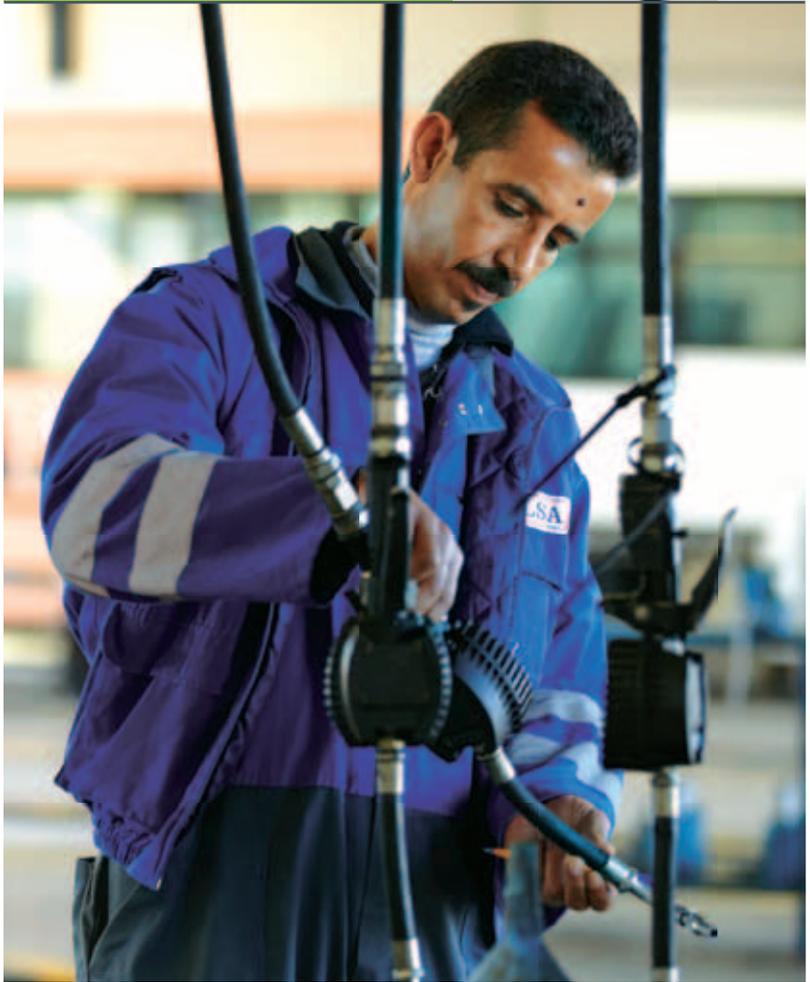
The Spanish Government is also considering further market liberalisation, such as opening the market for rail passenger transportation or replacing loss-making regional rail operations with coach services. Our reputation and record as Spain's highest quality road transport provider would put ALSA in a good position to capitalise on any opportunities.

We expect that the trends from the second half of 2012 will continue for the first six months of 2013, with lower intercity revenue but resilient urban revenue and growth in Morocco. Further opportunities in Spain and beyond will continue to develop to enhance ALSA's earnings.

### Strategic focus

Our key objective over the next two years is to renew the intercity concessions due for retendering. In the intercity coach and urban bus operations will adjust supply to reflect recent market trends, in order to protect profitability and improve return on capital. By winning contracts in Spain and Morocco we can continue to deliver good growth, whilst developing exciting opportunities in new territories.

## Living our values



### ♥ Safety

Driving Out Harm is a five-year, Group-wide, safety improvement programme, that is intended to deliver a 50% improvement in our safety performance by 2016. Each of our businesses has annual targets and the aim is to make our safety record the best in the transport sector.

One of the key measures of performance is to cut the number of preventable vehicle accidents for which we are responsible. Progress last year in ALSA saw the numbers of such accidents fall by 20.3% compared to 2011 to 12.6 per million miles. This means that during its first two years, Driving Out Harm has helped ALSA reduce its accidents by 32.6%.

Delivering improvements on the scale we are seeking requires changes in behaviour. ALSA, for example, has introduced scheduled safety briefings for drivers in its Spanish and Moroccan operations, together with thorough driver competence assessments. These involve managers travelling with each of the drivers for whom they are responsible, observing and assessing their driving behaviour according to such criteria as speed profiles, anticipation and emotional control.

Feedback sessions inform the drivers of their strengths and where they need to make improvements.

In addition, new maintenance and engineering staff assessments have led to improvements in compliance with safety instructions when working on vehicles.

Reviewing ALSA's initiatives, the safety consultancy company Arthur D. Little, recently praised the good progress that is being made.

# Benefitting from greater scale

Revenue in 2012 was £578.3 million (2011: £481.0m) and normalised operating profit was £59.1 million (2011: £47.9m). In local currency, revenue was \$919.4 million (2011: \$772.2m) and normalised operating profit was \$94.0 million (2011: \$76.9m).



**David Duke**  
CEO, National Express Corporation

## KPIs – measuring our progress

### Revenue growth\*

19%



#### Why we measure

Each National Express division is targeting revenue growth as a core driver of value.

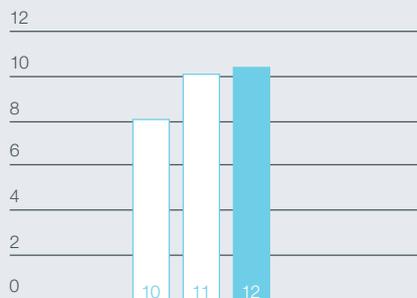
#### 2012 performance

Underlying revenue growth of 3% was supplemented by the acquisition of Petermann and the start up of the Transit operations.

\* Local currency.

### Margin

10.2%



#### Why we measure

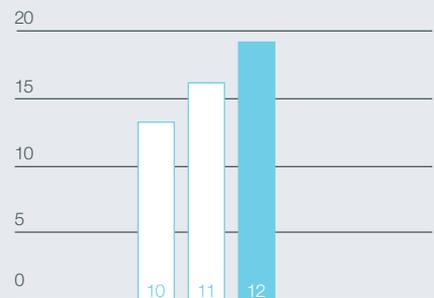
Normalised operating margin reflects operational efficiencies and cost control.

#### 2012 performance

We delivered robust underlying school bus margins, executed the Petermann transaction well and added good first-year Transit profits.

### Return on net tangible assets

17.7%



#### Why we measure

School bus operations have low asset utilisation compared to other bus and coach businesses. Our strategy is now focused on improvement in operating returns.

#### 2012 performance

We maintained a solid margin and continued to rationalise the fleet, selling 1,600 buses.

**Results**

2012 has been a particularly good year for our operations in North America. We have delivered underlying revenue growth, participated in a successful bid season, acquired and integrated the Petermann school bus business, and set up and developed our fast-growing Transit operations, outperforming our competitors.

Pricing levels in both contract renewals and new bid wins improved. Our retention rate was again high, at 97%, reflecting a positive relationship with our customers and our increasing investment in account management. With a school bus fleet of over 20,000 buses, we have consolidated our best-in-class margin position.

Total revenue in North America in 2012 increased by 19% to \$919.4 million (2011: \$772.2m). Underlying school bus revenue grew by 3%, driven by a combination of price increases, further progress in developing charter revenues and the annualised effect of the previous successful bid seasons.

2012 operating profit grew by over \$17 million to \$94.0 million (2011: \$76.9m). We successfully responded to increased fuel costs, higher labour rates and some reductions in discretionary revenue by adjusting routes and reducing overhead costs. Our newly established Transit operation also generated a profit as part of the overall divisional result.

The integration of Petermann has gone well. We have achieved in-year synergies of \$7 million, representing back office (\$4m), insurance (\$2m) and procurement (\$1m) savings. This represents annualised synergies of \$10 million. We are particularly pleased that we have retained all of the Petermann customers. With further benefits to come from an expanded footprint that now includes Ohio and Minnesota, as well as good paratransit contracts, we are delighted by how quickly we have achieved and exceeded our goals from the transaction.

**Operational excellence**

Our team in North America has made progress in driving efficiencies across the business. Our Compass project links the Oracle enterprise system to the GPS locators recently installed on the vehicles, bringing a greater degree of management control over fleet operations, in particular in matching payroll to customer billing. By the end of 2012, the system was live in 85 locations and has had a demonstrable effect when compared to non-Compass depots: on the 8,000 routes audited so far, 2,000 schedules have been adjusted delivering an average of 800 hours a day in staffing efficiency.

Route buses operated (own fleet)

17,870



**Why we measure**

Route buses are the revenue generating assets of school bus operations.

**2012 performance**

We won over 800 buses on a net basis in the contract bidding season, as well as adding the Petermann fleet.

Retention rate

97%



**Why we measure**

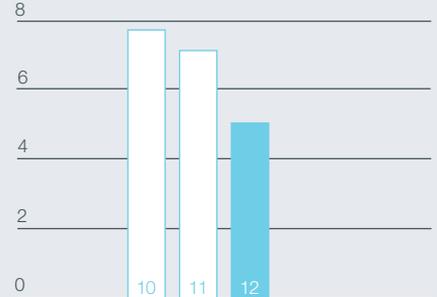
As a contracting business, retention rate is a key measure of success in retaining contracts.

**2012 performance**

97% is another excellent performance and above the target retention level.

Total injuries (per 200,000 hours)

5.02



**Why we measure**

Safety is a key National Express value, with a Group-wide objective of reducing injuries to employees and making our customers feel secure. This will support sustainable revenue growth and save costs (maintenance, insurance, claims).

**2012 performance**

Total injuries per 200,000 hours decreased by 29%.

## Market overview

### Market size

\$24bn

Total school bus market in North America, represented by 531,000 route buses.

32% is outsourced; 68% in-house.



■ Outsourced  
■ In-house

### Market share

11% of outsourced school bus market.



■ National Express Group  
■ Others

National Express operates 17,870 regular routes.

### North America revenue split



■ Passenger  
■ Contract  
■ Subsidy  
■ Other

### Market composition

Top four players operate approximately 90,000 routes.

40 companies operate 200+ buses; rest of outsourced market split between 4,000 operators.

### Market trends

Growth traditionally inflation and population driven; recent increase in outsource conversion due to public funding pressures.

### Market features

Local relationship and service delivery important.

### Customers

Local school boards, funded largely by local property taxation.

Transport is a significant part of local education spending.

### Competition

Bigger players have access to capital, geographical reach and some scale advantages.

Potential for some market consolidation.

### Labour

Traditionally part time workforce.

Over 30% of National Express staff unionised.

### Growth

Winning contracts in the school bidding season, primarily through outsourcing/conversion as well as market share shift.

New Transit business has a pipeline of contracts being targeted.

Improved efficiency and fleet utilisation saw return on net tangible assets in 2012 improve to 17.7% (2011: 16.1%). Fleet rationalisation and cascading of spare buses saved \$28 million from our projected capital expenditure requirement and reduced the fleet spare ratio to 11.7% for the existing business. We are now consolidating the Petermann fleet to achieve further savings.

Maintenance efficiency and procurement of spare parts are major areas of cost that we have targeted to improve. In preparation, during 2012 the existing bus fleet was migrated onto a new asset management system. We will use this tool to improve our standard operating procedures, such as the way we schedule vehicle maintenance, claim against warranties and improve our parts holding systems.

We continue to focus on safety. Our enhanced safety programme saw vehicle collision frequency decrease by 10% during the year and a reduction in injuries by 29%. We are investing heavily in improving performance management, processes and support for our field managers at over 200 locations.

## Growth

In delivering organic growth, the 2012 bidding season was again a successful one. Over 1,300 buses were secured in contract wins and we retained 97% of our existing contract base. Conversion (outsourcing) contracts offer long term customer relationships and can deliver a better return on capital invested. This year we won eight conversion contracts with 400 buses. Net of contract losses, our overall organic volume growth was 800 buses for the 2012/13 school year. In Charter, revenue grew by 9% in our existing business. We are now seeking to grow Petermann's charter share, using the sales platform developed in the existing businesses.

Within less than a year of acquisition, the Transit operation achieved annualised revenue of \$65 million in its three core sub-sectors: paratransit, shuttle and fixed route contracts. Our platform is based on existing paratransit contracts in the Petermann business, as well as two other small acquisitions completed in 2012. Since integrating these businesses, we have won two further contracts, in Ohio and North Carolina, and our pipeline over the medium term has significant potential.

## Cash generation

Generating cash in this capital intensive market is closely aligned with optimising the return on that capital. We have made further progress in generating cash in North America, building on the improvement of 2011 with operating cash conversion reaching 68% in 2012, up from 39% in 2011. This benefitted from our improvements in fleet efficiency and capital deployment.

## Future prospects

In North America we will seek to sustain the progress made following the successful integration of Petermann, to deliver further cost efficiencies and careful capital deployment to drive greater returns and cash generation, and to secure a favourable win rate on our pipeline of Transit contracts. We will focus on conversion opportunities in school bus, working in pro-outsourcing states, and optimising our contracts.

## Strategic focus

We have the following priorities in 2013: firstly to continue our investment in safety and employee management; secondly to develop a tailored account management structure, so that our top class customer service is properly recognised; and thirdly to drive efficiencies out of the Compass technology and our maintenance programme.

“2012 has been a particularly good year for our operations in North America.”

## Living our values



## People

Our school bus operation in North America is a disparate business, with 22,000 employees working from more than 250 locations.

Enjoy the Ride is an over-arching employee relations programme, part of the purpose of which is to help unify widely separated colleagues. But it is also intended to improve morale and staff retention, as well as creating a sense of enjoyment about working for the company.

Enjoy the Ride brings together several separate initiatives, each linking to one of National Express' four key values: Safety, People, Customer, and Community.

Under the heading of People, for example, Smart Ride provides employees with the opportunity to improve their skills. Some are studying for undergraduate degrees, others taking language courses to allow them to communicate more easily with their child passengers or the children's parents.

Healthy Ride events include the 10,000 Step Challenge, which encourages employees to walk 10,000 steps a day (around three miles) – for which pedometers have been provided. The School Bus Slim Down is a team-based weight loss competition run in March with prizes that include paid gym memberships. In 2012, employees collectively lost over 8,600 lbs (almost four tonnes), and for some people this event has proved to be a life-changing experience.

Community-based programmes under the heading Share the Ride have been particularly successful. One of these, Adopt-a-School, has been taken up by 98% of our facilities across North America, and has seen employees reading with children, landscaping schools and taking part in school events throughout the year.

# Revenue and margin growth continues

Revenue in 2012 was £269.0 million (2011: £263.5m) and normalised operating profit £34.1 million (2011: £32.7m).

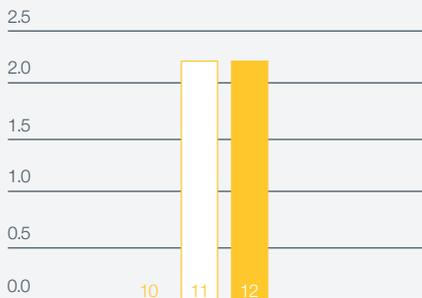


**Peter Coates**  
Managing Director, UK Bus

## KPIs – measuring our progress

### Revenue growth

2.2%



#### Why we measure

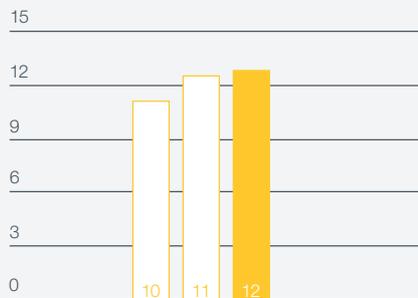
Each National Express division is targeting revenue growth as a core driver of value.

#### 2012 performance

Overall revenue growth of 2%, as an increase in commercial income of 3% was offset by a 1% decrease in concessionary revenue.

### Margin

12.7%



#### Why we measure

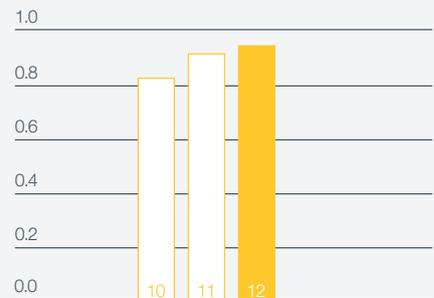
Normalised operating margin reflects operational efficiencies and cost control.

#### 2012 performance

An increase of 30 basis points in margin provided by strong revenue growth and tight cost control.

### Passenger yield (revenue per journey)

£0.94



#### Why we measure

Yield per passenger measures value generated by each passenger journey on our network.

#### 2012 performance

Fare increases at the beginning of the year resulted in a net yield increase of over 3%.

**Results**

The UK Bus division performed well in 2012, combining revenue growth and cost reduction initiatives to deliver an increase in profit, despite a reduction in the Bus Service Operators' Grant (BSOG) fuel duty rebate by the UK Government. Our strategy of fleet investment, encouraging increased patronage and improvements in cost efficiency will support sustainable revenue growth and move us closer to best-in-class operating margin.

Total UK Bus revenue grew by over 2% to £269.0 million (2011: £263.5m). Commercial revenue increased 3%, supported by fare yield and a growth in college and corporate travelcard sales. Network reviews and fleet improvements led to local growth in passenger demand, with like-for-like volume slightly higher year-on-year. Concession income fell 1% but will see future inflation protection under a new agreement through to 2015.

Operating profit continued to improve, growing by over 4%, to £34.1 million (2011: £32.7m). Operating margin increased by 30 basis points to 12.7%. Solid commercial revenue growth was supported by £9 million of cost and procurement efficiencies. Together these more than offset the impact of a £4 million reduction in BSOG, which was absorbed without a specific fare increase.

**Operational excellence**

Our priority in UK Bus is to continue delivering consistent high quality customer service. In 2012 we improved the frequency and quality of bus services, increased cost efficiency and invested in technology on our bus fleet.

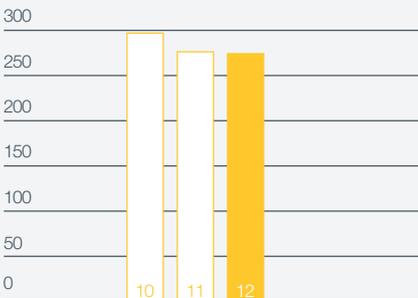
Our focus on service quality was recognised in an improvement in customer satisfaction of four percentage points, measured by the Passenger Focus Bus Passenger Survey. Across the network, investment in fleet cleaning and presentation, accompanied by an industry-leading anti-social behaviour reduction programme and enhanced revenue protection, helped customers feel safer and saw a reduction in recorded crime.

We worked closely with Centro, our local Integrated Transport Authority, to manage a major rerouting of buses as part of tram extension works in Birmingham city centre, without material impact on passenger volumes.

Investment in technology is generating both operational efficiencies and passenger benefits. In October we opened our new Control Centre, utilising automatic vehicle location to monitor and direct buses in service, improving punctuality by up to 7% in December. Nine of our depots now have 'green' technology, utilising photovoltaic electric cells to reduce power consumption and winning a Gold Carbon Saver award.

**Passenger journeys**

271.6<sup>m</sup>



**Why we measure**

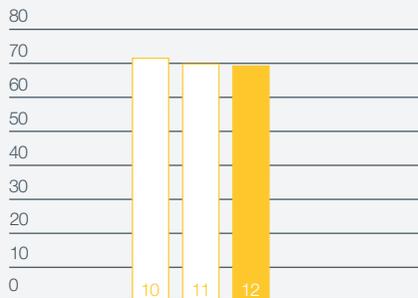
Passenger journeys are reflective of underlying demand for bus travel. National Express is targeting increased passenger ridership as a long term driver of sustainable value.

**2012 performance**

Overall decrease in passengers, primarily driven by senior citizens and mileage reductions. Good passenger growth following network reviews.

**Mileage**

69.2<sup>m</sup>



**Why we measure**

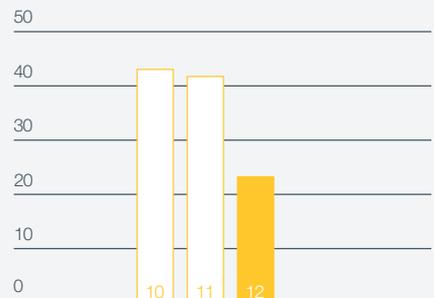
Mileage is both a key cost management tool and also an indicator of organic growth.

**2012 performance**

A 1% decrease as a consequence of removing unprofitable frequencies and parts of the network.

**Lost time injuries (per 1,000 FTE)**

22.8



**Why we measure**

Safety is a key National Express value, with a Group-wide objective of reducing injuries to employees and making our customers feel secure. This will support sustainable revenue growth and save costs (maintenance, insurance, claims).

**2012 performance**

The first full year of Driving Out Harm has reduced long term injuries by 45%.

## Market overview

### Market size

£4.8bn

(UK excluding London).

97% is privatised.



■ Privatised  
■ Non-privatised

### Market share

1,660 buses operated in the fleet.

Focused on the West Midlands and Dundee markets.

### Market composition

Largest five operators represent around 70% of the UK market.

Remainder made up of a large number of private operators.

### Market trends

Short term economic pressures from austerity and local unemployment.

Longer term economic regeneration and environmentally-driven public transport growth opportunities over the car.

### Market features

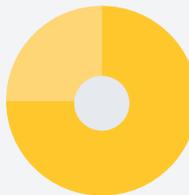
Primarily deregulated market; vehicle/regulatory oversight.

Low barriers to entry – flexibility and scale of operations is key.

### Customers

Over 90% of West Midlands network is commercial; remainder mostly public service tenders.

Around 75% of revenue from passengers, balance concessionary.



■ Passenger fares  
■ Concessions

### Competition

Active competition from national and local operators, as well as private car.

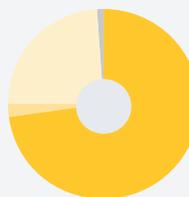
### Labour

Primarily unionised with strong industrial relations.

### Growth

Growth strategy is focused on increasing passenger volumes through investment in vehicles and technology, as well as delivering high quality services.

### UK Bus revenue split



■ Passenger  
■ Contract  
■ Subsidy  
■ Other

Procurement savings were delivered in vehicle parts and lean engineering continues to be implemented across our bus operations. On-board telemetry and monitoring of driving style is improving vehicle efficiency. We have reached a driver wage agreement based on a 2.5% annual increase for the next two years.

### Growth

Commercial revenue growth of 3% benefitted from a new programme which delivered a 50% increase in corporate and student travelcard sales, the latter tapping strong local growth in college enrolment. We also continue to innovate with our fares strategy, encouraging differentiation and segmentation in the market. The £1 inner city hop proved particularly popular, alongside family and unlimited evening travel products.

We are piloting the extension of smart cards from concession travellers to commercial passengers in Dundee. Along with mobile internet and smartphone applications, this is expected to stimulate patronage growth through more flexible ticket offers.

Network reviews in Coventry and Sandwell improved service frequency and ensured customers were better served, resulting in passenger numbers locally increasing by 4% by the end of 2012. This built on sustained improvements from previous reviews in Wolverhampton, Walsall and East Birmingham, which have delivered growth rates of 2% to 5%.

Our investment in new vehicles saw 130 buses purchased for the network in 2012. With deployment focused on high volume, high frequency corridors, these have proved popular with passengers. Our average fleet age has decreased to less than nine years.

Building on our close working relationship with Centro, we are supporting enhancement of the integrated public transport system in the West Midlands. This partnership delivers modern, environmentally-friendly bus services from National Express and investment in bus infrastructure and customer information from Centro. The three-year agreement on concessions which protects funding for senior citizens and students is part of this partnership. During the year we also agreed an extension to our operations on the Midland Metro tram system until 2018.

### Cash generation

Operating cash conversion was 61% in 2012, reflecting capital expenditure of £30 million, more than twice depreciation. Annual investment in fleet is expected to continue at around £25 million, delivering fleet upgrades and modernisation, which in turn should lead to increased patronage.

### Future prospects

The bus market continues to be attractive. National Express is the market leader in the UK's biggest deregulated bus region, where 90% of the population live within 250 metres of a bus stop. 2013 will see National Express continue to build on the progress made over the past three years. We will build passenger volume growth. We will continue to invest, with over 100 buses to be introduced in 2013, as well as improve fleet turnout and punctuality. The roll out of new technology will continue, with smart cards and real-time passenger information delivered at bus stops and via mobile applications. Increased fuel costs will present a headwind but cost efficiency gains will help to mitigate this. Cash generation will improve. This will continue to be a business that generates a strong return on capital for the Group.

### Strategic focus

We believe that we can grow revenue and passenger volumes in particular by getting the essential 'hygiene factors' right. This means providing a reliable and on-time service with a well invested fleet. We want to explore how technology is able to help us to do this, through smart cards, passenger information systems or mobile apps.

**“Our priority in UK Bus is to continue delivering consistent high quality customer service.”**

## Living our values



### Community

National Express is committed to improving the social and economic conditions of the local communities in which it operates.

This includes providing good quality jobs.

We are already Birmingham's largest private sector employer – by some way – employing around 6,000 people across the West Midlands. Our Digbeth headquarters are in the parliamentary constituency of Ladywood, which has the highest jobless benefit claimant count in the country. Yet it is home to 1,000 National Express staff.

In April, we launched a new jobs initiative – Routes to Work – which commits us to providing 1,700 new job opportunities in the Bus business over three years. By the end of 2012 we had already taken on 650 new people.

As part of the programme, we are working with local Job Centres to provide pre-interview training for candidates who might need a confidence boost after a period of unemployment. New entrants are helped to achieve NVQs in literacy and numeracy, as well as all the training they need to obtain the Driver Certificate of Professional Competence – which is now required by all professional bus and coach drivers. This is a highly transferable qualification.

Many of the jobs under Routes to Work are as bus drivers, replacing workers as they retire. But at least 120 are completely new jobs. We have, for example, doubled the size of our revenue protection team in the West Midlands, and have installed – and staffed – the largest GPS tracking system in the country, which will help to improve the service we provide our communities.

# Returning to growth after subsidy challenge

Revenue in 2012 was £255.1 million (2011: £259.1m) and normalised operating profit £20.6 million (2011: £34.9m).



**Tom Stables**  
Managing Director, UK Coach

## KPIs – measuring our progress

Revenue growth  
**2%**



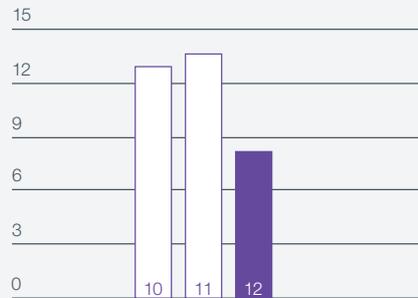
### Why we measure

Each National Express division is targeting revenue growth as a core driver of value.

### 2012 performance

Total revenue decreased over the year as concession income was cut. Underlying revenue increased by over 2%.

Margin  
**8.1%**



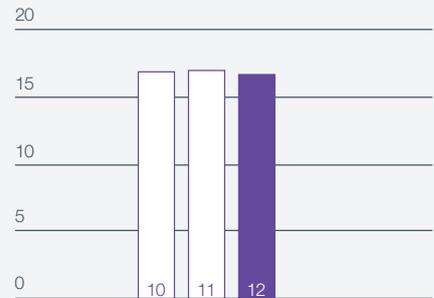
### Why we measure

Normalised operating margin reflects operational efficiencies and cost control.

### 2012 performance

The drop in margin, from the withdrawal of the concessionary income, reflects a lower but sustainable level of profitability which is not dependent on material Government support.

Passenger journeys\*  
**16.5m**



### Why we measure

Passenger journeys are reflective of underlying demand for coach travel. National Express is targeting increased passenger ridership as a long term driver of sustainable value.

### 2012 performance

As with revenue, concessionary journeys decreased by over 30%, offset by growth in the core business.

\* Express network including concessionary journeys.

**Results**

2012 was a difficult year for the UK Coach division, with the withdrawal of the Government's £16 million senior citizen concession scheme. One million fewer concession journeys were made. Although we took action to grow commercial (non-concession) revenue, this was insufficient to deliver a material mitigation of the loss of subsidy.

UK Coach revenue decreased to £255.1 million in 2012, a 2% decline from £259.1 million. Within this, the Express coach business declined 7%, driven by a 40% decline in revenue from our over-60 customers. Apart from these concession passengers, commercial revenue in the Express business grew by 2%, with increased volumes across each of our market segments, alongside good growth in The Kings Ferry and Eurolines operations.

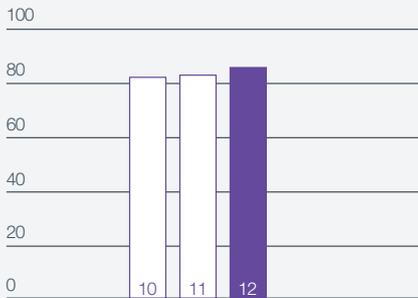
Operating profit fell £14.3 million to £20.6 million (2011: £34.9m) and operating margin was 8.1%, reflecting the loss of the concession subsidy. An increase in fuel costs and additional mileage operated for new routes were offset by commercial passenger growth and good Olympic contract volume at The Kings Ferry.

**Operational excellence**

Operational excellence initiatives focused on improving customer service, cost reduction and network efficiency. In 2012 we increased our customer recommendation rate to 96%. Service improvements included using technology to improve driving behaviour and keep our customers informed. We now track 100% of our coaches, informing both travellers and customer-facing staff of changes to arrival and departure times, as well as providing live telemetry to our control centre of vehicle operation data. We also introduced over 100 new coaches to the network; over half the fleet is less than two years old. Our investment in employees, through the 'Driving Out Harm' safety programme, saw a 63% improvement in employee injury rates.

In response to the significant loss of concession revenue after the Government subsidy withdrawal, we identified opportunities to reduce structural costs. In December we announced the closure of our Crawley own-operated depot, saving £0.5 million per annum. We also made overhead cost savings through headcount reduction during the year. Increasing use of the website to drive sales (up to 55% from 50% in 2011) has reduced distribution costs.

**Mileage**  
**85.0<sup>m</sup>**



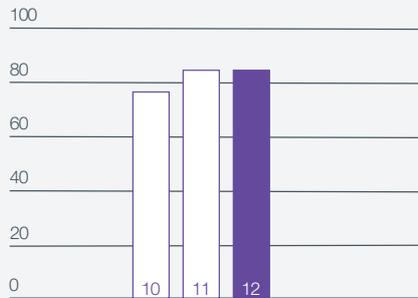
**Why we measure**

Mileage is both a key cost management tool and also an indicator of organic growth.

**2012 performance**

Mileage increased during the year as we invested in new routes and services to support revenue growth.

**Customer satisfaction**  
**84%**



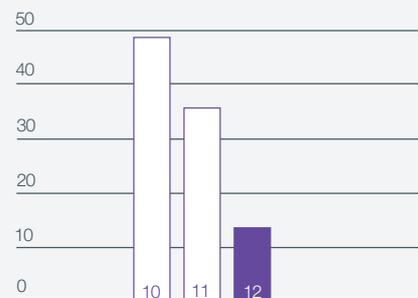
**Why we measure**

As a mainly discretionary form of transport, UK Coach is focused on delivering the highest levels of customer service.

**2012 performance**

We have worked particularly hard to improve the quality of the service over the last two years, reflected in a high overall result that has been sustained.

**Lost time injuries (per 1,000 FTE)**  
**13.2**



**Why we measure**

Safety is a key National Express value, with a Group-wide objective of reducing injuries to employees and making our customers feel secure. This will support sustainable revenue growth and save costs (maintenance, insurance, claims).

**2012 performance**

The first full year of 'Driving Out Harm' has had a significant impact on safety in the business, with a decrease of 63%.

Market overview

Market size

£300m

of contested revenues in the scheduled coach market (almost all privatised).



■ National Express  
■ Other operators

Market share

Around 1,000 destinations served.

National Express is the UK scheduled coach market leader.

Market composition

National Express has the only nationwide network of services.

Other competitors tend to focus on specific regions or corridors.

Market trends

Core revenue growth, reflecting value and convenience of coach.

Price competition from rail through discounted fares.

Market features

Highly deregulated market.

Customer safety and disability access supported by regulation.

Operators able to compete flexibly on selected routes.

Customers

Customer satisfaction important in driving longer term loyalty.

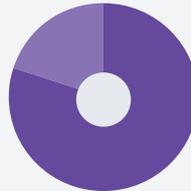
Attracted by fare discount to rail, increasing cost of private motoring and environmental friendliness.

Competition

Selective competition from large bus operators and localised services.

Labour

Outsourced model; 80% operated by third-party partners on long term contract.



■ Third-party partners  
■ Owned operations

Consistent service and behaviour standards across all operators.

Growth

Revenue growth through improved retailing systems and greater understanding of our customers and their needs.

UK Coach revenue split



■ Passenger  
■ Contract  
■ Subsidy  
■ Other

With a change in passenger travelling patterns also driven by the concession subsidy withdrawal, we restructured our Express coach network to improve efficiency and match customer demand. Firstly, we reduced some services that were made unprofitable by the concession removal. Secondly, we consolidated and remapped overlapping routes, such as the Trans Pennine services, eliminating one million miles of annual schedule without impacting revenue. Thirdly, we removed some low usage intermediate destinations, such as in Sussex or East Anglia, to reduce journey times and drive greater patronage.

“In 2012 we increased our customer recommendation rate to 96%.”

## Growth

We grew our core commercial Express revenue by 2% in 2012. With austerity impacting our customers and strong competition from advance ticket prices on rail, we reduced fare yield by 4%, successfully driving a 5% increase in volume. Increasing seat utilisation is our key target. We saw growth in all non-concession market segments and a steady improvement through the second half of the year, with underlying passenger volume growth of 8% in December.

We also introduced new routes, including additional airport schedules, benefitting from underlying passenger traffic recovery at Heathrow and Stansted. Also popular was the introduction of faster direct routes with greater frequencies, such as from the South Coast to London, meeting demand from withdrawal of a competitor.

By the end of the year we had sold over 210,000 coach concession cards to replace the discounts available to seniors, with good renewal rates and a higher average number of journeys by each holder. We are also developing partnership arrangements to expand distribution channels for ticket sales. In December, we partnered with Age UK to offer discounted products to their members.

Outside the core coach operations, both The Kings Ferry and Eurolines performed well. The Kings Ferry secured key contracts for the Olympics and Paralympics. Eurolines added further capacity to Paris, Brussels and Amsterdam during the year, leading to an 11% increase in revenue, despite a lull over the traditionally busy summer period due to the Olympics.

## Cash generation

Cash generation was solid, with 106% of operating profit converted into cash flow (compared with 69% in 2011). The outsourced business model ensures that return on capital employed remains high, even with a lower operating margin.

## Future prospects

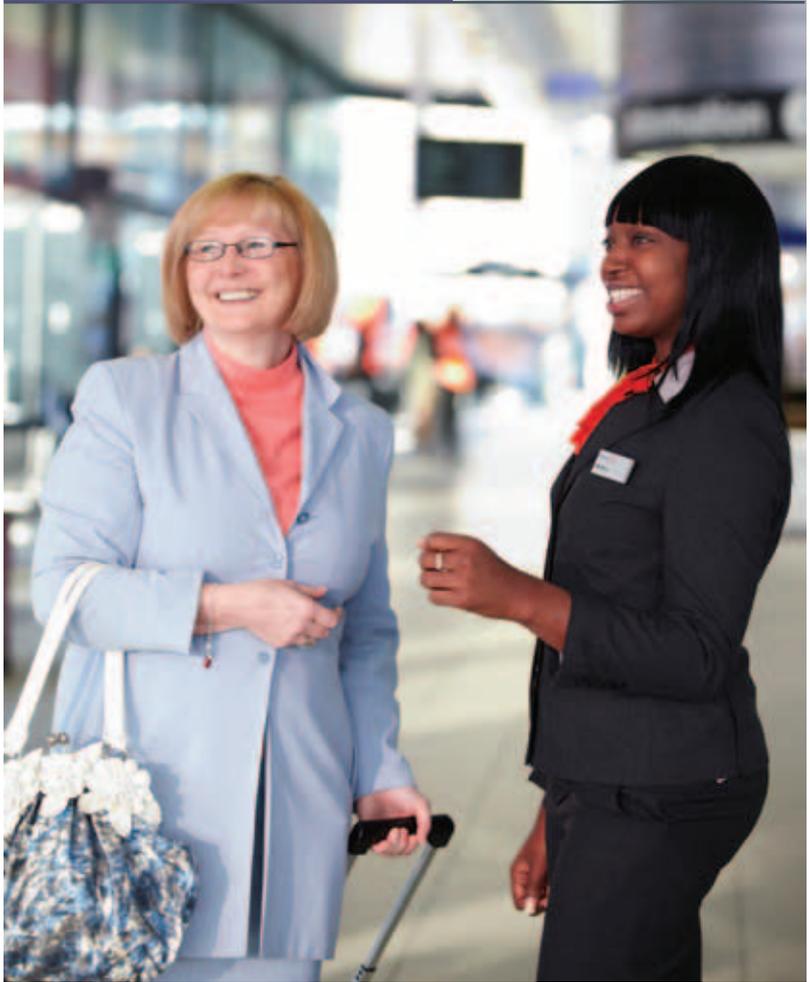
As the only national coach network in the UK and a capital-light operating model, our UK Coach business is a unique asset in our portfolio. Offering great value for money to customers in challenging difficult economic times, it is well placed to improve its performance in the medium term.

In 2013 we are investing in improving our retailing systems and customer database to understand their needs better, enabling us to offer tailored products which will support the growth of passenger volumes across our customer base. We are also investing in improved revenue management, with up-to-the-minute pricing to reflect booking levels and encourage travel, supported by better demand management, historic analysis and predictive scheduling of our services. We will also extend our cost efficiency drive, focusing on depot costs and helping to improve our partner cost base, including reducing dead mileage. In the absence of further austerity measures, we believe we can grow both revenue and margin in this unique business.

## Strategic focus

2013 is about targeting growth in the core network and making changes to the structure of the business. Our key priority is to develop and implement a revenue management system, followed by getting to know our customers better and building a single customer view.

## Living our values



## Customer

Customers have a choice. They don't have to travel with us. But the better the service we provide, the more likely they are to choose National Express. And we want to make sure they enjoy it so much that they keep coming back. Increasing customer satisfaction will increase our revenue.

By the end of 2014, National Express aims to be the customer service leader of the entire transport sector.

Our Coach business took a step towards achieving this ambitious goal with the launch, during national Customer Service Week, of the first Coach Customer Charter. This told passengers what they could expect from us as a company – the priority we give to their safety, the services we provide and the reliability they are entitled to.

But we have also been training our staff about how to use the charter, and how to put things right – there and then – when they go wrong.

Staff are encouraged to put themselves in their customer's shoes, and, if they believe a customer has been badly treated, they are empowered to intervene and resolve the problem. We have even introduced a new process that allows Coach station staff to offer unhappy customers free journeys – if that's what it takes.

We ask customers what they think of our service, and in 2012 satisfaction increased in all but one of the 14 areas we measure, compared to 2011.

In addition, the number of complaints fell by 26%.

# Continuing to outperform

Revenue in 2012 was £195.1 million (2011: £688.3m) and normalised operating profit £26.7 million (2011: £43.4m).



**Andrew Chivers**  
Managing Director, UK Rail

## KPIs – measuring our progress

Revenue growth\*  
**7%**



### Why we measure

Each National Express division is targeting revenue growth as a core driver of value.

### 2012 performance

Good underlying revenue growth on the c2c franchise, increased by share of Olympic traffic.

\* c2c only.

Margin  
**13.7%**



### Why we measure

Normalised operating margin reflects operational efficiencies and cost control.

### 2012 performance

Profit and margin boost from successful NXEA handover.

Passenger journeys\*  
**37.2m**



### Why we measure

Passenger journeys are reflective of underlying demand for travel. National Express is targeting increased passenger ridership as a long term driver of sustainable value.

### 2012 performance

Increase in passenger demand, boosted by Olympic visitors.

\* c2c only.

**Results**

National Express has once again demonstrated its ability to operate a successful rail business, with outstanding performance at c2c, a smoothly executed transition of National Express East Anglia (NXEA) to the new franchisee and qualification for two franchise bids in the UK and five in Germany. We are very pleased to have been selected for two of those rail contracts in Germany, which are due to start operations in late 2015.

Revenue in 2012 was £195.1 million (2011: £688.3m) reflecting the end of the NXEA franchise in February. Operating profit was £26.7 million (2011: £43.4m).

**Operational excellence**

In c2c, National Express runs the most punctual rail franchise in the UK, delivering the best customer service. The franchise has recently set a new UK record for annual train punctuality of 97.5%\* – more than 6% better than the national average. It also ranked as the best franchise in the country in the National Passenger Survey, with 93% overall passenger satisfaction.

A number of major achievements were accomplished during the year. c2c implemented a new quality system achieving four star EFQM status in January, a key step forward in the

Group's operational and bidding credentials. We have also invested to deliver an improved customer experience, carrying out major refurbishment at Shoeburyness and Thorpe Bay stations, where we have introduced smart technology.

c2c won Rail Operator of the Year at the National Transport Awards and was voted the best commuter service in the UK by Which? magazine.

**Growth**

The c2c franchise grew both passenger volume and yield in 2012. It carried over 2 million passengers as part of the successful delivery of travel during the London Olympics.

During the year we completed two high quality UK franchise bids, one to continue our current operation of the Essex Thameside franchise and the other for Great Western. We were disappointed by the suspension of the procurement process by the Department for Transport and the subsequent cancellation of the Great Western tender, wasting substantial bid costs. However, we welcome the recommendations of the Brown report and the planned restart of the refranchising process.

\* Public performance measure (moving annual average).

**Signals passed at danger (per million miles)\***  
**1.17**



**Why we measure**

SPADs are a rail-industry specific safety measure.

**2012 performance**

A total of 5 SPADs during the year was disappointing. A comprehensive action plan is in place to remedy this.

\* c2c only.

**Public performance measure**  
**Moving annual average\***  
**97.5%**



**Why we measure**

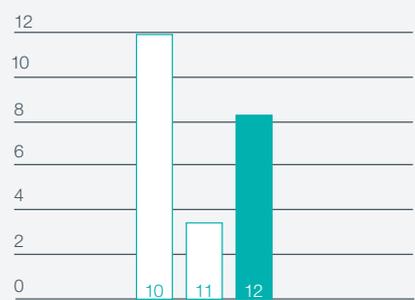
This is the rail industry standard measurement of performance. It also enables franchises to be benchmarked against each other.

**2012 performance**

A further improvement in operational standards to record levels.

\* c2c only.

**Lost time injuries (per 1,000 FTE)\***  
**8.2**



**Why we measure**

Safety is a key National Express value, with a Group-wide objective of reducing injuries to employees and making our customers feel secure. This will support sustainable revenue growth and save costs (maintenance, insurance, claims).

**2012 performance**

Slightly higher than in the previous year, but should be seen in the context of eight years of reducing numbers of accidents. Plans in place to reduce incidents in 2013.

\* c2c only.

## Market overview

### Market size

£6bn

of UK franchise revenues over next five years (based on estimated pipeline).

€6bn currently accessible German regional rail market.

### Market share

One franchise remaining after NXEA handover in February 2012.

c2c (Essex Thameside).

### Market composition

Top four players have around 70% of the market.



■ Top four operators  
■ Other operators

19 UK franchises in total.

### Market trends

Growth over the past decade driven by passenger volumes.

Dependent on GDP and employment, particularly central London employment for c2c.

Regulated fares will increase by 1-3% in real terms over next two years.

Liberalising German rail market.

### Market features

Regulated environment.

Current framework has 7-10 year franchises.

Highly regulated qualification and operational processes.

### Customers

Steady growth in passenger volume over last 20 years.

### Competition

Increased international competition in UK franchise bidding.

### Labour

Relationships are managed within each franchise, with high union representation.

### Growth

Successful bid to retain c2c and bidding for other UK franchises. Further bid wins in Germany.

### Cash generation

111% of operating profit was converted into cash. The rail businesses in both the UK and Germany are asset light and provide a good route for future value creation.

### Future prospects

c2c is the UK's best performing rail franchise. Its credentials were a key factor in National Express being successful in German regional and commuter rail bidding. We are in negotiations to extend the franchise on an interim basis and will be re-submitting our long term bid in due course.

We are delighted to have been selected for our first two contracts to operate in Germany and will work towards their mobilisation in late 2015. We have pre-qualified for three further bids, with a promising pipeline beyond. Germany offers smaller rail contracts, generally with lower risk and bidding costs to the UK, and we look forward to developing a portfolio of operations there in such an attractive and sizeable market.

### Strategic focus

We will continue to focus on delivering exceptional performance at c2c, maintaining our position at the top of punctuality and customer satisfaction tables. We have an excellent rail bid team in place and will use this flagship operation as an example of our capabilities in winning further franchises, both in the UK and abroad.

“c2c carried over 2 million passengers during the London Olympics.”

# Business review

## Risk and risk management

The Group has a well established governance structure with internal control and risk management systems. The risk management process

- provides a framework to identify, assess and manage risks, both positive and negative, to the Group's overall strategy and the contribution of its individual component divisions.
- gives business unit management formal tools to identify and manage risks in their day-to-day operations.
- allows Group Executive management to identify and manage the risks that are likely to have a more significant impact on the financial results and strategy and share common issues and solutions across the Group.
- allows the Board to fulfil its governance responsibilities by making a balanced and understandable assessment of the operation of the risk management process and its outputs.

### Responsibilities and actions

#### The Board:

- has overall responsibility for the Group's system of internal control and for reviewing its effectiveness.
- maintains full control and direction over appropriate strategic, financial, operational and compliance issues.
- has put in place an organisational structure with formally defined lines of responsibility, delegated authorities and clear operating processes.

#### The Audit Committee:

- has specific responsibility for reviewing the effectiveness of the Group's internal control and risk management systems.
- is responsible for the identification, assessment and management of risk, including actions taken and processes adopted to do so.
- reviews and approves all financial information published by the Group.
- reviews the internal audit programme, considers major findings of the internal audit investigations and reviews management's financial reporting and risk management.

### Risk review process

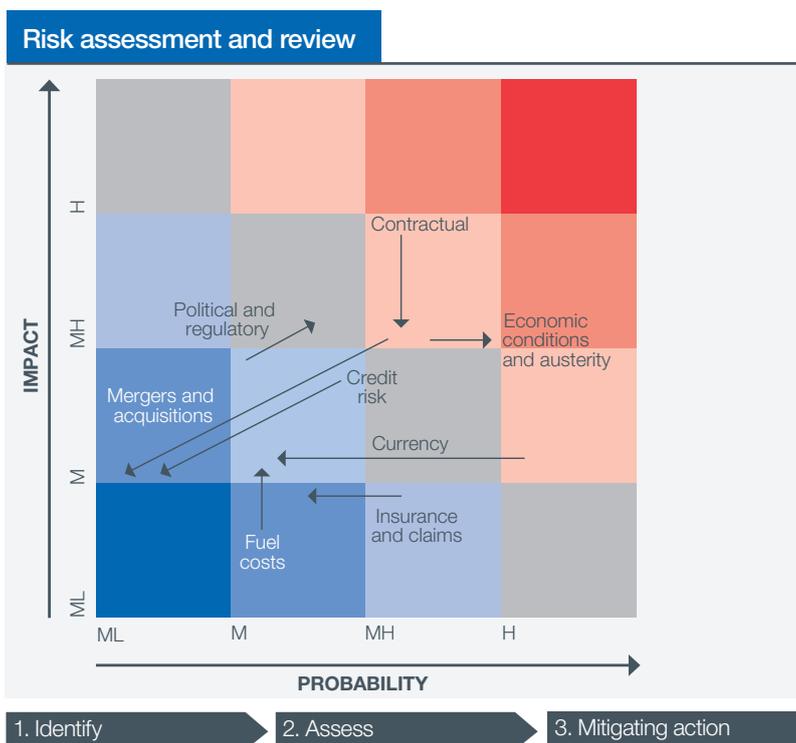
Each division, plus the Group function, is required to make a formal review of risks to their business objectives, assess the impact and likelihood of the risk occurring and put in place mitigating actions, processes and systems to manage the risk.

#### Risks

Identify risks to business objectives on a bottom up basis: risks are described and categorised into Operational, Strategic and Financial risks in order to help define their precise nature and potential impact on the business.

#### Assessment

Assess and quantify the potential impact on business objectives and determine the likelihood of the risk occurring. This is done on a 'before' and 'after' basis, where the impact of management controls is assessed in relation to the probability and severity of a risk.



### Management

Take mitigating actions and implement systems to manage the likelihood and impact of the risk. Identify an individual with responsibility for each risk.

### Monitoring and control

Risks are considered on a monthly basis at divisional level and formally updated twice a year. Management is encouraged to review the risk registers from other divisions to identify common issues and potential solutions.

Each divisional register, including the Group function register, is consolidated into a Group Risk Register.

The Group Executive Committee reviews the Group Risk Register twice a year, followed by the Group Audit Committee. The Audit Committee reports in turn to the main Board.

The internal audit function has responsibility for the monitoring of the risk management and internal control systems. Internal Audit reports to management and the Audit Committee on the extent to which internal controls are adequately designed and implemented.

## Principal risks of 2012

## Risks

## Principal risks and uncertainties

Outlined below are risks that have the potential to affect the Group's performance in a material way, which are monitored through the risk management processes.

Risks	Assessment	Management	Potential impact
<b>During 2012, the Group focused on the following key areas of risk:</b>			
<p><b>Economic conditions and austerity</b></p> <p>Difficult economic conditions currently exist in Europe and North America. Whilst some of the Group's businesses have naturally defensive characteristics, some of the more discretionary parts of the business may be adversely affected by reduced economic activity.</p>	<p>Revenues in the Bus, Coach and Rail businesses in the UK and Spain may be affected by lower passenger demand; there is also some positive risk that the Group would benefit from the prospect of modal shift towards its forms of transport. In North America for example, school boards may reduce their transportation budgets, or look to shift provision to contractors like National Express. In Spain, the division may be affected by lower disposable income, sustained high unemployment, lower council budgets and low GDP growth. However, they too may benefit from the outsourcing of further urban bus operations.</p>	<p>The Group seeks to mitigate these risks through proactive cost control, revenue management systems, the careful economic modelling of new and existing contracts, including sensitivities around expected growth rates, and through sharing risk with contracting parties.</p>	High
<p><b>Political and regulatory</b></p> <p>The Group's businesses are subject to numerous laws in the jurisdictions in which they operate, regulating the operation of concessions, safety procedures, equipment specifications, employment requirements, environmental procedures and other operating issues.</p>	<p>Changes in political and regulatory environments can have a significant impact on regulated public transport operators, from adding significant cost to changing the fundamental nature of a market. For example:</p> <p>Changes in UK Government policy have resulted in material decreases in subsidies paid in 2012 for senior citizen discounts and fuel rebates.</p> <p>The UK Department for Transport has suspended the rail franchising process.</p> <p>The Spanish Government is considering the imposition of a fee on new concessions and other regulatory changes.</p>	<p>The risk is reduced by maintaining close relationships with key stakeholders and ensuring that the economic advantages of our business models are fully understood and considered.</p> <p>In the longer term, the Group can mitigate risk by diversifying its operations into other geographies.</p>	High
<b>The following risks are key ongoing risks within the business:</b>			
<p><b>Fuel cost</b></p> <p>All of the Group's businesses are exposed to fuel costs – primarily Ultra Low Sulphur Diesel for buses and coaches. Fuel prices are subject to significant volatility due to economic, political and climate circumstances.</p>	<p>Fuel costs constitute approximately 9% of the Group's costs and, consequently, to the extent that price increases cannot be passed on to customers, increases in fuel costs will affect profitability.</p>	<p>The Group seeks to mitigate risks of increases in fuel costs by entering into fuel swaps and forward purchase contracts in line with the Group's hedging strategy discussed on page 23.</p>	Medium
<p><b>Insurance and claims</b></p> <p>The Group's policy is to self-insure a number of potential claims within its business.</p>	<p>There is a risk that a successful claim or series of successful claims may result in substantial higher charges to profit and cash outflow than expected.</p>	<p>Throughout the business, a strong safety culture prevails, led by the Board Safety and Environmental Committee. Where claims arise, they are managed by experienced claims handlers and professional advice is obtained in order to evaluate and minimise costs to the Group. It has also reduced self-insurance values and increased external market coverage.</p>	Medium

Risks	Assessment	Management	Potential impact
<p><b>Credit risk</b></p> <p>As contractual operations, the North American and Spanish businesses are exposed to the risk that customers are either late or unable to pay sums owed to the Group.</p>	<p>Payment terms and cash collections in North America are extremely good.</p> <p>In Spain, during 2011 receivables balance increased as a result of issues related to local and federal elections, as well as financial constraints. In June 2012 all long term outstanding amounts were settled through a federal Government credit facility and the level of outstanding debt is back to normal levels and continues to fall.</p>	<p>Receivables in each business are closely monitored, based on robust and thorough documentation; provisions are then made where appropriate on a prudent basis for a certain level of non-collection. Additional contractual terms for interest accrual and repayment of outstanding balances have been agreed with major debtors where necessary.</p>	Medium
<p><b>Currency</b></p> <p>The Group's exposure to overseas earnings through its Spanish and North American operations creates a risk that movement in exchange rates may adversely impact translation of profit and cash flows together with Group gearing.</p>	<p>Foreign currency movements impact the profit, balance sheet and cash flows of the Group. During 2012 the Euro depreciated against Sterling, although the US dollar remained relatively stable. The Group swapped some of its debt during the year to access Euro-denominated debt, as well as maintaining Sterling bonds and US dollar finance leases.</p>	<p>The Group uses its overseas currency debt and currency swaps to reduce the impact and mitigate the risk. In addition, management has flexibility to adjust its Group capital allocation decisions to focus on its highly cash generative UK businesses.</p> <p>The Board has stress tested for the impact of a break-up of the Eurozone or sovereign debt default on the Group's ability to fund and operate, and has identified appropriate plans for such scenarios.</p>	Low
<p><b>Acquisitions</b></p> <p>Risk of failing to execute and then realise the expected returns from the Petermann acquisition.</p>	<p>The Group acquired Petermann for \$200 million in May. Its return on that investment is dependent on properly integrating the operations, retaining customers and employees and realising planned cost savings and synergies.</p>	<p>Thorough due diligence was carried out, as well as dedicating resource for the transition and integration of Petermann operations and customers. Operational and financial metrics show the acquisition is on track to meet expected returns.</p>	Low
<p><b>Contractual</b></p> <p>Much of the Group's business is secured through winning contracts and concessions, particularly in its North American school bus and Transit business, in Spain and in UK Rail.</p>	<p>An inherent risk in contract bidding is that bid assumptions might prove to be incorrect. If the Group's significant bid assumptions prove to be incorrect, this could have an adverse effect on results of the operations and the Group's financial condition.</p>	<p>The Group seeks to mitigate the risk through careful economic modelling of new contracts, and by sharing revenue risk with the awarding body; for example with the DfT in UK Rail.</p>	High

# Our values underpin who we are as a business

Our Vision and Values are fundamental to our identity as a business and ensure that we are a responsible corporate citizen.

## Our approach

Our Vision is to earn the lifetime loyalty of our customers by consistently delivering frequent, high performing public transport services that offer excellent value.

This Vision is supported by four Values. Our business activities reflect our Values. We should always be safe in everything we do; we will always try harder than anyone else for customers; we will work to be an employer of choice; we will play an active role in the local community and will respect the environment and meet the challenges presented by climate change. In addition, all our business should be conducted properly in line with legal, regulatory and other stakeholder requirements.

All of our senior management team are tasked with ensuring that our Vision and Values, business approach and policies are adhered to. This section of our annual report highlights how we manage each of these areas. Further information about National Express and corporate responsibility is published on the Group website ([nationalexpressgroup.com/ourway](http://nationalexpressgroup.com/ourway)).

## Managing responsibly

### Safety

Safety is a key value and is a fundamental priority for any public transport business. Ultimate responsibility for managing our performance rests with Dean Finch, our Group Chief Executive, our Group Safety Director, Alison Forster, and the divisional heads.

The Group develops a Health, Safety and Environment Plan every three years which includes input from each division such as setting objectives and quantified targets.

In practice the distinctive nature of our divisional business activities means that health and safety presents a different set of challenges for each one. Consequently our health and safety management systems are developed and managed at this level. Compliance with our health and safety standards is enforced by a rigorous and continuous internal audit process and is an essential and prominent feature of our internal reporting throughout the business and at Board level.

## Our values



### Safety

More than anything else, we value the safety of our customers, employees and the public generally.



### Customers

We will place customers at the heart of our business. Nobody will try harder for our customers than we do.



### People

Enabling all our people to reach their full potential and to give their best as individuals and in teams.



### Community

We will advance the social, environmental and economic conditions in the communities where we operate.

Driving Out Harm, a Group-wide safety initiative was developed in 2010 with the aim of embedding a global safety culture throughout our divisions. Features include regular safety training for our middle managers and supervisors. Safety is also viewed throughout the business as being the personal responsibility of every employee.

Additionally all of our divisions are in regular dialogue with peer group companies, regulators and industry associations and conduct best practice health and safety knowledge sharing activities with them as a matter of course.

The Group's health and safety performance has seen material improvements in performance during 2012. Significant reductions in lost time injury instances were achieved at UK Bus, UK Coach and in Spain. Similar improvements in preventable accidents were recorded in Spain, Morocco, North America and at UK Coach.

## Customers

Operational excellence is a key element of our Vision and Values and we aim to earn the lifetime loyalty of our customers. Five Golden Rules have been introduced in 2012 to provide a Group-wide standard for customer service and we strive to ensure that every employee is aware of these requirements. Staff members are encouraged to be approachable, communicate clearly, be in possession of current information, take personal responsibility for any actions they might take and treat customers courteously and with respect.

This focus on excellence is reflected by c2c's achievements. Our UK rail franchise holds both the industry's punctuality records. This industry-leading performance was recently complemented by the National Passenger Survey, published in October 2012 by Passenger Focus, the independent watchdog for rail services. In the survey c2c was named as the most popular franchise in the UK. Overall passengers rated c2c as the leading franchise in five key categories.

Passengers also rated c2c as the top London commuter rail franchise in 12 categories including overall satisfaction with the station, service frequency and the speed of the journey.

Similarly, our UK Bus business increased overall customer satisfaction during 2012 from 80% to 84%, using the Passenger Focus survey methodology.

Customers expect good communication, and the internet and social media play an increasingly important part in ensuring that we keep them informed about our services.

An example is the launch in 2012 of Coach Tracker in the UK. The service allows customers to track their coach in real time, anytime and anywhere. This enables them to see whether the coach is on time and when it is due to arrive at a station or stop. The service also allows customers to check for information such as an earlier or later departure should journey plans change.

## People

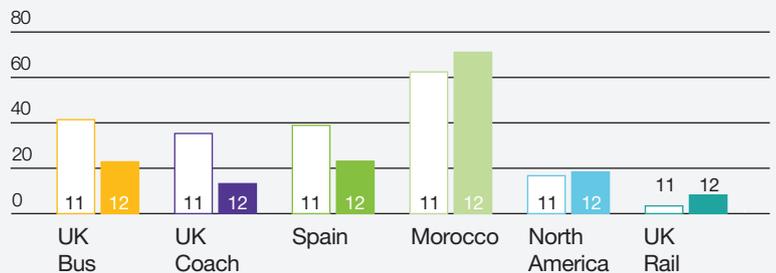
Underpinning the delivery of the People value are five people management standards which apply across all of our operations. They are:

- Recruitment excellence (to get the right person into the right job at any level in National Express).
- Induction (to ensure that every new employee is engaged with our Vision and Values and understands the business, policies, practices, safety rules and standards of the area in which they work).
- Performance Management (to enable all our people to meet and exceed job requirements each year, linked to core values).
- Talent Management (to ensure all our people reach their full potential in National Express).
- Workplace rights (to sustain an open, fair and supportive environment for all those who work for our company).

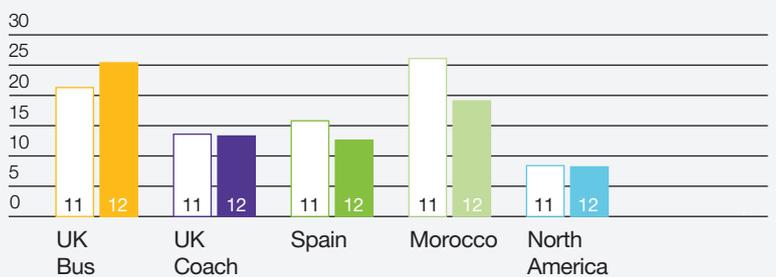
Compliance with our policies and our people management standards is monitored at divisional level through employee feedback (including the whistleblowing mechanism), customer feedback and internal human resources measurement systems.

## Measuring our progress

Lost time employee injuries per 1,000 full-time equivalent employees



Preventable accidents per million miles



The views of our employees matter. To gauge engagement in the business, we conduct separate employee surveys in our divisions. They examine employee opinion on a variety of aspects of our business including issues such as safety, employee morale, working environment and manager relations.

The 2012 UK Bus survey had a response rate of 55% (up 6% on 2011). Particularly positive scores were noted in the following areas:

- Understanding of personal obligations regarding safety (95%).
- Role played in helping the business achieve its objectives (89%).
- Safety is taken seriously by the business (87%).

c2c's latest employee survey was conducted in December 2012 and had a response rate of 75%.

UK Coach targeted an increase in response rates to its own survey, which is undertaken twice annually. This led to an improvement in participation from 49% to 88% and overall employee satisfaction increased slightly during a challenging year to 75%.

Each area of the business has nominated one of their team as an engagement champion and this team of 25 champions have been instrumental in raising the profile of the survey, encouraging responses, communicating the results and holding focus groups to ensure the resulting action plans achieved the desired results. Local action plans are in place in all areas of the business as well as a business-wide action plan which addresses the key areas of communication and recognition.

Safety



...all of our divisions are in regular dialogue with peer group companies, regulators and industry associations and conduct best practice health and safety knowledge sharing activities with them as a matter of course.

Customer



97.5%

Punctuality (PPM/MAA)

93%

Overall journey satisfaction\*

92%

Satisfaction with train\*

\* National Passenger Survey c2c rail.

Key conclusions from the 2012 from our latest quarterly employee survey in North America included the following:

- Employees clearly understand what is expected of them at work (95.7%).
- Feedback from employees to managers is acted upon (92.8%).
- Employees understand the goals and priorities of the company (90.7%).

Community

We recognise the impact we have on the communities in which we operate. Responsibility for ensuring that our policies concerning the community, including our impact on the environment, are carried out is split between the Group head office and our divisions.

At Group level, a key development in 2012 in support of the Community value was the launch of the National Express Foundation, an independent charitable trust. The Foundation was created in response to the urban disturbances in the UK in 2011 and the Group has pledged to provide it with at least £500,000 in funding over five years.

The Foundation provides support to students with challenging personal and financial circumstances to enable them to advance their further and higher education. It also provides grants to community groups with social objectives that support children and young people and promote cross-community cohesion and understanding. In 2012 more than 750 young people benefitted as a result of the Foundation making grants to community groups and awarding bursaries to students.

In the UK, National Express is actively promoting payroll giving and we are aiming to achieve the Gold Quality Mark for Payroll Giving. This is awarded to organisations that achieve 10% employee participation in payroll giving to charities and demonstrate other support for the programme.

The Group believes that it is also important that our divisions interpret our policies through designing activities which are relevant to our business and the communities in which they operate. Examples of this sort of activity during 2012 included:

- Our UK Employee Charity Panel making awards to 60 community groups which employees are involved with totalling £18,000.
- Our Routes to Work scheme commits us to filling the expected 1,700 job opportunities in our West Midlands bus business over the next three years in partnership with JobCentre Plus.
- Our participation in National Bullying Prevention Month in North America.
- Our support of National School Bus safety week in North America.
- Our support of the John XXIII Foundation in Spain. This organisation aims to encourage the personal development, social inclusion and professional qualifications of people with learning disabilities.

Across the Group we made charitable donations totalling £373,000 in 2012. Other community activity included our continued association with Transaid. In 2012, four more West Midlands driver trainers spent time at the National Institute of Transport in Tanzania to help build skills and share techniques with local instructors. This is part of the charity's efforts to improve the road accident rate in Tanzania.

In 2012 we continued to make good progress improving our environmental performance. The Health, Safety and Environment plan requires divisions to prepare their own element and set objectives and quantified targets.

National Express' Group Property and Environment Director, Stuart Parker, plays a key role in our management systems. This responsibility includes maintaining an up to date corporate register of relevant legislation and standards which is circulated regularly to relevant environmental co-ordinators, providing guidance on the implications of forthcoming legislation and providing input into the Group Health, Safety and Environment Plan.

The Group Property and Environment Director provides regular updates to the Board's health, safety and environment committee which is responsible for reviewing and monitoring our environmental systems and performance. It also reports periodically to the Board and makes recommendations on any specific environmental issues. Further information on its activities is recorded in the Safety & Environment overview on page 63.

The Group applies a 'plan-do-check-review' model which is compatible with established environmental management systems such as ISO14001. It is not a requirement to obtain this certification although a number of sites have achieved this. The framework is also consistent with the principles of the European Foundation Quality Model (EFQM).

Each National Express division has assigned a director with specific responsibility for this aspect of our business. This role includes ensuring that our operations have a systematic approach to ensure, for example, compliance with the relevant legislation, pollution prevention and continual improvement in our environmental performance. Additional responsibilities include ensuring that employees have the necessary training, support and resources and requiring contractors and suppliers to manage environmental issues in line with our policies.

In practice, the nature of our divisional activities means that environmental and climate change matters present a different set of challenges to each of our businesses. Consequently they have developed approaches which are tailored to their areas of impact supported by Group-wide and peer group knowledge sharing. An example is the requirement for each business to develop its own environmental policy. This must comply with the policy of the Group, relevant environmental legislation and be reviewed every three years.

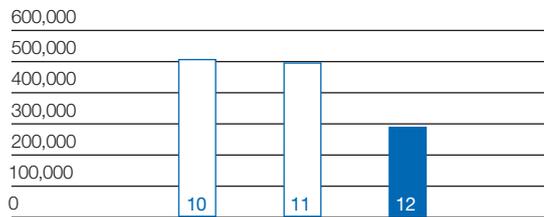
**Environmental performance highlights**

- Group-wide greenhouse gas emissions continue to fall and are now less than 50% of 2004 levels.
- Key three year key performance indicator targets are being achieved ahead a year ahead of target (end 2013). These were a 5% reduction in fleet fuel consumption per vehicle, a 10% reduction in site electricity, gas and gas oil consumption and a 40% reduction in non-hazardous waste going to landfill.
- Zero prosecutions during 2012 for pollution incidents.
- The introduction of electric and hybrid vehicles – five in Spain and 18 on our West Midlands routes, with 30 more on order.

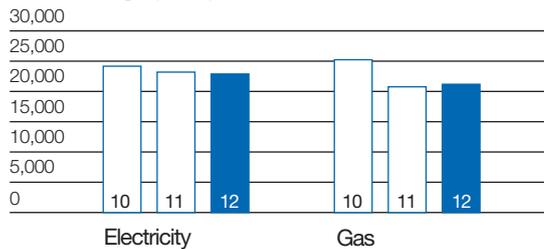
**Business conduct**

National Express has established rigorous processes and procedures at divisional and corporate level to ensure that

**UK greenhouse gas emissions (tCO<sub>2</sub>e)**



**UK site usage (mWh)**



Source: Utilities database, Grantley Lowe.

its policies and the expectations of its stakeholders are met in this important area. For example, our relations with our suppliers are governed by locally constructed purchasing policies and procedures. These include ensuring that operating companies only source goods and services from approved suppliers that have agreements with the company or appear on an approved list. Large projects (above £100,000) require the involvement of Group procurement in the purchasing process and specific Group approval if they have a value in excess of £500,000.

Group compliance with the requirements of the UK Bribery Act is supported by whistleblowing procedures which have been developed locally. For example, in the UK the company has developed a whistleblowing hotline procedure which is managed by an independent third party service. Callers to a free of charge number are addressed by a trained adviser who will maintain confidentiality if requested. Information obtained through this service is passed by Group management to the appropriate manager for investigation.

**Community**



"The funding provided by the National Express Foundation has been invaluable in helping to expand our innovative faith schools linking programme". *Stephen Shashoua, Director, Three Faiths Forum*

**People**



**95%**

Of our staff understand their personal obligations regarding safety\*

**89%**

Of our staff understand their role in helping the business achieve its objectives\*

\* 2012 UK Bus Employee Survey.

# What does good governance mean to National Express?

**Dear shareholder,**

The Board believes that effective governance is essential to protecting shareholder value and the sustainable growth of the Group. We therefore seek to ensure that it is an integral part of the 'way we do business' and that it is fully embraced by all our employees.

As you will know, I have only recently joined the Board and took over from John Devaney as Chairman of the Company at the beginning of February this year. I would like to thank John for the leadership and commitment he has shown in ensuring that good governance is in place across the whole Group.

This section of the report and accounts explains the various aspects of the governance of the Company, including reports on the work undertaken in 2012 by the Board's Committees.

The composition of the Board has continued to evolve. In addition to my appointment, Miranda Curtis retired from the Board and Jackie Hunt has joined it. It is important that the Board has the correct balance of skills and experience

and that Board members work together effectively. I will endeavour to carry on the good work of your former Chairman in this area.

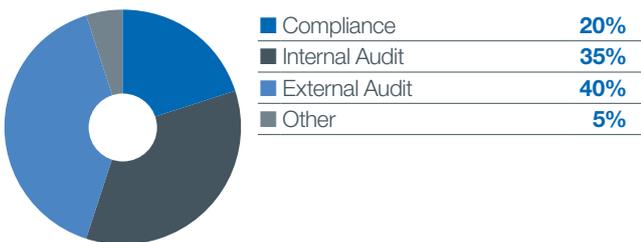
National Express supports diversity throughout the Group as well as the Boardroom. We work on the premise that talent has no age, race or gender and is not ruled out by disability. Our goal is for our people to reach their full potential and to give of their best as individuals and in teams.

In 2011 the review of the performance of the Board was carried out by an external facilitator and in 2012 the review was carried out internally. Both reviews confirmed that the Board continued to operate effectively; further details of the recommendations that came out of these reviews are set out on page 57.

A description of the subjects considered by the Board in 2012 are set out on page 56 and it is likely we will have another busy year in 2013 as we wrestle with the ongoing difficult macro-economic climate and continue to seek to grow the Group.

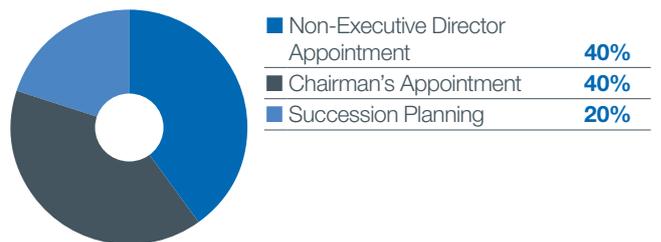
**Board Committee overview**

**Audit Committee**  
**Tim Score, Chairman**



[60](#) Read more

**Nomination Committee**  
**Sir Andrew Foster, Committee Member**



[62](#) Read more

We continue to monitor the developments in corporate governance practice and will aim to comply with the new UK corporate governance requirements that come into effect in 2013.

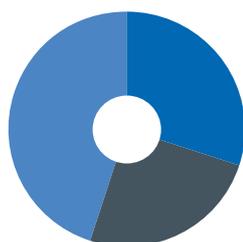
I would like to encourage you to attend our annual general meeting at 2pm on 9 May 2013 at Kings Place, 90 York Way, London N1 9AG and I look forward to meeting many of you that day.

**Sir John Armit, CBE**

Chairman

28 February 2013

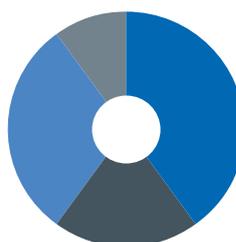
**Safety & Environment Committee**  
Chris Muntwyler, Chairman



■ Governance	30%
■ Environment	25%
■ Safety	45%

[63 Read more](#)

**Remuneration Committee**  
Sir Andrew Foster, Chairman



■ Board Remuneration	40%
■ Compliance	20%
■ Share Schemes	30%
■ Other	10%

[64 Read more](#)

# An experienced and balanced Board

The Board is regularly reviewed to ensure that the mix of skills and experience is appropriate to meet the current needs of the Group. An overview of the Directors' experience is summarised below.

## Board overview

Name		Position/ Committee membership	Length of service (as at 31 December 2012)	Independent	Public Board experience	Operational experience
Sir John Armit 67		Chairman Nomination (Chair) Safety & Environment	N/A	N/A	✓	✓
Joaquín Ayuso 57		Nomination Safety & Environment	1 year 6 months	✓	✓	✓
Jorge Cosmen 44		Deputy Chairman Nomination Safety & Environment	7 years 1 month	N/A	✓	✓
Sir Andrew Foster 68		Audit Nomination Remuneration (Chair) Safety & Environment	8 years 4 months	✓	✓	✓
Jackie Hunt 44		Audit Safety & Environment	3 months	✓	✓	✓
Chris Muntwyler 60		Audit Safety & Environment (Chair)	1 year 7 months	✓	✓	✓
Lee Sander 56		Remuneration Safety & Environment	1 year 6 months	✓		✓
Tim Score 52		Senior Independent Director Audit (Chair) Remuneration Safety & Environment	7 years 10 months	✓	✓	✓
Dean Finch 46		Group Chief Executive	2 year 10 months	N/A	✓	✓
Jez Maiden 51		Group Finance Director	4 years 1 month	N/A	✓	✓

## The structure of the Board

The Board consists of a balance of Executive and Non-Executive Directors who each bring a strong and in-depth mix of knowledge, business skills and experience to the Board's deliberations, details of which are shown below.

 For detailed biographies of our Board of Directors and Company Secretary, please go to [nationalexpressgroup.com/aboutus/ourmanagement](http://nationalexpressgroup.com/aboutus/ourmanagement)

International experience	Legal/M&A experience	Finance experience	Government / regulatory experience	Commentary
✓	✓	✓	✓	<ul style="list-style-type: none"> <li>Senior leadership experience in the public and private sectors</li> <li>Significant Board experience at Chief Executive and Chairman levels</li> <li>Extensive knowledge of international construction, civil engineering and transport industries</li> </ul>
✓	✓	✓	✓	<ul style="list-style-type: none"> <li>Significant Board experience at senior level</li> <li>Extensive knowledge of the transportation industry in both continental Europe and internationally</li> </ul>
✓	✓	✓	✓	<ul style="list-style-type: none"> <li>Expertise in the transportation industry</li> <li>Key shareholder representative</li> </ul>
✓	✓	✓	✓	<ul style="list-style-type: none"> <li>Significant public sector and infrastructure experience</li> </ul>
✓	✓	✓	✓	<ul style="list-style-type: none"> <li>Significant financial expertise</li> <li>Senior Board experience</li> <li>Chartered Accountant</li> </ul>
✓	✓		✓	<ul style="list-style-type: none"> <li>Extensive senior management experience in transport and logistics industries both in the UK and international</li> <li>Senior Board experience both UK and international</li> </ul>
✓			✓	<ul style="list-style-type: none"> <li>Senior management and operational experience in the US transportation industry</li> <li>Significant experience at US Government advisory level on transportation policy and management</li> </ul>
✓	✓	✓		<ul style="list-style-type: none"> <li>Financial expertise from CFO positions</li> <li>Has acted as Interim Chairman</li> </ul>
✓	✓	✓	✓	<ul style="list-style-type: none"> <li>Significant transportation experience</li> <li>Chartered Accountant</li> </ul>
✓	✓	✓	✓	<ul style="list-style-type: none"> <li>Significant financial expertise</li> <li>Chartered Management Accountant</li> </ul>

### Independence

The Board considers all of the Non-Executive Directors to be independent other than Jorge Cosmen and considered Sir John Armit to be independent prior to his appointment as Chairman. Jorge Cosmen is not considered to be independent by the Board due to his close links with the ALSA business and significant interests in the shares of the Company which are held through European Express Enterprises Limited. Despite his non-independence, the Board feels that it benefits greatly from Jorge Cosmen's extensive local market knowledge and experience. Non-Executive Directors do not participate in any of the Company's share option or bonus schemes and their service is non-pensionable.

### The role of the Board

The Board's role is to provide leadership of the Group and direction for management. It is collectively responsible and accountable to the Company's shareholders for the long term success of the Group and for ensuring the appropriate management and operation of the Group in pursuit of its objectives.

The Board is responsible for setting the Group's strategic aims, its values and standards and ensuring the necessary financial and human resources are in place to achieve its goals. To help discharge its responsibilities, the Board has a schedule of governance and business matters for which it is responsible. These form the core of the Board's agenda.

The Board discharges its duties through an annual programme of Board and other meetings. In doing so, the Board ensures that all necessary matters are discussed. The timeline on page 56 shows the main items of business addressed by the Board during the year. The Non-Executive Directors also met several times during the year without the Executive Directors being present.

## Key matters reserved for Board approval

### Group strategy and risk management

- Formulation and approval of long term objectives
- Approval of changes to capital structure
- Approval of major changes to management and control structure
- Approval of extension of activities into new businesses or geographical areas

### Financial and internal controls

- Oversight of risk management and internal control framework
- Approval of financial statements and results announcements
- Approval of shareholder communications, circulars and notices of meetings
- Approval of the auditor's remuneration and recommendations for their appointment/removal
- Recommendation and declaration of dividends
- Monitoring Group's businesses against plan and budget
- Approval of major capital expenditure projects
- Approval of material contracts

### Board membership and committees

- Appointment of Directors
- Approval of remuneration of the Non-Executive Directors
- Setting of committee terms of reference
- Approval of new share incentive plans

### Corporate governance

- Undertaking formal performance reviews of Board, committee and individual directors
- Determining the independence of directors
- Receiving reports from the Company's major shareholders

### Policies

- Review and approval of Group policies, for example:
  - health and safety
  - risk management strategy
  - environment
  - charitable and political donations

## Reporting framework



■ Board Committee

□ Executive Committee

### The Chairman and the Group Chief Executive

The Chairman is responsible for leading the Board and ensuring its effectiveness. The Group Chief Executive is responsible for running the business of the Group and implementation of the strategy and policies adopted by the Board. The roles of Chairman and Group Chief Executive are held separately and the division of responsibilities between these roles is clearly established as shown below.

#### Chairman's responsibilities

- Chairing and managing the business of the Board
- Together with the Group Chief Executive, leading the Board in developing the strategy of the business and ensuring its effective implementation by the executive management team
- Ensuring effective dialogue with investors concerning mutual understanding of objectives
- In conjunction with the Nomination Committee, taking responsibility for the composition and replenishment of the Board
- Periodically reviewing with the Board its working practices and performance
- Ensuring there is an effective contribution from the Non-Executive Directors and a constructive relationship between Executive and Non-Executive Directors

#### Group Chief Executive's responsibilities

- Communicating a shared purpose and the culture, vision and values of the Group
- The development and implementation of management strategy
- The day-to-day management of the Group
- Managing the executive management team
- Fostering relationships with key stakeholders
- Leading the Group Executive Committee
- In conjunction with the Group Finance Director, communicating the Group's financial performance to investors and analysts
- Liaising with the Chairman to ensure effective dialogue with investors and stakeholders

The Chairman's other significant commitments are detailed in his biography which accompanies the Notice of the 2013 Annual General Meeting.

### Non-Executive Directors

The terms and conditions of appointment of the Non-Executive Directors are available for inspection at each Annual General Meeting, on the Company's website and at its registered office during normal business hours. The Non-Executive Directors disclose to the Board their other significant commitments. The procedure adopted by the Company in relation to Directors' conflicts of interest are detailed on page 79.

### Senior Independent Director

The Board appoints one of the Non-Executive Directors to act as Senior Independent Director and this role has been held by Tim Score since April 2009. The role of the Senior Independent Director is to provide a sounding board for the Chairman and to serve as an intermediary for the other Directors where necessary. The Senior Independent Director is also available to address shareholders' concerns if they have been unable to resolve these through normal channels or when such channels would be inappropriate. The Senior Independent Director is also responsible for leading the annual appraisal of the Chairman's performance.

### Executive Directors

The Executive Directors are responsible for the day-to-day management of the Group's businesses, implementation of its strategy, policies and budgets and its financial performance. Executive management meetings comprise the Executive Directors and senior management from the divisions and are held regularly to discuss current issues.

### Principal committees of the Board

The main committees established by the Board are the Audit Committee, the Remuneration Committee, the Nomination Committee and the Safety & Environment Committee. Each Committee operates within defined terms of reference, the full versions of which can be found on the Company's website at [nationalexpressgroup.com](http://nationalexpressgroup.com). Each Committee reports its proceedings to the Board through the submission of reports and minutes as appropriate.

All Board Committees are authorised to obtain legal or other professional advice as necessary, to secure the attendance of external advisors at their meetings and to seek information required from any employee of the Group in order to perform their duties.

Reports of each of the Committees are provided on pages 60 to 65, and include information on each Committee's membership, duties and work throughout the year.

The Chief Executive heads the Group Executive Committee which meets on a monthly basis and is tasked with approving operational business matters. In addition, the UK, Spain and North America Executives meet on a monthly basis and matters dealt with at these meetings are reported to the Group Executive Committee.

The reporting framework of the Board Committees and of the Group Executive Committee and its sub-committees is shown above.

The table on page 56 sets out the number of meetings of the Board and its Committees during the year and individual attendance by the Board and Committee members at these meetings.

During the year the Chairman met on several occasions with the Non-Executives without the Executive Directors present to allow informal discussions on a variety of issues.

## Number of Board meetings

Board meetings	The Board of Directors	Audit Committee	Nomination Committee	Remuneration Committee	Safety & Environment Committee
Total meetings in 2012	8	3	5	4	3
<b>Executive Directors</b>					
Dean Finch, Group Chief Executive	8	–	–	–	–
Jez Maiden, Group Finance Director	8	–	–	–	–
<b>Non-Executive Directors</b>					
John Devaney <sup>3</sup>	8	–	5	–	3
Joaquín Ayuso <sup>4</sup>	7	–	–	–	3
Jorge Cosmen	8	–	5	–	3
Miranda Curtis <sup>1</sup>	3 (3)	–	–	1 (1)	1 (1)
Sir Andrew Foster <sup>5</sup>	7	3	5	3 (3)	3
Jackie Hunt <sup>2</sup>	3 (3)	–	–	–	1 (1)
Chris Muntwyler	8	3	–	–	3
Lee Sander	8	–	–	4	3
Tim Score	8	3	–	4	3

Company Secretary: Michael Hampson also acts as Secretary to the Board Committees.

<sup>1</sup> Resigned from the Board on 10 May 2012. Maximum possible meetings shown in brackets.

<sup>2</sup> Appointed to the Board on 13 September 2012. Maximum possible meetings shown in brackets.

<sup>3</sup> Resigned from the Board on 31 January 2013.

<sup>4</sup> Joaquín Ayuso was unable to attend the Board meeting held on 24 January 2012 due to a prior engagement scheduled before his appointment to the Board.

<sup>5</sup> Sir Andrew Foster was unable to attend the unscheduled Board meeting held on 13 September 2012 due to a prior engagement.

## Board activity throughout the year (excluding standing items)

Month	Activity	Category
<b>January 2012</b>	Group Strategic Review 2012-2015	Strategy
<b>February 2012</b>	Consideration of Board External Evaluation results and recommendations	Governance
	Review of Market perceptions of share price performance	Financial and Risk Management
	Review of Pre-Qualification Questionnaire for Rail bid	Commercial and Business
	Review of Stakeholder strategy/rail bidding	Commercial and Business
	Capital investment	Financial and Risk Management
	Approval of potential additional non-bank funding	Investor Relations
	Approval of Preliminary Announcement and Annual Report and Accounts for year to 31 December 2011	Financial and Risk Management
<b>May 2012</b>	Recommendation of final dividend for financial year 2011	Investor Relations
	Update report on UK Coach business	Commercial and Business
	Review of progress on Rail bids	Commercial and Business
	Discussion of key information and financial risks re: German rail tender	Financial and Risk Management
<b>June 2012</b>	Approval of Communications and Investor Relations Strategy	Investor Relations
	Approval of induction programme for new Non-Executive Directors	Governance
	Discussion of Board succession and potential candidates to fulfil role of Non-Executive Director	Governance
<b>July 2012</b>	Rail bids update: approval of German Rail bid	Commercial and Business
	Update on North American School Bus and Transit businesses	Commercial and Business
	Rail bids update	Commercial and Business
<b>September 2012</b>	Review of due diligence and risks and approval of contract for acquisition of two transit businesses in the US	Commercial and Business
	Approval of half year results and interim dividend	Financial and Risk Management
	Review of BIS proposals on UK Directors' remuneration	Governance
<b>October 2012</b>	Appointment of Jackie Hunt as a Non-Executive Director	Governance
<b>November 2012</b>	Spanish Division Review	Commercial and Business
	Approval of HR Strategy proposals for North America	Governance
	Consideration of appointment of new Chairman	Governance
<b>November 2012</b>	Approval of purchasing strategy for replacement coaches for Spanish fleet in 2013	Commercial and Business
	Approval of 2013 budget	Financial and Risk Management
	Presentation on UK coach business	Commercial and Business
	Approval of appointment of new Chairman	Governance

## Board oversight and benchmarking

- The Board regularly and rigorously reviews and benchmarks operational and functional performance
- At each Board meeting the Board receives a report from the Group Chief Executive on operational performance, and from the Group Finance Director on the financial performance of the Group as a whole and each of the Group's businesses individually
- The Board receives a presentation at each of its meetings from either a business Managing Director or a functional head

## Information and support

Reports from the Executive Directors, which include in-depth financial information, are circulated to Board members prior to every Board meeting. Senior management and advisers make presentations to the Board on significant matters during the year. Every effort is made to ensure that information reported to the Group Board is of high quality in terms of accuracy, quality, appropriateness, comprehensiveness and currency. Directors are able to seek clarification or amplification from management where necessary.

Under the direction of the Chairman, the Company Secretary is responsible for ensuring Board procedures are followed and applicable rules and regulations are complied with and advises the Board on governance matters. All Directors have access to the advice and services of the Company Secretary and the appointment or removal of the Company Secretary is a matter for the Board as a whole. As well as the support of the Company Secretary, there is a procedure in place for any Director to take independent professional advice where considered necessary.

## Induction of new Directors

On appointment, Directors are offered training as appropriate and are thereafter encouraged to keep abreast of matters affecting their duties as a Director and to attend training courses relevant to their role.

An induction process is in place for new Directors, the aim of which is to:

- build an understanding of the nature of the Company, its business and the markets in which it operates
- establish a link with the Group's employees
- build an understanding of the Group's main relationships including stakeholders and customers.

The following information is provided as part of the induction and ongoing training and development of Board Directors.

### On appointment

- Governance information in relation to the Group, including the terms of reference of the Board and its Committees
- Guidance for Directors of British public companies generally including under the law, the UK Corporate Governance Code and the rules of the UK Listing authority
- Board minutes covering the previous year
- Information on key Group policies

## Following appointment

- Business briefing meetings with the Chairman, the Group Chief Executive, and the Group Finance Director
- Meetings with the Company Secretary to discuss the Group structure, the Company's constitution and Board procedures and terms of reference of the Board and its Committees
- Meetings with the Group's main stakeholders including major shareholders and fund managers
- Meetings with senior management in the five divisions
- Meeting with the Director of Safety for an overview of the Group's health and safety policy and safety record
- Meetings with the Group's auditors

## Performance evaluation

An evaluation of the effectiveness of the Board and its Committees is conducted annually. In late 2011 an external evaluation of Board performance was led by Geoffrey Shephard of ICSA Board Evaluation. The full results of the Board evaluation were discussed at the Board meeting in February 2012. The Board concluded that, following this comprehensive review, the Board and its Committees continue to operate effectively. Actions implemented from the 2011 performance review include:

2011 Recommendations	Actions
<ul style="list-style-type: none"> <li>• Remove pressure from the Board schedule and allow time for Non-Executives to meet on their own in advance of Board meetings</li> </ul>	Non-Executive Directors are scheduling their personal commitments to allow time to meet on their own
<ul style="list-style-type: none"> <li>• Ensure a more regular pattern of meetings with a closer link to the Company's reporting and events calendar</li> </ul>	Following a review the meetings schedule was adjusted
<ul style="list-style-type: none"> <li>• Circulate Board papers at least four days (including two working days) before the Board meeting</li> </ul>	There has been a clear improvement in the despatch of Board papers and the use of iPads and electronic dissemination of Board papers via a secure Board portal is considered a real advantage
<ul style="list-style-type: none"> <li>• Strengthen the breadth of skills and experience around the Board table</li> </ul>	The composition of the Board has been significantly strengthened and contains a balance of four UK and four international Non-Executives

In September 2012 an internal evaluation of Board effectiveness was conducted by Stephen Connock, Group HR Director, via a questionnaire circulated to all the Directors. The results of the internal review were discussed at the November Board meeting. The Board's discussions highlighted a number of areas of strength and it was felt that the Board continued to work well. Areas identified for action from the 2012 evaluation include the following.

**2012 performance review – areas for action**

• Post implementation audits	Increase focus on action plans arising from Board decisions with clear responsibilities and timescales for resulting actions
• Succession planning	Further development of Board succession planning including an analysis of the future composition of the Board

Outcomes arising from this evaluation process will be further reported on in next year's Annual Report.

**Relations with shareholders**

The Board recognises the importance of maintaining good communications with the Company's shareholders to ensure mutual understanding of the Group's strategy, objectives, governance and performance.

During the year shareholders are kept informed of the progress of the Group through regular corporate communications: the Preliminary Announcement, the Notice of Annual General Meeting, Interim Management Statements and press releases regarding any other significant developments, as well as the dissemination of regulated information. Such communications are made available to the London Stock Exchange and are simultaneously available on the Company's website [nationalexpressgroup.com](http://nationalexpressgroup.com).

The Company's website houses wide-ranging information about the Group, including the Annual Report and Accounts, press releases, share price data and links to subsidiary company websites.

From time to time the Company invites research analysts and institutional investors to presentations and site visits that are designed to provide more understanding of the strengths and capabilities of its business operations and strategy. In 2012 the Company hosted a visit to meet the local management team and tour the Spanish operations in Madrid.

Shareholders receive documentation such as the Annual Report and Accounts electronically and also are able to cast their votes by proxy electronically. The Company also has an electronic proxy appointment service for CREST members.

**Institutional shareholders**

The Chairman, Group Chief Executive and Group Finance Director have held a number of meetings with existing and prospective institutional shareholders during the year as well as given presentations following the full-year and half-year results. They have also met and given presentations to research analysts and stockbrokers' sales teams. The Company's appointed brokers and investor relations advisors in turn have provided regular confidential feedback to the Company on the views of the major institutions. The Chairman, Senior Independent Director and other Non-Executive Directors are also given the opportunity to meet institutional shareholders and are available by contact through the normal channels. During 2012 the Chairman and Senior Independent Director have both met with major shareholders to discuss the governance and direction of the Company.

The Board is provided with regular updates on the views and issues raised by the Company's investors. During the year the Board received external presentations from advisors on shareholder and market perception of the Group's performance and strategy. Formal written responses are given to correspondence received from shareholders, as well as bilateral engagement through the Group Chief Executive, Group Finance Director and the Company's investor relations function.

**Analyst coverage**

The Company is aware of 19 analysts who have published equity research notes covering National Express Group PLC during 2012 and we provide names and contact numbers of their firms on our website.

**Private shareholders**

We welcome contact from our private shareholders and are pleased to answer their queries. We encourage our shareholders to make use of our website to access Company reports, Notices of meeting and general shareholder and dividend information. The website also provides a direct link to Shareview ([shareview.co.uk](http://shareview.co.uk)) which enables shareholders to view and manage their shareholder account online.

**Annual General Meeting**

Notice of the Annual General Meeting and related papers are sent to shareholders at least 20 working days before the meeting. Last year's Annual General Meeting included a presentation by the Group Chief Executive on the progress of the business and an opportunity for shareholders to ask questions. All our Directors were available formally to answer questions during the meeting and many circulated and talked to shareholders informally afterwards. Voting on the resolutions was conducted by poll. Some 86% of the shares in issue were voted and the resolutions were passed. The results were published on the Group's website shortly after the meeting.

We look forward to welcoming shareholders to our 2013 Annual General Meeting and updating them on the progress of the business this year.

## Major shareholdings

As at 25 February 2013, the Company had been notified of the following interests in its shares which represent 3% or more of the voting rights in the Company:

	Ordinary shares	Percentage of share capital*	Nature of holding
Elliott International L.P./ The Liverpool Limited Partnership	112,741,469	22.03%	Direct
European Express Enterprises Ltd	87,095,062	17.02%	Direct
Prudential plc	66,764,762	13.04%	Direct

The holdings for European Express Enterprises Ltd are included in Jorge Cosmen's holdings which are shown in the Directors' Remuneration Report on page 74.

Analysis of ordinary shareholdings at 25 February 2013	Number of accounts	Percentage of total number of accounts	Number of shares	Percentage of ordinary capital
<b>By size of holding</b>				
1-500	6,491	48.08	925,943	0.18
501-1,000	1,698	12.57	1,333,721	0.26
1,001-5,000	3,637	26.94	8,471,914	1.66
5,001-50,000	1,459	10.81	17,475,833	3.41
50,001-1,000,000	163	1.21	40,233,243	7.86
Over 1,000,000	53	0.39	443,291,949	86.63
	<b>13,501</b>	<b>100.00</b>	<b>511,732,603</b>	<b>100.00</b>
<b>By investor type</b>				
Individuals	12,697	94.04	25,408,067	4.92
Institutional investors	699	5.18	481,699,629	91.68
Other corporate investors	105	0.78	4,624,907	3.40
	<b>13,501</b>	<b>100.00</b>	<b>511,732,603</b>	<b>100.00</b>



### Audit Committee overview

#### Dear shareholder

The Audit Committee plays an important role in the governance of the Company and I am pleased to report to you on the work undertaken by the Committee during 2012.

As usual, we have reviewed the integrity of the financial statements prepared for shareholders by management and the principal accounting matters and financial reporting judgements contained in them. Examples include reviewing the accounting implications of the North American acquisitions made in 2012 and considering the Group's annual goodwill and intangible asset impairment review. Deloitte LLP, our external auditor, confirmed they are satisfied with the treatment in the accounts of the significant areas of judgement.

Deloitte LLP were appointed as the Company's auditor on 14 June 2011 following a tender process and we took the opportunity to review their performance in 2012. We believe the auditors have performed satisfactorily since taking on the role and that the audit process they implemented was effective. We continue to consider Deloitte LLP to be independent and we were happy to recommend to the Board that they be put forward to be reappointed at the forthcoming Annual General Meeting.

The Committee continued to monitor the Group's internal financial controls and risk management systems. Business continuity planning, IT systems and Treasury policies were all specific topics which we considered in 2012.

The performance of the internal audit function itself continues to be assessed on an ongoing basis and we believe it is effective in the role it carries out.

Towards the end of 2012 the UK Corporate Governance Code was updated and we will be ensuring that we take account of the new requirements in 2013.

Finally Jackie Hunt joined our Board in September 2012 and is now a member of the Committee; I believe her significant financial and UK public company experience will be of great value to the Committee in the coming years.

A handwritten signature in black ink, appearing to read 'Tim Score'.

**Tim Score**  
**Audit Committee Chairman**  
28 February 2013

## The role of the Audit Committee

The terms of reference of the Audit Committee comprise the duties and tasks delegated to it by the Board and include the following:

- overseeing the process for selecting the external auditor, assessing the continuing independence of the external auditor and recommending approval of the audit fee to the Board;
- responsibility for ensuring that provision of non-audit services does not impair the external auditor's independence or objectivity;
- liaising with the external auditor on matters relating to the nature and scope of the audit and any issues or concerns arising from the audit process;
- reviewing effectiveness of the Company's internal control and risk management systems, including the internal audit programme and major findings identified from internal audit investigations and reviews; and
- reviewing the half-year and annual financial statements including accounting judgements and policies.

The Audit Committee routinely considers a number of standing items during the year such as consideration of the internal and external audit reports, review of the Annual Report and Accounts, review of the preliminary and half-year announcements, and review of the Corporate Governance Report.

The Committee met three times in 2012. Details of attendance at these meetings can be found on page 56. Outside of the meeting process the Committee Chairman has regular contact with the Executive Directors, other Committee members and the auditors on a variety of topics. The Committee itself meets with the external auditor at least once a year without Executive Directors being present.

At the invitation of the Committee, and as appropriate to the matters under discussion, meetings may be attended by the Executive Directors and internal and external auditors. Full minutes are kept by the Secretary of the matters considered and decisions taken by the Committee.

## Tendering frequency of external auditor

The Committee currently has no set policy on the tendering frequency of their external auditor or of the tenure of their external auditor. The Committee will monitor developments in UK and European Union best practice

regarding audit tendering with a view to ensuring compliance with any requirements going forward. Notwithstanding the above, the Committee regularly considers the marketplace, benchmarking the current level of audit services the Company receives along with the fees it pays and the value being delivered. The Company last put its external audit contract out to tender in 2011, following which Deloitte LLP were appointed as the Company's auditor.

## Re-appointment of auditor

As a result of its work with Deloitte LLP during the year, the Committee has concluded that it is satisfied with their performance and has recommended to the Board that Deloitte LLP be re-appointed.

## Review of independence of external auditor

The Audit Committee assesses and reviews on a regular basis the independence of the external auditor. As part of their determination the Audit Committee considers a report by the external auditor on the firm's independence which is required in order to carry out their professional duties and responsibilities as auditor.

## Policy on auditor providing non-audit work

The Committee has an approved policy on the provision of non-audit services by its auditor for the following types of service:

- services that are considered to have 'general pre-approval' by the Audit Committee, by virtue of the approval of the policy;
- services that require 'specific pre-approval', on a case-by-case basis, before any work can commence; and
- services that cannot be supplied by the external auditor (prohibited services).

The services that have general pre-approval are tax, transaction investigation and advisory and corporate finance services. The fees for these services are pre-approved up to £50,000 for each non-audit assignment undertaken and subject to an overall limit of 75% of the total fees paid to the external auditor. For services exceeding this limit specific pre-approval is required.

In deciding whether or not to grant approval for the provision of specific services by the external auditor, the Audit Committee includes in its consideration the following factors:

- whether the external auditor is best placed to provide an effective and efficient service, given its familiarity with the Company's processes, systems and people; and

- the level of non-audit fees paid to the external auditor in the year as a proportion of the annual external audit fee.

The majority of non-audit work undertaken by the external auditor during the year relates to advice in respect of tax advisory and other regulatory services. These items the Committee believes would be impractical and costly to provide through another party.

The split between audit and non-audit fees for the year ended 31 December 2012 appear in note 6 to the Consolidated Accounts.

## Audit Committee members

Name of Director	Position
Tim Score	Chairman, Senior Independent Director
Sir Andrew Foster	Non-Executive Director
Jackie Hunt	Non-Executive Director (appointed 13 September 2012)
Chris Muntwyler	Non-Executive Director

## Main activities during the year

During the year the Committee considered the following:

- Review of compliance with the UK Corporate Governance Code
- Review and approval of internal audit plan for 2012
- Review of the Group Risk Register
- Update on business continuity planning
- Review of IT strategy
- Approval of updated Treasury Policy
- Review and update of Policy on Provision of Audit and Non-Audit Services
- Consideration of the results of internal audit compliance testing of financial controls (Annual Fitness Checks) within the subsidiaries
- Review of the external auditor's fees
- Review of financial statements and accounting policies



**Nomination Committee overview**

**Dear shareholder**

I have been asked by Sir John Armit to address you on the work undertaken in 2012 by the Nomination Committee, as he did not join the Board until 1 January 2013.

Two significant areas of work undertaken during the year by the Committee were in respect of the appointment of Jackie Hunt to the Board as a Non-Executive Director and the appointment of Sir John Armit as our new Chairman. The search process for our new Chairman, was led by Tim Score, the Senior Independent Director. John Devaney did not chair the Nomination Committee discussion that recommended to the Board the appointment of Sir John Armit. External search consultants were retained to help the Committee in the search processes; Korn/Ferry Whitehead Mann were retained on the Non-Executive Director search and Spencer Stuart were used for the Chairman search. Neither of these consultants has any connection with the Company. As part of the process in both cases, draft specifications were drawn up for these roles and the members of the Committee interviewed the short-listed candidates for both appointments. The Committee was pleased with the quality of candidates that emerged through the selection processes and from which Jackie Hunt and

Sir John Armit stood out. The Board subsequently accepted recommendations by the Committee for the appointment of both Jackie Hunt and Sir John Armit and I am pleased to welcome both to the Board of National Express Group PLC.

I am also pleased to announce that Joaquin Ayuso joined the Nomination Committee on 26 February 2013. The Committee now comprises a majority of independent non-executive directors as prescribed by the UK Corporate Governance Code.

In addition, the Committee also reviewed the succession plans for the senior executive positions across the Group.

Further details about the role of the Committee, its activities and membership are set out below.



**Sir Andrew Foster**  
**Nomination Committee Member**  
 28 February 2013

**Nomination Committee members**

Name of Director	Position
Sir John Armit	Chairman (appointed 1 January 2013 and as Company Chairman on 1 February 2013)
Joaquin Ayuso	Non-Executive Director (appointed 26 February 2013)
Jorge Cosmen	Non-Executive Director
John Devaney	Chairman (resigned 31 January 2013)
Sir Andrew Foster	Non-Executive Director

**The role of the Nomination Committee**

The key responsibilities of the Nomination Committee are summarised below:

- responsibility for identifying and nominating, for the approval of the Board, candidates to fill Board vacancies as and when they arise;
- giving full consideration to succession planning, and keeping under review the leadership needs of the organisation, both Executive and Non-Executive;
- reviewing the time required from and spent by a Non-Executive Director on fulfilling his or her duties; and
- leading the process for Board appointments and making recommendations to the Board; and preparing a description of the role and requirements for any particular appointment based on its evaluation of the Board as a whole.

**Succession planning**

The Nomination Committee carried out a detailed review of talent management and succession planning across the Group, facilitated by the Group HR Director at a meeting in November 2012.

**Diversity**

Our goal at National Express is for our people to reach their full potential and to give of their best as individuals and in teams. In this context, we are committed to never discriminating on the grounds of race, veteran status, colour, creed, disability, religion, ethnic origin, sex, sexual orientation or age. While maintaining our existing policy of selecting the best available candidate for any position, National Express is content to set the aspirational target that by 2015, 30% of the Board will be women, in line with the recommendations of the Davies Report on Boardroom Diversity.

**Main activities during the year**

During the year the Committee:

- evaluated the balance of skills, experience, independence, diversity and knowledge on the Board and then prepared a description of the role and capabilities required for the role of Non-Executive Director
- appointed search consultants to identify a shortlist of candidates for the role of Non-Executive Director and interviewed candidates following which the appointment of Jackie Hunt was recommended to the Board
- evaluated the experience and attributes required of a new Non-Executive Chairman and then prepared a description of the role and capabilities sought for the role specification of Non-Executive Chairman
- appointed search consultants to identify a shortlist of candidates for the role of Non-Executive Chairman and interviewed candidates following which the appointment of Sir John Armit was recommended to the Board
- reviewed succession plans across the Group



## Safety & Environment Committee overview

### Dear shareholder

I am pleased to report that in 2012 we continued to make good progress in our safety performance and in the management of the Company's environmental responsibilities.

During the year Miranda Curtis retired from the Board and I would like to thank her for the contribution she made to this Committee, especially during her time as Chairman of the Committee. Both Jackie Hunt and Sir John Armitt have joined the Committee and I look forward to their ongoing involvement.

The Committee oversaw the roll out of the next stages of our 'Driving Out Harm' safety programme. Twelve global safety standards have now been adopted and we are seeing evidence of the beneficial impact these are having across the Group in improving our safety performance.

The 'Driving Out Harm' programme was externally audited by Arthur D. Little and they reported that significant improvements had been made in safety leadership and systems. They also reported that effective governance of safety was being provided.

A Group-wide review of the management of environmental matters was undertaken, which resulted in the adoption of a new strategic plan and new targets being set.

It is likely that it will be mandatory for UK public companies to report on greenhouse gas emissions in all of their businesses from 2014 and we have therefore started work to put in place the processes to collect the required data.

The safety of our employees and customers is of critical importance to the Board, as is the responsible management of our environmental obligations. I would like to thank Dean Finch and his team for the leadership they show in these areas.

**Chris Muntwyler**  
Safety & Environment Committee Chairman  
28 February 2013

### Safety & Environment Committee members

Name of Director	Position
Sir John Armitt	Company Chairman (appointed to the Board and Committee on 1 January 2013 and as Chairman on 1 February 2013)
Joaquín Ayuso	Non-Executive Director
Jorge Cosmen	Non-Executive Director
Miranda Curtis	Non-Executive Director (resigned 10 May 2012)
John Devaney	Company Chairman (resigned 31 January 2013)
Sir Andrew Foster	Non-Executive Director
Jackie Hunt	Non-Executive Director (appointed 13 September 2012)
Chris Muntwyler	Chairman
Lee Sander	Non-Executive Director
Tim Score	Independent Director

### The Role of the Safety & Environment Committee

The key responsibilities of the Committee are as below.

- responsibility for reviewing and challenging constructively the structure, content and operation of the safety management arrangements put in place by members of the executive management of the Group's operating companies;
- reporting periodically to the Board on its observations on the safety management arrangements in place and reviewing and making recommendations to the Board on any specific safety management issues relating to the Company or any subsidiary company; and
- reviewing and monitoring the Company's environmental performance and targets.

### Main activities during the year

During the year the Committee:

- monitored progress of implementation of the Group's Global Safety Standards
- assessed progress of the Group's 'Driving Out Harm' safety programmes
- reviewed the findings of the external audit of corporate governance of safety
- visited Group locations to review safety practices and procedures
- reviewed environmental management across the Group
- approved safety and environmental targets for the Group



Remuneration Committee overview

Dear shareholder

This is my first letter to you as Chairman of the Remuneration Committee, a role I took over when Miranda Curtis left the Board during 2012. I would like to thank Miranda for her contribution during her time as Chair of the Committee.

2012 has been another year of progress in many areas at National Express despite the continuing challenging economic conditions. The successful integration of the Petermann and Transit businesses in North America, allied to a continuation of our drive to reduce costs and make improvements to our operational efficiency, leave the Group well placed to generate future value for shareholders.

I believe that it is the key responsibility of the Remuneration Committee to create remuneration policies and practices that achieve the best value for shareholders. Pay and incentives have to be set at a level that will attract and retain quality management and fully incentivise them to deliver outstanding performance.

The Board and Remuneration Committee are aware that there has always been a strong and competitive market for successful senior executives. Against this backdrop, concerns relating to the retention of the Company's Executive Directors emerged during 2012, more specifically in regard to the Chief Executive. The Board firmly believes that the strong and effective leadership provided by the Chief Executive and his team has provided the Group with a clear and robust platform for the delivery of future growth. With this in mind and following consultation with the Company's major shareholders, the Remuneration Committee and Board deemed it necessary to develop its previously stated Remuneration Policy for 2012. Key changes to the 2012 Remuneration Policy for the Chief Executive included:

- an increase in annual bonus opportunity from 125% of salary to 150% of salary with 50% of the additional bonus being compulsorily deferred;
- introduction of supplementary five year long term incentive awards of 100% of salary pa, granted subject to targets linked to the Company's five year plan; and
- introduction of an additional pension promise that is focused on the retention of the Chief Executive for the next ten year period.

In line with the above changes, the Board considered it appropriate to amend the Finance Director's remuneration policy with effect from 2012. Accordingly, the Finance Director's bonus opportunity was increased from 112.5% to 150%, with 50% of the additional bonus being subject to deferral.

Following the above changes to the 2012 remuneration policy, bonuses were earned at 117.15% and 117% of base salary respectively for the Chief Executive and Finance Director. The Remuneration Committee was comfortable with the level of bonus earned based on the performance against financial targets and the achievement of specific personal objectives set at the start of the year.

Whilst full details of the revised Remuneration Policy are provided in the Remuneration Report, I take this opportunity to highlight the Remuneration Committee's continued aim to incentivise and reward performance over the long term. Accordingly, the Remuneration Committee resolved not to increase the base salaries of Executive Directors this year and to make greater use of the Company's Long Term Incentive Plan in determining the remuneration of Executive Directors going forward.

With regard to future remuneration policy, the Committee believes that the amended remuneration policy operated in 2012 is appropriate for future years and looks to our shareholders to approve both this year's Remuneration Report and the amendment to the current Long Term Incentive Plan described in the Notice of AGM.

Sir Andrew Foster  
Remuneration Committee Chairman  
28 February 2013

## Remuneration Committee

Name of Director	Position
Sir Andrew Foster	Chairman (appointed 10 May 2012)
Miranda Curtis	Chairman (resigned 10 May 2012)
Lee Sander	Non-Executive Director
Tim Score	Senior Independent Director

### Management attendees

Dean Finch	Group Chief Executive
Stephen Connock MBE	Group HR Director
Michael Hampson	General Counsel and Company Secretary

## Role of the Remuneration Committee

The key responsibilities of the Committee are to:

- determine the fees of the Chairman;
- determine the remuneration and conditions of employment (including any termination arrangements) of the Executive Directors;
- approve the remuneration and conditions of employment of the Divisional Heads and Company Secretary;
- review the remuneration and conditions of employment of the senior management team; and
- select and appoint any remuneration consultants who advise the Committee.

The full terms of reference of the Committee are available on the Company's website at [nationalexpressgroup.com](http://nationalexpressgroup.com).

The members of the Committee who served during the year were all independent Directors. The Committee met four times in 2012. Details of attendance at these meetings can be found on page 56.

The Committee members and management attendees did not participate in any discussions directly relating to their own remuneration or performance during the year.

### Advisors to the Committee

The Committee has appointed independent remuneration consultants, New Bridge Street (NBS) to advise on all aspects of senior executive remuneration. NBS has no other connection with the Group other than in the provision of advice on executive and employee remuneration and nor does its ultimate parent, Aon plc. NBS is a signatory of the Remuneration Consultants' Code of Conduct, which specifies the professional standards of conduct for consultants to Remuneration Committees of UK Listed Companies. From time to time, the Company submits the remuneration consultant function to tender.

## Main activities during the year

During the year the Committee considered the following items of business:

- Review of Executive Directors' and senior executives' salary levels
- Annual bonus scheme terms for 2012
- Review of the Chairman's fee
- Performance targets to apply to the 2012 Long Term Incentive Plan awards (including the total shareholder return comparator group used and the range of earnings per share targets set)
- 2012 award levels under the Company's share plans
- Approval of a new remuneration arrangement for the Chief Executive and Finance Director
- Recruitment packages for new senior executives
- Testing of performance conditions and vesting of Long Term Incentive Plan awards granted in 2009
- Outline of the Group's 2012 bonus scheme
- Long Term Incentive Plan entitlements upon redundancy

**Information not subject to audit**  
**Remuneration policy for Executive Directors**

Remuneration policy is based on the following broad principles set by the Committee:

- to provide a competitive remuneration package to attract and retain quality individuals;
- to align remuneration to drive the overall objectives of the business;
- to align the interests of management with the interests of shareholders; and
- to provide the foundation for overall reward and remuneration beyond the specific roles falling within the direct remit of the Remuneration Committee.

In implementing its policy, the Committee gives full consideration to the principles set out in the UK Corporate Governance Code with regard to Directors' remuneration and due regard is given to the guidance issued by investor protection bodies and institutional investors more generally.

Remuneration policy is reviewed on an ongoing basis against the Committee's broad principles and in light of emerging best practice in corporate governance.

During the year, as a result of the continuing strong performance of the Executive Directors and in response to specific retention concerns in respect of the Chief Executive that were brought to the attention of the Remuneration Committee, a number of changes were made to the remuneration policy to apply for 2012. This suite of changes was considered appropriate to retain and motivate the Executive Directors with the Remuneration Committee introducing the changes after appropriate consultation with the Company's major shareholders. The changes were considered to finely balance performance and non-performance related elements of, in particular, the Chief Executive's package with a view to ensuring his retention over the long term but linking a substantial proportion of his remuneration to a successful implementation of the Company's growth strategy. They included:

- an increase in the annual bonus opportunity for both Executive Directors to 150% of salary but with 50% of the additional bonus being compulsorily deferred, in addition to 25% deferral of the previous bonus potential;
- a supplementary five year long term incentive award was granted to the Chief Executive subject to targets linked to the Company's five year plan (the principal terms of which are set out on pages 69 and 70); and
- the introduction of an additional pension promise for the Chief Executive that will accrue over the next ten years.

The higher annual bonus opportunity coupled with greater deferral for both Executive Directors is considered to provide a more market consistent annual bonus opportunity and structure taking into account the size and complexity of the Company.

The Remuneration Committee recognises that the changes made during the year developed the policy disclosed in respect of 2012 in last year's Directors' remuneration report, however, it considered it necessary to take this action given the retention issues noted earlier.

The Company is seeking shareholder approval to amend its existing LTIP to enable supplementary five year long term incentive awards to be granted on an annual basis to the Chief Executive from 2013. This approach is being taken as a result of the Remuneration Committee wishing to provide a clear alignment with both our medium (three year) and long term (five year) objectives in future years. Further details in respect of the five year long term incentive awards to be granted on an ongoing basis are set out in the accompanying Notice of AGM.

The Committee believes that it continues to take into account the principles of sound risk management when setting pay. The above changes are considered to have mitigated the retention issues perceived at the start of 2012. The revised remuneration policy provides for a substantial proportion of the current remuneration packages of the executive directors to be weighted towards long term performance with the annual bonus also the subject of part deferral into the Company's shares. Clawback provisions also apply in the event of a mis-statement of the Company's results and a broad range of financial and non-financial targets are included in our incentive programmes. Appropriate liaison takes place between the Remuneration and Audit Committees as part of an effective remuneration risk assessment process. In line with the Association of British Insurers' (ABI's) Guidelines on Responsible Investment Disclosure, the Committee ensures that the incentive structure for Executive Directors and senior management will not raise environmental, social or governance (ESG) risks by inadvertently motivating irresponsible behaviour. More generally, with regard to the overall remuneration structure, there is no restriction on the Committee which prevents it from taking into account corporate governance on ESG matters and it takes due account of issues of general operational risk when structuring incentives. The Committee takes due account of remuneration structures elsewhere in the Group when setting pay for the Executive Directors (for example, consideration is given to the overall salary increase budget and the incentive structures that operate across the Group).

The Group operates a leadership and development programme which includes an appraisal system for Directors and senior management. In 2012 the appraisal system used balanced scorecards to assess performance against safety, customer, people and community objectives. The results of the annual appraisal system are taken into consideration when setting remuneration levels.

## Summary of Executive Directors' remuneration

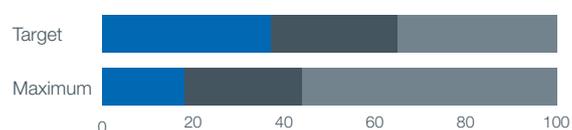
Element	Objective	Performance period	Policy
Basic salary	To position at a competitive level for similar roles within comparable markets	Annually	Individual pay levels (using comparable mid-market data for guidance) as appropriate are determined by reference to the individual's performance, experience in post and potential.
Performance related bonus	To incentivise delivery of performance objectives	1 year	Bonus payments are based on the achievement of specified corporate (financial and non-financial) objectives. A proportion of the bonus is subject to mandatory deferral into shares for one year from award.
Pension	To provide competitive benefits in line with market practice and to act as a retention mechanism and reward long service	Ongoing	Executive Directors do not participate in the pension scheme. The Chief Executive receives a cash supplement in lieu of pension at 35% of salary plus an additional 25% of salary notional pension contribution as part of an unfunded pension promise that is revalued each year at 5% p.a. from 1 April 2013.  The Finance Director receives a cash supplement in lieu of pension at 25% of salary. Only basic salary is pensionable.
Long Term Incentive Plan	To drive performance, aid retention and align the interests of Executive Directors with shareholders	3 and 5 years (if applicable)	Half of any award is subject to EPS growth. The remaining half is subject to the relative total shareholder return (TSR) of the Company compared against a bespoke peer group.
Other benefits	To provide competitive benefits in line with market practice	Ongoing	Executive Directors receive private health and long term sickness insurance and a cash alternative to a fully expensed car.
Share ownership guidelines	To align Executive Directors with shareholders	N/A	A shareholding of 100% of current salary should be achieved within five years.

### Elements of remuneration

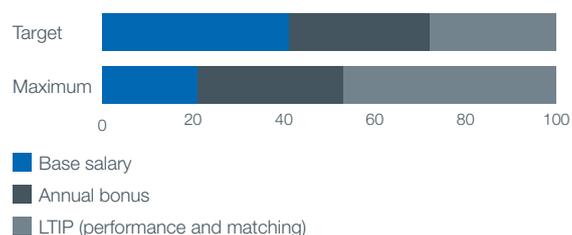
#### (i) Fixed versus variable remuneration

A substantial proportion of the Executive Directors' pay is performance related. The charts below show the balance between fixed and performance related pay at target and maximum performance levels based on the elements of National Express's remuneration package set out above. Maximum performance assumes achievement of maximum bonus and full vesting of shares under the LTIP.

#### 2013: Fixed and variable pay: Group Chief Executive at target and maximum performance levels



#### 2013: Fixed and variable pay: Group Finance Director at target and maximum performance levels



#### (ii) Basic salary

The salary of individual Executive Directors is reviewed at 1 January each year. Account is taken of the performance of the individual concerned, together with any change in responsibilities that may have occurred and the rates for similar roles in two comparator groups of companies. The comparator groups for the 2012 financial year were (i) a group of transport/leisure sector companies and (ii) a group of companies from the FTSE Mid 250 drawn from across all sectors. The constituents of each group were selected to be broadly reflective of the size (market capitalisation and turnover) and complexity of National Express at the time of completing the review. For 2013 the comparator groups will be based on similar groups of transport/leisure and general sector companies drawn from the FTSE 250 when considering pay increases for 2014.

No increases were awarded to base salary for the Executive Directors for 2012 or for 2013.

#### (iii) Performance related bonus

The maximum potential bonus payable to Executive Directors in 2012 was 150% of salary for both Executive Directors. This reflected a change of policy that was discussed with the Company's largest shareholders following the publication of the 2011 Directors' Remuneration Report. In light of this change of policy, the Company's policy on deferral was also revised. In addition to the existing requirement for 25% of the bonus to be deferred, following the decision to increase the maximum bonus entitlement to 150%, the Executive Directors are required to defer 50% of the additional bonus.

In respect of the targets applying to the annual bonus for 2012 for the Chief Executive and Finance Director, a maximum of 105% of salary and 90% of salary respectively was payable based on achievement against a sliding scale of challenging normalised profit targets (the definition of normalised profit is set out in the Glossary on page 162). A maximum of 45% and 60% of salary respectively was payable based on non-financial targets that encompassed customer, operational excellence and people objectives.

In relation to the proportion of the bonus determined by performance against normalised profit targets no bonus is payable unless the Company achieves at least 95% of budget and the maximum amount is only payable on the achievement of a stretch target of 110% of budget.

The targets set in relation to non-financial performance are key strategic Group objectives that are tailored to the responsibilities of each individual Executive Director and, in aggregate, are considered to be similarly challenging to the range of financial targets set. In addition, no bonus in respect of non-financial performance is payable unless 95% of the Group's normalised profit budget is achieved.

The Committee has full discretion in the payment of bonuses and, in particular, it is a pre-condition to the award of any bonus that the Committee has determined that there has been a material improvement in safety processes, procedures and outcomes during the year in the relevant business unit before any bonus is paid.

The amounts deferred under the bonus plan are deferred into shares awarded under the Executive Deferred Bonus Plan (EDBP). Receipt of the deferred shares is subject to continued service and the same 'good leaver' provisions and other terms as noted for the Long Term Incentive Plan below. The 2012 bonus also includes clawback provisions that require the deferred shares to be forfeited or repaid should it be necessary for the Company to restate materially its 2012 results within a two year period following the deferred bonus being awarded. The proportion of the bonus that would be the subject to a clawback would depend on the extent to which the original bonus payment turned out to be false following the publication of corrected results.

In terms of an overview of the 2012 bonus plan and the extent to which targets were met, this is set out in the table below. Bonuses were payable at 117.15% of salary for the Group Chief Executive and 117% of salary for the Finance Director. In calculating these bonuses, the Committee considered the safety performance of the Company and concluded that a continued improvement in safety processes, procedures and outcomes during the year had been achieved.

The deferred bonuses awarded to both Executive Directors in 2012 (based on performance to 31 December 2011) are due to vest on 2 March 2013.

## Bonus Scheme 2012

	% of salary	Details	Achievement
Maximum bonus potential	150%	Proportion of bonus subject to mandatory deferral into Company shares for one year from award	Group Chief Executive <sup>1</sup> 117.15% and Group Finance Director <sup>2</sup> 117%
Bonus potential at 95% of budgeted normalised profit before tax (PBT)	26.25% for Group Chief Executive 22.5% for Group Finance Director		
On target bonus potential at 100% of budgeted normalised PBT	52.5% for Group Chief Executive 45% for Group Finance Director	Awarded on achieving budget	
Stretch bonus for 110% of budgeted normalised PBT	105% for Group Chief Executive 90% for Group Finance Director	Awarded on achieving a stretch target of 110% of normalised PBT	
Non-financial targets (underpinned by achievement of 95% of budgeted normalised PBT)	45% for Group Chief Executive 60% for Group Finance Director	Awarded on meeting key strategic Group objectives tailored to each Executive Director's responsibilities	

Notes:

<sup>1</sup> The Group Chief Executive achieved 72.15% of salary in respect of the financial performance condition and 45% in respect of his achievement of his non-financial targets.

<sup>2</sup> The Group Finance Director achieved 62.62% of salary in respect of the financial performance condition and 54.38% in respect of the non-financial targets.

It is a pre-condition to the award of any bonus that the Remuneration Committee has determined that there has been a material improvement in safety processes, procedures and outcomes during the year in the relevant business unit before any bonus is paid.

In addition to the bonus payments described above, the Finance Director received a cash payment of £255,673.01 to compensate him for a shortfall in the amount of 2009 LTIP vesting. The shortfall was as a result of a delay in the grant of awards due to the Company being in a close period at the time the 2009 awards would normally have been granted. After having reflected on the exceptional circumstances, the Committee decided that whilst they could not amend the terms of the Plan they felt it unfair for the Finance Director to be penalised as a result of the late granting of the award. The cash payment was thus calculated as the difference between the value of the LTIP vesting on 30 June 2012 and the value had it vested on 31 March 2012 (ie the vesting date had there been no delay in the 2009 grant).

## The National Express Group Executive Deferred Bonus Plan (Executive Deferred Bonus Plan)

Deferred bonuses awarded in 2012 (based on performance to 31 December 2011) will vest, on 1 March 2013 as set out in the table below.

		As at 1	During year			At 31	Market price at date of vesting	Date of grant	Date of vesting
		January 2012	Granted	Vested	Lapsed	December 2012			
Dean Finch	2011	49,427	–	49,427	–	–	221.0p	25.02.11	25.02.12
	2012	–	75,417	–	–	<b>75,417</b>		02.03.12	–
Jez Maiden	2011	39,541	–	39,541	–	–	221.0p	25.02.11	25.02.12
	2012	–	51,832	–	–	<b>51,832</b>		02.03.12	–

The market price per share on the date of award was calculated on basis of the average market price share in the 5 days preceding the date of the grant.

Deferred shares would be required to be forfeited or repaid should it be necessary to restate materially the Company's 2012 results within a two year period following the award of the bonus. The proportion of the bonus subject to clawback would depend on the extent to which the original bonus turned out to be false following the publication of corrected results.

### (iv) Pensions

Under the terms of their service agreements, Executive Directors are not entitled to become members of one of the Group pension schemes. The Chief Executive receives a 35% of salary supplement in lieu of pension contributions. In addition, from 2012, as part of a revised remuneration structure intended to facilitate his retention (described above), the Chief Executive will also accrue rights under a pension promise that will take place over ten years from 1 April 2013. The promise provides that a pension benefit will be eligible to be drawn based on a notional Company contribution of 25% of salary over the ten year period, revalued at a rate of 5% pa which is broadly comparable to the assumed investment return used to value pension liabilities across the Group.

Jez Maiden receives a 25% salary supplement in lieu of pension contributions.

### (v) Incentive scheme and share options

#### Long term incentive arrangements

The National Express Group Long Term Incentive Plan (LTIP) was approved by shareholders at the 2005 AGM and operates as the Company's sole type of executive long term incentive arrangement. The LTIP consists of annual awards of Performance and Matching shares. A proportion of the award is made as approved share options under a HMRC approved option plan structure. This does not increase the gross benefit to the participant or the costs to the Company or shareholders.

#### Performance shares

Executive Directors are eligible to receive a conditional award of shares up to an equivalent of 100% of basic salary. The vesting of the award is conditional on meeting the performance conditions set out below.

#### Matching shares

Executive Directors are also eligible to receive awards of matching shares that are based on a personal investment in National Express Group PLC shares funded either through using an annual bonus award to purchase shares or through pledging of shares held not already allocated to the LTIP. Matching awards are made on the basis of up to two Matching shares being awarded (based on the gross tax value of the investment) for each National Express share pledged or purchased. The maximum value of investment in any year is 30% of basic salary. Matching share awards are also conditional on the performance conditions set out overleaf.

If a participant ceases employment before vesting for a 'compassionate' reason (eg redundancy, retirement, death in service, sale of business out of the Company's group) his/her awards will ordinarily vest. The extent of vesting will be

determined by applying the relevant performance conditions to the date of cessation and scaling back the number of shares awarded on a pro rata basis (rounded up to the next complete six month period from the date of grant) unless the Committee determines that it would be inappropriate to apply a pro rata reduction. Awards lapse on cessation of employment for any other reason.

#### LTIP performance conditions

There are normally two distinct performance conditions applying to awards of both Performance Shares and Matching Shares made.

First, the performance condition attached to one-half of an award (Part 'A') is based on the Group's normalised earnings per share (EPS) growth performance in excess of inflation over a fixed three-year period (three financial years commencing with the financial year in which the award is made).

The performance condition attached to the other half of an award (Part 'B') is based on the Company's Total Shareholder Return (TSR) performance over the same fixed three-year period relative to the TSR performance of a bespoke comparator group of transport companies taken predominantly from the FTSE Industrial Transportation and FTSE Travel & Leisure sectors. The companies comprising the comparator group have been chosen on the basis of their comparability to National Express Group PLC (based on their size and scope of business operations). The Committee has retained the power in respect of this element of an award to apply an earnings underpin.

There is no ability to retest either performance condition. EPS and TSR have generally been chosen for the LTIP as the most appropriate measures of the Group's long term performance, since EPS is an important growth measure considered within the Company and a driver of shareholder value and TSR improves shareholder alignment and is consistent with the Company objective of providing superior long term returns to shareholders. The 2014 EPS targets have been based on non-rail 2011 earnings as the Company's rail franchise is subject to a government tender process.

For awards granted in 2012 the EPS performance conditions applying to Part A of the Awards and the TSR performance conditions applying to part B of the Awards are set out in the table overleaf.

To determine vesting of LTIP awards, the Committee retains independent consultants to test the proportion of an award vesting under the relative TSR test and then reviews the conclusion of this analysis before shares formally vest.

With regard to the EPS targets, vesting is based on the Company's audited results with liaison, as required, between the Audit and Remuneration Committees.

### Performance conditions for LTIP awards granted in 2012

Part A of Award – EPS conditions	
EPS for the financial year ending 31 December 2014	Percentage of part A of the Award that vests
Less than 23.7 pence	0%
23.7 pence	30%
26.4 pence	100%
Between 23.7 pence and 26.4 pence	30%–100% pro rata

Part B of Award – TSR conditions	
Rank of the Company's TSR (as noted above)	Percentage of part B of the Award that vests
Below median	0%
Median	30%
20th percentile	100%
Between median and 20th percentile	30%–100% pro rata

The table below sets out the percentage of each extant award that would have vested if the performance conditions had been tested at 31 December 2012 (without making any allowance for pro rata reduction for any period of less than three years).

### Indicative percentage of LTIP awards vesting based on performance to 31 December 2012

Year of Award	TSR element	EPS element	Total (max 100%)
2010	0%	32.5%	32.5%
2011	0%	0%	0%
2012	0%	42.22%	42.22%

### Chief Executive five year Award

As noted above, in response to specific retention concerns in respect of the Chief Executive that were brought to the attention of the Remuneration Committee, and to align him with the Company's five year business plan, on 3 August 2012 the Chief Executive was granted a Retention Award comprising a conditional award over 261,407 ordinary shares in the capital of the Company. The Retention Award was granted pursuant to Rule 9.4.2(2) of the UKLA Listing Rules.

As with the 2012 LTIP awards detailed above, the EPS targets have been based on non-rail earnings. This is because the Company's rail franchise will soon be subject to a government tender process.

The performance conditions applying to the Award are set out below and the principal terms of the award are summarised on page 69.

### Performance conditions for the Chief Executive's five year Award

Part A of Award – EPS conditions (relating to one half of the Award)	
EPS for the financial year ending 31 December 2016	Percentage of part A of the Award that vests
Less than 25 pence	0%
25 pence	30%
28 pence	100%
Between 25 pence and 28 pence	30%–100% pro rata

Part B of Award – TSR conditions (relating to one half of the Award)	
Rank of the Company's TSR (as noted above)	Percentage of part B of the Award that vests
Below median	0%
Median	30%
20th percentile	100%
Between median and 20th percentile	30%–100% pro rata

### Performance criteria

The Committee believes that budgeted profit and/or EPS growth as performance measures for the discretionary bonus scheme and long term incentives, in most normal circumstances, provide a transparent and accessible method of gauging the financial performance of the Company. The Company calculates performance against these performance measures by reference to the profit or earnings per share figures reported in the Company's audited accounts, which the Company believes to be the most transparent and objective measure of the Company's profit or EPS. The Committee also monitors the Group's TSR against the FTSE All-Share Travel & Leisure Index as a broad measure of the Company's performance. TSR measured against a more tailored group of comparators has been used by the Company as a primary performance measure for awards made to Executive Directors under the LTIP as outlined in this report.

It is currently intended that the performance targets that will apply to awards granted in 2013 will again be an equal blend of EPS and TSR. If it were considered appropriate to make any fundamental changes to the performance targets in 2013, it is anticipated that this would be accompanied by a consultation with major shareholders.

The graphs on page 72 show a comparison of National Express Group PLC total cumulative shareholder return against that achieved by the FTSE All-Share Travel & Leisure Index and the FTSE 250 Index. These indices have been selected because the Company is a constituent of each index (with the former including many members of the LTIP TSR peer group) and the Committee, therefore, feels that these are the most appropriate indices to represent the Company's relative performance.

## Information subject to audit

### Long Term Incentive Plan (LTIP) awards

Details of the LTIP and the performance conditions that have applied to each award below are shown on page 69 and in the notes to the LTIP awards table below.

#### LTIP Awards to Executive Directors

	LTIP Share Awards	At 1 January 2012	During year			At 31 December 2012	Market price on date of award	Market price at date of exercise	Date from which exercisable	Expiry date
			Granted	Exercised	Expired					
Dean Finch	Performance shares	227,272	–	–	–	<b>227,272</b>	220.3p	–	15.03.13	15.09.13
	Matching shares	227,270	–	–	–	<b>227,270</b>	220.3p	–	15.03.13	15.09.13
	Performance shares	222,672	–	–	–	<b>222,672</b>	247.0p	–	25.02.14	25.08.14
	Matching shares	267,204	–	–	–	<b>267,204</b>	247.0p	–	25.02.14	25.08.14
	Performance shares	–	240,069	–	–	<b>240,069</b>	228.4p	–	12.04.15	12.10.15
	Matching shares	–	288,080	–	–	<b>288,080</b>	228.4p	–	12.04.15	12.10.15
Jez Maiden	Performance shares	176,342	–	109,191 <sup>3</sup>	67,151	–	210.4p	220.0p	01.09.12	01.03.13
	Matching shares	132,637	–	82,129 <sup>3</sup>	50,508	–	210.4p	220.0p	01.09.12	01.03.13
	Performance shares	174,672	–	–	–	<b>174,672</b>	230.0p	–	01.04.13	01.10.13
	Matching shares	174,670	–	–	–	<b>174,670</b>	230.0p	–	01.04.13	01.10.13
	Performance shares	170,040	–	–	–	<b>170,040</b>	247.0p	–	25.02.14	25.08.14
	Matching shares	204,048	–	–	–	<b>204,048</b>	247.0p	–	25.02.14	25.08.14
	Performance shares	–	183,326	–	–	<b>183,326</b>	228.4p	–	12.04.15	12.10.15
	Matching shares	–	219,988	–	–	<b>219,988</b>	228.4p	–	12.04.15	12.10.15

Notes:

- Details of the performance conditions applicable to the 2012 awards are shown on page 70.
- The TSR performance conditions applicable to the 2010 and 2011 awards are the same as for the 2012 awards and the relevant maximum and minimum EPS figures are 28 pence and 23 pence and 29.3 pence and 26.1 pence respectively.
- The aggregate gain on the shares which were exercised in 2012 was £420,000.

#### Chief Executive's five year Award

	LTIP Share Awards	At 1 January 2012	During year			At 31 December 2012	Market price on date of award	Market price at date of exercise	Date from which exercisable	Expiry date
			Granted	Exercised	Expired					
	Performance shares	–	261,407	–	–	<b>261,407</b>	210.4p	–	03.08.17	03.08.18

Note:

- Details of the performance conditions applicable to the 2012 awards are shown on page 70.

**Total shareholder return versus FTSE All-Share Travel & Leisure Index %**

Source: Thomson Reuters



Each point plotted on the above graph represents the total cumulative shareholder return on an investment made in National Express Group on 31 December 2006 compared with an investment in the FTSE All-Share Travel & Leisure Index, with the corresponding annual returns.

**Total shareholder return versus FTSE 250 Index %**

Source: Thomson Reuters



Each point plotted on the above graph represents the total cumulative shareholder return on an investment made in National Express Group on 31 December 2006 compared with an investment in the FTSE 250 Index, with the corresponding annual returns.

**Directors' service contracts, notice periods and termination payments**

**Executive Directors**

The contract dates and notice periods for the Executive Directors are shown in the table on page 73.

The service contracts of both the Executive Directors, which are rolling contracts, contain a provision, exercisable at the option of the Company, to pay an amount on early termination of employment equal to one year's salary or, in the case of Dean Finch, one year's salary, salary supplement in lieu of pension and car allowance. The Company will use the payment in lieu of notice provisions when the speed, certainty and protection of restrictive covenants afforded by such clauses are thought to be in the best interests of the Company and the circumstances surrounding the departure of the relevant Director justify their use.

In any event the Committee's policy is that payments to Directors on termination should reflect the circumstances that prevail at the time, also taking account, if applicable and appropriate, the Director's duty to mitigate.

The Committee continuously reviews its policies on executive remuneration and severance in the best interests of shareholders. Guidance on best practice expectations is taken into account prior to agreeing Directors' contractual provisions.

**Conditional award of shares**

On appointment as Group Chief Executive in 2010, Dean Finch was granted a one-off forfeitable share award as compensation for forfeited remuneration from his previous employer. The share award comprised two parts: an award of 28,023 shares (the First Award) which vested on 1 April 2011 and 18,281 shares (the Second Award) which vested on 1 April 2012. The Second Award vested during the reporting period at a market price per share of 230 pence, at which point the shares were no longer at risk of forfeiture.

**Executive Directors' external appointments**

Under the terms of their service agreements, Board approval is required before any external appointment may be accepted by an Executive Director. The Executive Director is permitted to retain any fees paid for such services. Details of fees received by Executive Directors in 2012 are shown below.

Director	Fee	External appointment
Jez Maiden	£50,000	Synthomer plc (formerly Yule Catto & Co plc)

**Remuneration of Non-Executive Directors**

The fees of the Non-Executive Directors are set by the Board as a whole and those of the Chairman are set by the Remuneration Committee in both cases following an annual review. The review takes account of fees paid for similar positions in the market, the time commitment required from the Director (estimated to be 60 days per year for the Chairman and 20 days per year for the other Non-Executive Directors) and any additional responsibilities undertaken, such as acting as Chairman to one of the Board Committees or fulfilling the role of Senior Independent Director. Non-Executive Directors are not eligible to receive pension entitlements or bonuses and may not participate in share option schemes.

In line with the decision not to increase the basic salaries of the Executive Directors in 2013, it was agreed that there would be no increase in the fees paid to the Non-Executive Directors in 2013. The fees payable to the Chairman have also not been increased. For 2013, increases to base salaries will be strictly monitored in line with our focus on cost control. Across the Group and depending on the businesses involved and the locations, we envisage salaries for employees generally being frozen or increased by up to 2%.

	2012 £	2011 £
Chairman's fee	<b>225,000</b>	225,000
Non-Executive Director basic fee	<b>45,500</b>	45,500
Senior Independent Director additional fee	<b>5,000</b>	5,000
Committee Chairman additional fee	<b>10,000</b>	10,000

### Non-Executive Directors' appointments

The Non-Executive Directors do not have service contracts with the Company but are appointed for an initial three-year term. Non-Executive Directors are typically expected to serve for two three-year terms, although their appointment can be terminated either by them or the Company on one month's written notice. It is open to the Company to invite a Non-Executive to serve for a further period after the expiry of two three-year terms. All Directors are required to stand for re-election by shareholders each year. The original appointment dates of the Chairman and Non-Executive Directors are shown in the table below.

### Senior executive remuneration

The Remuneration Committee reviews and notes the salaries of senior executives within the Group. The salaries of this group of employees by band are as shown to the right.

Salary band £000	Number of executives 2012
201–410	7
151–200	12
101–150	40
75–100	45

### Executive Directors' service contracts and notice periods

Director	Contract date	Notice period from the Company	Notice period from the Director
Jez Maiden	17 November 2008	12 months	12 months
Dean Finch	16 December 2009	12 months	6 months

### Non-Executive Directors' appointment dates

Director	Date of appointment
Sir John Armit	1 January 2013
Joaquín Ayuso	1 June 2011
Jorge Cosmen	1 December 2005
Sir Andrew Foster	1 August 2004
Jackie Hunt	13 September 2012
Chris Muntwyler	11 May 2011
Lee Sander	1 June 2011
Tim Score	21 February 2005

### Directors' minimum shareholding

In order to align the interests of the Directors more closely with the shareholders, the Remuneration Committee has also determined that the Executive Directors should build up a share fund equal to at least one year's current salary over a period of five years.

## Directors' shareholdings

### Directors' interests and transactions

The beneficial and non-beneficial interests of the Directors in office as at 31 December 2012 are shown below:

	At 31 December 2012	At 1 January 2012 or on appointment if later	Change from 31 December 2012 to 28 February 2013
<b>Executive Directors</b>			
Dean Finch	138,252	114,579	–
Jez Maiden	168,919	116,347	–
<b>Non-Executive Directors</b>			
Joaquín Ayuso	–	–	–
Jorge Cosmen <sup>1</sup>	88,860,685	88,860,685	–
Miranda Curtis (resigned 10 May 2012)	–	–	–
John Devaney (resigned 31 January 2013)	76,666	76,666	–
Sir Andrew Foster	22,893	22,893	–
Jackie Hunt (appointed 13 September 2012)	–	–	–
Chris Muntwyler	–	–	–
Lee Sander	–	–	–
Tim Score	–	–	–

<sup>1</sup> Jorge Cosmen's holding includes shares held by European Express Enterprises Ltd which are shown on page 59 in the list of major shareholdings in the Company.

The Register of Directors' interests maintained by the Company contains full details of the Directors' holdings of shares and options over shares in the Company. The mid-market price of the Company's ordinary shares at 31 December 2012 was 204 pence (2011: 223 pence) and the range during the year ended 31 December 2012 was 164.5 pence to 252 pence.

### Directors' emoluments

	Salary/fees £000	Performance related bonus £000	Benefits <sup>1</sup> £000	Benefits in lieu of pension £000	Total 2012 £000	Total 2011 £000
<b>Executive Directors</b>						
Dean Finch	550	644	26	192	1,412	1,454
Jez Maiden	420	491 <sup>2</sup>	24	105	1,040	1,021
<b>Non-Executive Directors</b>						
Joaquín Ayuso	49 <sup>4</sup>	–	–	–	49	30
Jorge Cosmen (Deputy Chairman)	45	–	–	–	45	45
John Devaney (Chairman) (resigned 31 January 2013)	225	–	–	–	225	225
Sir Andrew Foster	51	–	–	–	51	44
Jackie Hunt (appointed 13 September 2012)	13	–	–	–	13	–
Chris Muntwyler	59 <sup>4</sup>	–	–	–	59	37
Lee Sander	69 <sup>4</sup>	–	–	–	69	30
Tim Score (Senior Independent Director)	60	–	–	–	60	60
<b>Former Non-Executive Directors</b>						
Miranda Curtis (resigned 10 May 2012)	23	–	–	–	23	55

<sup>1</sup> Benefits in kind include a cash alternative to a fully expensed car, life assurance and health insurance.

<sup>2</sup> Jez Maiden sacrificed £20,000 of his cash bonus entitlement before its award. Pension contributions equal to this amount were made into pension plans for the benefit of his dependants. The amount shown in the bonus column reflects the full bonus earned.

<sup>3</sup> As explained on page 68, Jez Maiden received an additional one-off bonus of £255,673 to compensate him for a shortfall in the amount of the 2009 LTIP vesting.

<sup>4</sup> An additional fee of £4,000 is paid for attendance at Board meetings held outside the continent in which the Non-Executive Director is resident.

By order of the Board

**Sir Andrew Foster**

**Director and Chairman of the Remuneration Committee**

28 February 2013

## Chief Executive's 5 year Retention Award

In accordance with Listing Rule 9.4.2(2) the principal terms of the Retention Award are summarised below:

### Structure of Award

The Award is structured as a conditional award of shares. No payment was required for the grant of the Award. The Award is not transferable, except on death. The Award is not pensionable.

### Vesting of Award

The Award will normally vest on the fifth anniversary of the grant date of the Award to the extent that the performance conditions are satisfied and subject to the terms of the Award.

### Leaving employment

The Award will ordinarily lapse in the event of the Chief Executive's cessation of service within the Group prior to the vesting of the Award.

However, if the Chief Executive ceases employment for certain 'compassionate' reasons (eg redundancy, retirement, ill health, sale of business out of the Group) or for any other reason determined by the Committee, the Award shall either continue on its terms and vest on normal timetable or vest early at the discretion of the Committee. In such circumstances the extent to which the Award would vest would be dependent on the extent to which the performance conditions were met over the full period or curtailed period as relevant. Furthermore, in such circumstances the size of the Award would be scaled back by reference to the time elapsed since date of grant (rounding up to the nearest half year) unless the Committee determined that it would be inappropriate to apply such time pro-rata in the relevant circumstances.

### Corporate events

In the event of a takeover, scheme of arrangement or winding up of the Company (not being a corporate reorganisation) the Award would vest early to the extent that the Committee considers that the performance conditions had been satisfied at the time of such event, with a pro-rata reduction in the size of the Award based on the time elapsed between the date of the Award and the date of the relevant event (rounded up to the nearest half year), unless the Committee determines that it would be inappropriate to apply a pro rata reduction in the relevant circumstances.

In the event of a corporate reorganisation the Award would be replaced by an equivalent new award.

### Variation of share capital

In the event of any variation of the share capital of the Company, a demerger, special dividend or other similar event which affects the market price of the Group's shares to a material extent the Committee may make such adjustments to the Award as it considers appropriate.

### No shareholder rights until vesting

The Award does not confer any shareholder rights, for example, the right to vote the shares, until the Award has vested and shares delivered under the Award.

At the discretion of the Committee, the Chief Executive will be entitled to receive a payment (in cash and/or shares) on or shortly following the vesting of the Award, of an amount equivalent to the dividends that would have been paid on the vested shares between the time when the Award was granted and the time when it vests.

### Source of shares

The Award may only be satisfied with existing shares. No newly issued or treasury shares will be used in connection with the Award.

### Extenuating events

In exceptional circumstances, the Committee may defer the vesting of the Award to such later date as it so determines, or cancel such Award, if it considers, acting fairly and reasonably, that there is any sufficiently extenuating event or events in the 12 months prior to the vesting of the Award that warrants such determination.

### Amendment

The terms of the Award may be amended in such manner as the Committee may determine, provided that amendments to the Award to the Chief Executive's benefit may only be made with prior consent of shareholders and any to his detriment subject to his consent.

# Governance

## Directors' report

The Directors present their report and audited financial statements for the year ended 31 December 2012.

### Principal activities

National Express Group PLC is the holding company of the National Express Group of companies. Its subsidiary companies provide mass passenger transport services in the UK and overseas.

### Business review

Reviews of the business, likely future developments and details of principal risks and uncertainties can be found in the following pages and are incorporated by reference into this report:

- Group Chief Executive's review on pages 10 to 13;
- Finance Director's review on pages 20 to 23; and
- Governance report on pages 50 to 81.

### Branches outside the UK

The Company has branches in Spain.

### Results and dividends

The profit on ordinary activities before tax from continuing operations for the year ended 31 December 2012 was £69.8 million (2011: £129.4m) and a profit attributable to equity shareholders of £60.0 million (2011: £101.2m) was transferred to reserves.

The Directors recommend a final dividend for the year of 6.6 pence per ordinary share (2011: 6.5p) which, together with the interim dividend of 3.15 pence per ordinary share (2011 3p), paid on 21 September 2012, gives a total dividend for the year of 9.75 pence per share (2011: 9.5p). Subject to shareholder approval, the final dividend will be paid on 17 May 2013 to ordinary shareholders on the register of members at the close of business on 26 April 2013.

### Directors

The Directors of the Company who served during the year were:

Jorge Cosmen

Miranda Curtis (resigned 10 May 2012)

John Devaney (resigned 31 January 2013)

Dean Finch

Sir Andrew Foster

Jackie Hunt (appointed 13 September 2012)

Jez Maiden

Chris Muntwyler

Lee Sander

Tim Score

Sir John Armitt joined the Board on 1 January 2013. He was appointed as Chairman of the Board on 1 February 2013 following the resignation of John Devaney.

The appointment and replacement of Directors of the Company is governed by its Articles of Association, the UK Corporate Governance Code, the Companies Act and related legislation. In accordance with the UK Corporate Governance Code, all the Directors will retire at the upcoming AGM and offer themselves for re-election. The Board is satisfied that each Director is qualified for re-election by virtue of their skills, experience and contribution to the

Board. Details of the remuneration of the Directors, their interests in shares of the Company and service contracts are contained in the Directors' remuneration report on pages 64 to 75.

### Corporate governance

A full report on corporate governance can be found in the Governance section of this document and the Company's corporate governance statement is on page 79. Both are incorporated by reference into this report.

### Directors' interests in contracts

Except as stated in note 36 on page 143, no contract existed during the year in relation to the Company's business in which any Director was materially interested.

### Post balance sheet events

As at the date of this report, there were no post balance sheet events to report.

### Employment policies

The Group strives to meet its business objectives by motivating and encouraging its employees to be responsive to the needs of its customers and continually improve operational performance. The Group is committed to providing equality of opportunity to employees and potential employees. This applies to appropriate training, career development and promotion for all employees, regardless of physical ability, gender, sexual orientation, religion, age or ethnic origin. All businesses in the Group report diversity data.

Full and fair consideration is given to applications for employment received from disabled persons, according to their skills and capabilities. The services of any existing employee disabled during their period of employment are retained wherever possible.

### Employee involvement

The Group encourages employee involvement in its affairs. Subsidiary companies produce a range of internal newsletters and circulars which keep employees abreast of developments. Senior management within the Group meet regularly to review strategic developments and management conferences are held at Group and business levels to bring our senior managers together to share ideas and develop policy. Dialogue takes place regularly with trade unions and other employee representatives on a wide range of issues. Employees are able to share in the Group's results through various employee share schemes.

Employee views are also sought through regular employee satisfaction questionnaires, both within business units and across the Group. Following such surveys, results are shared with employees and action plans are put in place to deal with issues arising. The Group encourages innovation from all levels of employees and has a structured programme in place known as 'Make a Difference' to develop ideas and track them through to implementation. Innovation Sponsors, Agents and Champions are appointed in the business and their work is coordinated by an Innovations Council at Group level. For National Express, innovation is a way of life that involves and engages our people.

The Group also has a well-developed succession planning process in place and succession plans are reviewed by the PLC Board annually. As a key part of this process, the Company focuses on emerging talent to ensure the Group has the right people being developed to meet our future business needs. Talent management remains an important priority for the Group.

## Environmental policy

Information on the Group's environmental initiatives can be found in the Corporate Responsibility review on page 46 and in the Corporate Responsibility section of the Company's website, [nationalexpressgroup.com](http://nationalexpressgroup.com), where you will find Corporate Responsibility reports, policies and other information.

## Charitable and political contributions

Charitable donations made during the year totalled £373,000 (2011: £228,000). It is the Group's policy not to make political donations and accordingly none were made in the year. However, the Company did attend party political conferences during the year for which total expenditure was £6,750 (2011: £6,000).

## Creditors' payment policy and practice

It is the Company's policy to agree terms of payment prior to commencing trade with any supplier and to abide by those terms based on the timely submission of satisfactory invoices.

Trade creditor days of the Company for the year ended 31 December 2012 were 17 days (2011: 17 days) based on the ratio of Company trade creditors at the end of the year to the amounts invoiced during the year by trade creditors.

## Financial instruments

Details of the use by the Company and its subsidiaries of financial instruments and any related risk management objectives and policies (including hedging policy) and exposure (including price, credit, liquidity or cash flow risk) of the Company in connection with such financial instruments can be found in the Notes to the Consolidated Accounts on pages 88 to 145 and are incorporated by reference into this report.

## Major shareholdings

Disclosures of major shareholdings notified to the Company are shown on page 59 and these disclosures are incorporated by reference into this report.

## Share capital and rights attaching to the Company's shares

Under the Company's Articles of Association, any share in the Company may be issued with such rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise as the Company may from time to time by ordinary resolution determine (or, in the absence of any such determination, as the Directors may determine).

At 31 December 2012, the Company's issued share capital consisted of a single class of ordinary shares with a nominal value of 5 pence. At a general meeting of the Company every member has one vote on a show of hands and on a poll one vote for each share held. The Notice of AGM accompanying this document specifies deadlines for exercising voting rights either by proxy or by being present in person in relation to resolutions to be passed at a general meeting. Details of the authorised and issued share capital of the Company and details of shares issued during the year can be found in note 32 on page 133.

On 6 March 2012, the Company sold its entire holding of treasury shares which amounted to a total of 1,668,688 ordinary 5 pence shares (nominal value £83,434) in treasury equal to 0.32% of the issued share capital.

No shareholder is, unless the Board decides otherwise, entitled to attend or vote either personally or by proxy at a general meeting or to exercise any other right conferred

by being a shareholder if he or she or any person with an interest in his or her shares has been sent a notice under Section 793 of the Companies Act 2006 (which confers upon public companies the power to require information with respect to interests in their voting shares) and he or she or any interested person failed to supply the Company with the information requested within 14 days after delivery of that notice. The Board may also decide that no dividend is payable in respect of those default shares and that no transfer of any default shares shall be registered. These restrictions end seven days after receipt by the Company of a notice of an approved transfer of the shares or all the information required by the relevant Section 793 notice, whichever is earlier.

The Directors may refuse to register any transfer of any share which is not a fully-paid share, although such discretion may not be exercised in a way which the Financial Services Authority regards as preventing dealings in shares of that class from taking place on an open or proper basis. The Directors may likewise refuse any transfer of a share in favour of more than four persons jointly.

The Company is not aware of any other restrictions on the transfer of ordinary shares in the Company other than:

- certain restrictions that may from time to time be imposed by laws and regulations (for example, insider trading laws); and
- pursuant to the Listing Rules of the Financial Services Authority whereby certain employees of the Company require approval of the Company to deal in the Company's shares.

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities or voting rights.

Resolutions will be proposed at the 2013 AGM to authorise the Directors to exercise all powers to allot shares, or grant rights for, or to convert any security into, shares, and approve a limited disapplication of statutory pre-emption rights. Details are set out in the Notice of AGM accompanying this document.

The Company was granted authority at the AGM in 2012 to purchase its own shares up to an aggregate value of 10% of the issued nominal capital. The authority was not used during the year. The authority is renewed annually and approval will be sought at the AGM in 2013 for its renewal. Further details are set out in the Notice of AGM accompanying this document.

## Share schemes

First Names (Jersey) Limited (formerly IFG Trust (Jersey) Limited), as Trustee of the National Express Group Employee Benefit Trust, as at 25 February 2013 held 339,070 shares (0.06% of the share capital) of the Company for employee share schemes. Further details of the Company's employee share schemes can be found in note 7 on page 102 and are incorporated by reference into this report. The Trustee may vote the shares held by the Trust at its discretion.

The current Association of British Insurers (ABI) guidance on dilution limits provide the overall dilution under all share plans operated by a company should not exceed 10% over a ten year period in relation to the Company's share capital, with a further limitation of 5% in any ten year period on executive plans. National Express share plans operate within ABI recommended guidelines on dilution limits.

#### Articles of Association

Any amendments to the Company's Articles of Association may be made in accordance with the provisions of the Companies Act 2006.

#### Annual General Meeting

The Annual General Meeting (AGM) will be held at 2.00pm on 9 May 2013 at Kings Place, 90 York Way, London N1 9AG. At the Meeting, special resolutions will be proposed to authorise the Directors to issue shares without applying statutory pre-emption rights, to authorise the Company to make market purchases of its own shares and to authorise the calling of general meetings (other than Annual General Meetings) on 14 clear days' notice. Full details are provided in the Notice of Meeting. If you would like to register any question you may have in advance of the AGM you can do so at [agm@nationalexpress.com](mailto:agm@nationalexpress.com) or you can write to the Company Secretary at National Express Group PLC, National Express House, Birmingham Coach Station, Mill Lane, Digbeth, Birmingham B5 6DD.

#### Powers of the Directors

Subject to its Articles of Association and relevant statutory law and to any direction that may be given by the Company in general meeting by special resolution, the business of the Company shall be managed by the Directors, who may exercise all powers of the Company which are not required to be exercised by the Company in general meeting.

#### Material contracts and change of control agreements

The Company is party to a number of banking agreements which allow for notification of change of control within five days of becoming aware of the event following which repayment of outstanding commitments is to be made within 30 days.

Under the terms of the £1,000,000,000 Euro Medium Term Note Programme under which the Company issued Medium Term Notes (MTNs) to various institutions on 13 January 2010 (as updated on 19 November 2012), there is a change of control put option such that, upon a change of control event, any holder of any MTN may require the Company to redeem or purchase that MTN.

The Company entered into a private placement Note Purchase Agreement on 30 July 2012 relating to the issue by the Company of €78,500,000 4.55% Senior Notes due 16 August 2021. Under the terms of the Agreement the Company is required to offer to Note holders to repay to them the entire unpaid principal amount and interest thereon upon a change of control.

The Group currently runs one DfT franchise: c2c. The rail franchise agreement with DfT contains termination rights for the benefit of DfT which would be triggered by a change of control in National Express Group PLC.

The Group's rail franchisee, c2c, leases its rolling stock and its leases with Porterbrook Leasing Company Limited contain termination rights for the benefit of the lessor which would be triggered by a change of control in National Express Group PLC.

The Group's North American business operates school bus services under contracts with school boards. Those contracts invariably contain a change of control clause for the benefit of the board which would be triggered by a change of control in National Express Group PLC. While no one single school bus contract could be considered significant in the context of the Group turnover, the impact on that turnover in the event that each school board exercised its termination right on a change of control would be significant.

#### Directors' and employees' service contracts

There are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) that occurs because of a takeover bid.

#### Auditor

Resolutions to re-appoint Deloitte LLP as auditor of the Company and to authorise the Directors to fix their remuneration will be proposed at the 2013 AGM.

#### Disclosure of information to auditor

The Directors confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware and that each Director has taken all the steps that they ought to have taken as a Director in order to make themselves aware of any 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.

#### Risks

A summary of the Company's risk management framework and an overview of its principal risks are detailed on pages 43 to 45 and are incorporated by reference into this report.

#### Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Group Chief Executive's review on pages 10 to 13 and the Finance Director's review on pages 20 to 23. In addition, note 30 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposure to credit risk and liquidity risk.

The Group has a formalised process of budgeting, reporting and review, which provides information to the Directors which is used to ensure the adequacy of resources available for the Group to meet its business objectives.

The Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for a period of at least 12 months from the date of signing the accounts. Accordingly they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

### Statement of Compliance with the UK Corporate Governance Code

In the opinion of the Directors, the Company has complied with the provisions of the UK Corporate Governance Code (Code) issued by the Financial Reporting Council in 2010 save in respect of the following provisions:

#### B.2.1 The Composition of the Nomination Committee

Jorge Cosmen, who is a member of the Nomination Committee, is not considered to be independent. However, as Deputy Chairman and the representative of one of the Company's largest shareholders, the Board considers Mr Cosmen should be a member of the Nomination Committee in order to be involved in the recruitment process for Board appointments.

Joaquín Ayuso was appointed as a member of the Nomination Committee on 26 February 2013. Accordingly, the majority of the Nomination Committee are now independent non-executive directors in accordance with Provision B.2.1 of the Code.

The Governance section of this Annual Report has applied the principles of the UK Corporate Governance Code and complied with its provisions during 2012. A copy of the UK Corporate Governance Code is available at [frc.org.uk](http://frc.org.uk).

#### Re-election of Directors

In accordance with the Company's Articles of Association, and the principles of the UK Corporate Governance Code, all Directors of the Company will offer themselves for either election or re-election at this year's AGM. Non-Executive Directors are appointed for specific terms, subject to re-election. Non-Executive Directors will only be put forward for re-election if, following performance evaluation, the Board believes the Director's performance continues to be effective and demonstrates commitment to the role.

#### Remuneration and service contracts of Directors

The Directors' Remuneration Report, including details of remuneration policy and service contracts, is set out on pages 64 to 75.

#### Directors' conflicts of interest

The Board has a procedure in place to deal with a situation where a Director has a conflict of interest, as required by the Companies Act 2006. As part of this process, the members of the Board prepare a list of other positions held and all other conflict situations that may need authorising either in relation to the Director concerned or his/her connected persons. The Board considers each Director's situation and decides whether to approve any conflict situations, taking into consideration what is in the best interests of the Company and whether the Director's ability to act in accordance with his or her wider duties is affected. Each Director is required to notify the Company Secretary of any potential or actual conflict situations that will need authorising by the Board. Authorisations given by the Board are reviewed annually.

#### Accountability and audit

Statements of the respective responsibilities of the Directors and auditors are set out on pages 81 and 82.

#### Directors' and Officers' Liability Insurance

The Company maintains Directors' and Officers' Liability Insurance in respect of legal action that might be brought against its Directors. Pursuant to the Company's Articles of Association the Company has indemnified its Directors and Officers in accordance with the provisions of Section 233 of the Companies Act 2006. A copy of the Articles of Association is available for inspection at the Company's registered office.

#### Internal control statement

##### The Board's responsibilities

The Board has overall responsibility for the Group's system of internal control and for reviewing its effectiveness. The Board maintains full control and direction over appropriate strategic, financial, operational and compliance issues and has put in place an organisational structure with formally defined lines of responsibility, delegated authorities and clear operating processes. The systems that the Board has established are designed to safeguard both the shareholders' investment and the assets of the Group, and are described as follows.

##### Key elements of the control framework

**Financial reporting process** – Management and specialists within the Finance Department are responsible for ensuring the appropriate maintenance of financial records and processes to ensure that all information is relevant, reliable and in accordance with the applicable laws and regulations, and distributed both internally and externally in a timely manner. A review of the consolidation and financial statements is completed by management to ensure that the financial position and results of the Group are appropriately reflected. All financial information published by the Group is subject to the approval of the Audit Committee.

**Performance management** – The performance of each division and operating company against its plan is closely monitored by a formal monthly reporting process and by the attendance of the relevant Executive Directors at monthly divisional executive meetings.

**Annual fitness check process** – Internal audit undertake an annual review at each operating company to assess the integrity of the balance sheet and to check the effective operation of key financial reporting and information systems controls. The results of the reviews are presented to both divisional and Group finance with any required actions agreed with the relevant divisional Finance Director.

**Strategic and financial planning** – An annual budgeting and strategic planning process has been established whereby each division and constituent operating company assesses its competitive position and goals, taking account of the strategic risks faced. This strategy is translated into a financial plan with clear milestones and performance indicators.

**Capital investment** – A clear process is in place for the approval of capital expenditure, which includes detailed appraisal of the benefits of the proposed investment and any associated key risks. Material capital expenditure requires Board approval.

**Health and safety** – Health and safety standards and benchmarks have been established in all our businesses and the performance of operating companies in meeting these standards is closely monitored.

**Risk management reporting process** – Each division and operating company evaluates its internal control environment and key risks, and the results are reviewed at management level and passed to the Audit Committee before being presented to the Board. This process is reviewed on a regular basis to ensure the validity and relevance of the key risks included in reports. The review covers strategic, financial, compliance and risk management controls. These procedures are mandated and designed to manage the risk in order to ensure that the operations achieve their business objectives.

**Internal audit** – The internal control system is independently monitored and supported by a Group internal audit function. The internal audit function reports to management and the Audit Committee on the Group's financial and operational controls, and monitors and reviews the extent to which its recommendations have been implemented.

**Board-level reporting on internal control** – During the year the Audit Committee reviews regular reports from the internal audit function, the external auditors and executive management on matters relating to internal control, financial reporting and risk management. The Audit Committee provides the Board with an independent assessment of the Group's financial position, accounting affairs and control systems. In addition, the Board receives regular reports on how specific risks that are assessed as material to the Group are being managed.

#### **Review of internal control effectiveness**

The system of internal control and risk management, described above, has been in place for the year under review and up to the date of approval of this Annual Report and Accounts. Such a system is designed to manage, rather than to eliminate, the risks inherent in achieving the Group's business objectives, and can therefore provide only reasonable and not absolute assurance against material misstatement or loss. The effectiveness of this system has been regularly reviewed by the Directors in line with the Guidance on Audit Committees, published by the Financial Reporting Council in December 2010. Where significant control failings or weaknesses have been identified, appropriate corrective action has been taken.

#### **Whistleblowing policy**

'Whistleblowing' policies are in place in each of the Group's businesses and are also available on the Group's website [nationalexpressgroup.com](http://nationalexpressgroup.com). The Board supports the highest standards of corporate governance and ethical practices within all its operations and continues to review its policies on an ongoing basis. The Board has endorsed a set of principles which establish the framework for how its businesses operate. Key to these is working in an open and honest manner. The Group is committed to the highest standards of quality, honesty, openness and accountability. Employees are encouraged to raise genuine concerns under the policy either by contacting their line manager or telephoning a dedicated external helpline. Any concerns raised are investigated carefully and thoroughly to assess what action, if any, should be taken and confidential records are maintained. The Company Secretary reports any matters of significance to the appropriate committee. In 2012 no issues of significance were raised.

#### **Anti-bribery policy**

A Group Anti-Bribery policy has been established and issued to all Group companies and is also available on the Group's website at [nationalexpressgroup.com](http://nationalexpressgroup.com). The policy prohibits any inducement which results in a personal gain or advantage to the recipient or any person or body associated with them, and which is intended to influence them to take action which may not be solely in the interests of the Group or of the person or body employing them or which they represent. The prevention, detection and reporting of bribery is the responsibility of all employees throughout the Group. Employees can report confidentially any suspicion of bribery via an externally facilitated whistleblower hotline.



**Michael Hampson**  
**Company Secretary**  
28 February 2013

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 are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the accounts 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 the parent Company 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.

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

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.

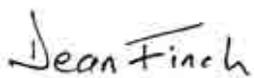
The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Responsibility statement

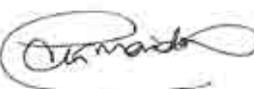
We confirm that to the best of our knowledge:

- The financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- The business review, which is incorporated into the Directors' report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board



**Dean Finch**  
Chief Executive Officer  
28 February 2013



**Jez Maiden**  
Group Finance Director  
28 February 2013

# Independent Auditor's Report to the Members of National Express Group plc

We have audited the Group financial statements of National Express Group PLC for the year ended 31 December 2012 which comprise the Group Income Statement, the Group Statement of Comprehensive Income, the Group Balance Sheet, the Group Statement of Changes in Equity, the Group Statement of Cash Flows, and the related notes 1 to 38. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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.

## Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2012 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

## Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- 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.

Under the Listing Rules we are required to review:

- the Directors' statement, set out in the Directors' report, in relation to going concern;
- the part of the Corporate Governance Statement, as set out within the Statutory Information, relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

## Other matter

We have reported separately on the parent company financial statements of National Express Group PLC for the year ended 31 December 2012 and on the information in the Directors' Remuneration Report that is described as having been audited.

**Nigel Mercer** (Senior statutory auditor)  
for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditor  
Birmingham, UK  
28 February 2013

## Group Income Statement

For the year ended 31 December 2012

	Note	Total before intangible amortisation and exceptional items 2012 £m	Intangible amortisation and exceptional items 2012 £m	Total 2012 £m	Total before intangible amortisation and exceptional items 2011 £m	Intangible amortisation and exceptional items 2011 £m	Total 2011 £m
<b>Continuing operations</b>							
Revenue	4	<b>1,831.2</b>	–	<b>1,831.2</b>	2,238.0	–	2,238.0
Operating costs before intangible amortisation and exceptional items		<b>(1,619.3)</b>	–	<b>(1,619.3)</b>	(2,012.8)	–	(2,012.8)
Intangible amortisation	5,14	–	<b>(51.7)</b>	<b>(51.7)</b>	–	(50.8)	(50.8)
Exceptional items	5	–	<b>(42.6)</b>	<b>(42.6)</b>	–	–	–
Total operating costs	6	<b>(1,619.3)</b>	<b>(94.3)</b>	<b>(1,713.6)</b>	(2,012.8)	(50.8)	(2,063.6)
<b>Group operating profit</b>		<b>211.9</b>	<b>(94.3)</b>	<b>117.6</b>	225.2	(50.8)	174.4
Share of post-tax results from associates and joint ventures accounted for using the equity method	18	<b>1.4</b>	–	<b>1.4</b>	1.4	–	1.4
Finance income	4,9	<b>4.4</b>	–	<b>4.4</b>	6.7	–	6.7
Finance costs	9	<b>(53.6)</b>	–	<b>(53.6)</b>	(53.1)	–	(53.1)
<b>Profit before tax</b>		<b>164.1</b>	<b>(94.3)</b>	<b>69.8</b>	180.2	(50.8)	129.4
Tax charge	10	<b>(32.7)</b>	<b>24.2</b>	<b>(8.5)</b>	(41.5)	14.7	(26.8)
<b>Profit for the year</b>		<b>131.4</b>	<b>(70.1)</b>	<b>61.3</b>	138.7	(36.1)	102.6
Profit attributable to equity shareholders		<b>130.1</b>	<b>(70.1)</b>	<b>60.0</b>	137.3	(36.1)	101.2
Profit attributable to non-controlling interests		<b>1.3</b>	–	<b>1.3</b>	1.4	–	1.4
		<b>131.4</b>	<b>(70.1)</b>	<b>61.3</b>	138.7	(36.1)	102.6
Earnings per share:							
– basic earnings per share	13			<b>11.8p</b>			19.9p
– diluted earnings per share	13			<b>11.7p</b>			19.8p
Normalised earnings per share:							
– basic earnings per share	13	<b>25.5p</b>			27.0p		
– diluted earnings per share	13	<b>25.4p</b>			26.9p		

## Group Statement of Comprehensive Income

For the year ended 31 December 2012

	Note	2012 £m	2011 £m
Profit for the year		<b>61.3</b>	102.6
<b>Other comprehensive income and expenditure:</b>			
Exchange differences on retranslation of foreign operations (net of hedging)		<b>(44.2)</b>	(26.4)
Exchange differences on retranslation of non-controlling interests		<b>(0.2)</b>	(0.2)
Actuarial losses on defined benefit pension plans	34	<b>(31.1)</b>	(8.6)
Gain on cash flow hedges		<b>2.2</b>	24.2
Transfers to the income statement on cash flow hedges		<b>(20.2)</b>	(25.3)
Tax on exchange differences		<b>1.6</b>	2.9
Deferred tax on actuarial losses		<b>7.2</b>	0.4
Deferred tax on cash flow hedges		<b>4.9</b>	(0.6)
<b>Other comprehensive income and expenditure for the year, net of tax</b>		<b>(79.8)</b>	(33.6)
<b>Total comprehensive (expenditure)/income for the year</b>		<b>(18.5)</b>	69.0
<b>Total comprehensive (expenditure)/income attributable to:</b>			
Equity shareholders		<b>(19.6)</b>	67.9
Non-controlling interests		<b>1.1</b>	1.1
		<b>(18.5)</b>	69.0

## Group Balance Sheet

At 31 December 2012

	Note	2012 £m	2011 £m
<b>Non-current assets</b>			
Intangible assets	14	<b>1,262.9</b>	1,212.5
Property, plant and equipment	15	<b>787.4</b>	754.5
Available for sale investments	17	<b>7.1</b>	7.6
Derivative financial instruments	17	<b>31.1</b>	31.0
Investments accounted for using the equity method	18	<b>4.4</b>	6.6
Trade and other receivables	20	<b>5.6</b>	5.9
Defined benefit pension asset	34	<b>16.6</b>	18.6
		<b>2,115.1</b>	2,036.7
<b>Current assets</b>			
Inventories	21	<b>19.3</b>	18.8
Trade and other receivables	22	<b>194.8</b>	248.1
Derivative financial instruments	17	<b>4.7</b>	21.1
Deferred tax assets	27	<b>7.8</b>	–
Current tax assets		<b>0.8</b>	0.9
Cash and cash equivalents	23	<b>72.8</b>	92.5
		<b>300.2</b>	381.4
<b>Total assets</b>		<b>2,415.3</b>	2,418.1
<b>Non-current liabilities</b>			
Borrowings	28	<b>(786.8)</b>	(718.4)
Derivative financial instruments	28	<b>(2.2)</b>	(2.4)
Deferred tax liability	27	<b>(84.8)</b>	(95.2)
Other non-current liabilities	25	<b>(5.9)</b>	(4.9)
Non-current tax liabilities		<b>–</b>	(5.4)
Defined benefit pension liability	34	<b>(35.9)</b>	(20.4)
Provisions	26	<b>(28.3)</b>	(24.0)
		<b>(943.9)</b>	(870.7)
<b>Current liabilities</b>			
Trade and other payables	24	<b>(348.4)</b>	(466.4)
Borrowings	28	<b>(169.0)</b>	(54.8)
Derivative financial instruments	28	<b>(3.0)</b>	(0.2)
Current tax liabilities		<b>(19.9)</b>	(19.7)
Provisions	26	<b>(28.7)</b>	(40.9)
		<b>(569.0)</b>	(582.0)
<b>Total liabilities</b>		<b>(1,512.9)</b>	(1,452.7)
<b>Net assets</b>		<b>902.4</b>	965.4
<b>Shareholders' equity</b>			
Called up share capital	32	<b>25.6</b>	25.6
Share premium account		<b>532.7</b>	532.7
Capital redemption reserve		<b>0.2</b>	0.2
Own shares		<b>(0.5)</b>	(14.0)
Other reserves	33	<b>44.2</b>	99.9
Retained earnings		<b>290.7</b>	313.1
Total shareholders' equity		<b>892.9</b>	957.5
Non-controlling interest in equity		<b>9.5</b>	7.9
<b>Total equity</b>		<b>902.4</b>	965.4

D Finch Group Chief Executive  
J K Maiden Group Finance Director  
28 February 2013

## Group Statement of Changes in Equity

For the year ended 31 December 2012

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Own shares (note 32) £m	Other reserves (note 33) £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
At 1 January 2012	25.6	532.7	0.2	(14.0)	99.9	313.1	957.5	7.9	965.4
Shares purchased	-	-	-	(4.8)	-	-	(4.8)	-	(4.8)
Own shares released to satisfy employee share schemes	-	-	-	4.5	-	(4.5)	-	-	-
Disposal of own shares	-	-	-	13.8	-	(9.8)	4.0	-	4.0
Total comprehensive income and expenditure	-	-	-	-	(55.7)	36.1	(19.6)	1.1	(18.5)
Share-based payments	-	-	-	-	-	5.2	5.2	-	5.2
Tax on share-based payments	-	-	-	-	-	(0.1)	(0.1)	-	(0.1)
Dividends	-	-	-	-	-	(49.3)	(49.3)	-	(49.3)
Adjustment from changes in non-controlling interests	-	-	-	-	-	-	-	0.5	0.5
<b>At 31 December 2012</b>	<b>25.6</b>	<b>532.7</b>	<b>0.2</b>	<b>(0.5)</b>	<b>44.2</b>	<b>290.7</b>	<b>892.9</b>	<b>9.5</b>	<b>902.4</b>
	Share capital £m	Share premium account £m	Capital redemption reserve £m	Own shares (note 32) £m	Other reserves (note 33) £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
At 1 January 2011	25.6	532.7	0.2	(14.1)	125.1	263.7	933.2	6.6	939.8
Shares purchased	-	-	-	(2.7)	-	-	(2.7)	-	(2.7)
Own shares released to satisfy employee share schemes	-	-	-	2.8	-	(2.8)	-	-	-
Total comprehensive income and expenditure	-	-	-	-	(25.2)	93.1	67.9	1.1	69.0
Share-based payments	-	-	-	-	-	5.0	5.0	-	5.0
Tax on share-based payments	-	-	-	-	-	(0.1)	(0.1)	-	(0.1)
Dividends	-	-	-	-	-	(45.8)	(45.8)	-	(45.8)
Dividends paid to non-controlling interest	-	-	-	-	-	-	-	(0.3)	(0.3)
Adjustment from changes in non-controlling interests	-	-	-	-	-	-	-	0.5	0.5
<b>At 31 December 2011</b>	<b>25.6</b>	<b>532.7</b>	<b>0.2</b>	<b>(14.0)</b>	<b>99.9</b>	<b>313.1</b>	<b>957.5</b>	<b>7.9</b>	<b>965.4</b>

## Group Statement of Cash Flows

For the year ended 31 December 2012

	Note	2012 £m	2011 £m
<b>Cash generated from operations</b>	37	<b>169.6</b>	247.0
Tax paid		<b>(13.4)</b>	(8.4)
<b>Net cash from operating activities</b>		<b>156.2</b>	238.6
<b>Cash flows from investing activities</b>			
Payments to acquire businesses, net of cash acquired	19(a)	<b>(156.9)</b>	(0.4)
Deferred consideration for businesses acquired and disposed	19(a)(b)	<b>(0.6)</b>	(5.7)
Purchase of property, plant and equipment		<b>(103.8)</b>	(104.5)
Proceeds from disposal of property, plant and equipment		<b>16.7</b>	6.3
Payments to acquire intangible assets		<b>(2.9)</b>	(3.9)
Payments to acquire associates		<b>(0.5)</b>	–
Proceeds from disposal of associates		<b>1.6</b>	–
Dividends received from associates		<b>0.9</b>	1.0
Interest received		<b>3.7</b>	5.6
<b>Net cash used in investing activities</b>		<b>(241.8)</b>	(101.6)
<b>Cash flows from financing activities</b>			
Proceeds from the sale of treasury shares		<b>4.0</b>	–
Purchase of own shares		<b>(4.8)</b>	(2.7)
Interest paid		<b>(48.8)</b>	(50.2)
Finance lease principal payments		<b>(18.0)</b>	(24.9)
Net loans drawn down/(repaid)		<b>174.5</b>	(35.6)
Receipts/(payments) for the maturity of foreign currency contracts		<b>8.9</b>	(12.8)
Dividends paid to non-controlling interests		<b>(0.1)</b>	(0.4)
Payments for equity in non-controlling interests		<b>–</b>	(0.5)
Dividends paid to shareholders of the Company		<b>(49.3)</b>	(45.8)
<b>Net cash from/(used in) financing activities</b>		<b>66.4</b>	(172.9)
<b>Decrease in cash and cash equivalents</b>		<b>(19.2)</b>	(35.9)
Opening cash and cash equivalents		<b>92.5</b>	128.8
Decrease in cash and cash equivalents		<b>(19.2)</b>	(35.9)
Foreign exchange		<b>(0.5)</b>	(0.4)
<b>Closing cash and cash equivalents</b>	23	<b>72.8</b>	92.5

# Notes to the Consolidated Accounts

For the year ended 31 December 2012

## 1 Corporate information

The consolidated accounts of National Express Group PLC and its subsidiaries ('the Group') for the year ended 31 December 2012 were authorised for issue in accordance with a resolution of the Directors on 28 February 2013. National Express Group PLC is a public limited company incorporated in England and Wales whose shares are publicly traded on the London Stock Exchange.

The principal activities of the Group are described in the Business review that accompanies these accounts.

## 2 Accounting policies

### Statement of compliance

These accounts have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC) as adopted by the European Union (EU), and with those parts of the Companies Acts 2006 applicable to companies reporting under IFRS.

### Basis of preparation

The financial statements have been prepared on the going concern basis (see Directors' report on page 76) under the historical cost convention, except for the recognition of derivative financial instruments and available for sale investments.

The consolidated accounts are presented in pounds Sterling and all values are rounded to the nearest one hundred thousand Pounds (£0.1m) except where otherwise indicated.

A summary of the Group's accounting policies applied in preparing the accounts for the year ended 31 December 2012 is set out below.

### Significant accounting judgements and key sources of estimation uncertainty

The preparation of accounts in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the accounts and the reported amounts of revenues and expenses during the reporting period. 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:

#### *Goodwill and impairment*

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the 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 14 to the accounts.

#### *Retirement benefit obligations*

Determining the amount of the Group'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 Group makes assumptions concerning these matters with the assistance of advice from independent qualified actuaries. Details of the assumptions made are set out in note 34.

#### *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 to the Group. The Group makes assumptions concerning these matters with the assistance of advice from independent qualified actuaries.

#### *Tax provisions*

Assessing the outcome of uncertain tax positions requires judgements to be made regarding the result of negotiations with and enquires from tax authorities in a number of jurisdictions. The assessments made are based on advice from independent tax advisors and the status of ongoing discussions with the relevant tax authorities.

## 2 Accounting policies continued

### Basis of consolidation

The consolidated accounts comprise the accounts of National Express Group PLC and all its subsidiaries drawn up to 31 December each year. Adjustments are made to bring any dissimilar accounting policies that may exist into line with the Group's accounting policies.

On acquisition of a business, the purchase method of accounting is adopted, and the Group Income Statement includes the results of subsidiaries and businesses purchased during the year from the date control is assumed. The purchase consideration is allocated to assets and liabilities on the basis of fair value at the date of acquisition. On the sale of a business, the Group income statement includes the results of that business to the date of disposal.

Intragroup transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated.

Non-controlling interests represent the portion of comprehensive income and equity in subsidiaries that is not attributable to the parent Company shareholders and is presented separately from parent shareholders' equity in the consolidated balance sheet.

### Interests in joint ventures

The Group has a number of contractual arrangements with other parties to share control of other entities which represent joint ventures.

The Group recognises its interest in the entity's assets and liabilities using the equity method of accounting. The Group balance sheet includes the appropriate share of these joint ventures' net assets or liabilities and the income statement includes the appropriate share of their results after tax.

Accounts of jointly controlled entities are prepared for the same reporting period as the Group. Adjustments are made in the Group's accounts to eliminate the Group's share of unrealised gains and losses on transactions between the Group and its jointly controlled entities. The Group ceases to use the equity method from the date it no longer has joint control over the entity.

### Interests in associates

Companies, other than subsidiaries and joint ventures, in which the Group has an investment representing not less than 20% of the voting rights and over which it exerts significant influence are treated as associates. The consolidated accounts include the appropriate share of these associates' results and net assets based on their latest accounts under the equity method.

### Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year and there have been no changes in accounting standards during the year that have had a material effect on the Group.

### Income statement presentation

The income statement has been presented in a columnar format to enable users of the financial statements to view the normalised results of the Group. Normalised results are defined as the statutory results before the following, as appropriate: profit or loss on the sale of businesses, exceptional profit or loss on the sale of non-current assets and charges for goodwill impairment, amortisation of intangible assets, exceptional items and tax relief on qualifying exceptional items and intangibles.

### Exceptional items

Exceptional items are material items of income or expenditure which, in the opinion of the Directors, due to their nature and infrequency require separate identification on the face of the income statement to allow a better understanding of the financial performance in the year, in comparison to prior years.

#### **2 Accounting policies** continued

##### **Revenue recognition**

###### *Rendering of services*

Revenue comprises income from road passenger transport, train passenger services and related activities in the UK, North America and Europe. Where appropriate, amounts are shown net of rebates and sales tax.

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

Rail revenue includes amounts attributed to the train operating companies (TOCs), based principally on agreed models of route usage by Railway Settlement Plan Limited (which administers the income allocation system within the UK rail industry), in respect of passenger receipts. In addition, net franchise agreement receipts from the Department for Transport Rail Division (DfT Rail) and local Passenger Transport Executives (PTEs) are treated as revenue. Net franchise agreement payments to DfT Rail are recognised in operating costs. UK Coach revenue comprises amounts receivable generated from ticket sales. UK Bus and European Coach & Bus revenue comprises amounts receivable generated from ticket sales and revenue generated from services provided on behalf of local transport authorities, which is recognised as the services are provided. For all the divisions noted above, the relevant share of season ticket or travelcard income is deferred within liabilities and released to the income statement over the life of the relevant season ticket or travelcard. North American Bus revenue from school boards and similar contracts is recognised as the services are provided.

###### *Rental income*

Rental income is accounted for on a straight-line basis over the lease term.

###### *Finance income*

Revenue is recognised using the effective interest method.

###### **Government grants**

Government grants relating to property, plant and equipment are included in liabilities as deferred income and are credited to the income statement over the expected useful economic life of the assets concerned. Other grants are credited to the income statement as the related expenditure is expensed.

###### **Segmental reporting**

Each of the Group's business and geographical segments provides services that are subject to risks and returns that are different from those of the other business segments. Due to the nature of the Group's operations the distinct business segments align directly with geographical segments which are operating in separate economic environments.

The Group's segments comprise: UK Bus; UK Coach; Rail; North American Bus; European Coach & Bus; and Central functions. These segments are described in more detail in the Business review accompanying these accounts.

###### **Leases**

Leases of property, plant and equipment where substantially all the risks and rewards of ownership of the asset have passed to the Group, are capitalised in the balance sheet as property, plant and equipment. Finance leases are capitalised at the lower of the fair value of the leased property and the present value of the minimum lease payments. The capital element of future obligations under hire purchase contracts and finance leases is included as a liability in the balance sheet. The interest element of rental obligations is charged to the income statement over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding. Property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term.

Leases of property, plant and equipment where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Rentals paid under operating leases are charged to the income statement on a straight-line basis over the term of the lease. Incentives received under operating leases and initial direct costs in negotiating the lease are amortised to the income statement on a straight-line basis over the term of the lease.

All material arrangements and transactions entered into by the Group are reviewed to check whether they contain elements that meet the accounting definition of a lease, although they may not follow the legal form of a lease.

###### **Borrowing costs**

Borrowing costs are recognised as an expense when incurred except where they are directly attributable to the acquisition, construction or production of a qualifying asset, in which case they are capitalised as part of the cost of that asset.

## 2 Accounting policies continued

### Current tax and deferred tax

Current tax is provided on taxable profits earned according to the local tax rates applicable where the profits are earned. Income taxes are recognised in the income statement unless they relate to an item accounted for in other comprehensive income or equity, in which case the tax is recognised directly in other comprehensive income or equity. The tax rates and tax laws used to compute the current tax are those that are enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full in respect of all material temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, apart from the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill;
- where an asset or liability is recognised in a transaction that is not a business combination and that at the time of the transaction affects neither accounting nor taxable profit or loss; and
- in respect of investment in subsidiaries, associates and joint ventures where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is measured on a non-discounted basis at tax rates that are expected to apply in the periods in which the temporary differences reverse based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Deferred tax assets are recognised to the extent that it is considered more likely than not that future taxable profits will be available against which the underlying temporary differences can be deducted. Their carrying amount is reviewed at each balance sheet date on the same basis.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and when the Group intends to settle its current tax assets and liabilities on a net basis.

### Intangible assets

Intangible assets acquired separately that meet the recognition criteria of IAS 38 'Intangible Assets', are capitalised at cost and when acquired in a business combination are capitalised at fair value at the date of acquisition. Following initial recognition, finite life assets are amortised on a straight-line basis and indefinite life assets are not amortised. The amortisation expense is taken to the income statement through operating expenses.

The existing finite life intangible assets have a residual value of nil and are amortised over their estimated useful lives as follows:

Customer contracts	– over the life of the contract (between 1 and 33 years)
Right to operate TOC franchises	– over the life of the franchise (between 1 and 7 years)
Contractual relationships	– over the life of the relationship (between 8 – 20 years)
Brands	– over the life of the brand (5 years)

Intangible assets with indefinite lives are tested annually for impairment. The useful lives of finite life intangible assets are examined on an annual basis and adjustments, where applicable, are made on a prospective basis. Finite life assets are reviewed for impairment where indicators of impairment exist.

The Group's only indefinite life intangible asset is goodwill.

### Software

Computer software that is not integral to an item of property, plant and equipment is recognised separately as an intangible asset and is carried at cost less accumulated amortisation and accumulated impairment losses. Costs include software licences, consulting costs attributable to the development, design and implementation of the computer software and internal costs directly attributable to the development, design and implementation of the computer software. Costs in respect of training are expensed as incurred. Amortisation is calculated using the straight-line method so as to charge the cost of the computer software to the income statement over its estimated useful life (3 to 7 years).

The carrying value of intangibles is reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable.

**2 Accounting policies** continued**Goodwill**

Goodwill on acquisition is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is stated at historic cost less any accumulated impairment. If an acquisition gives rise to an excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously referred to as negative goodwill), this is credited immediately to the income statement.

In accordance with IFRS 3, goodwill is not amortised. All goodwill is subject to an annual test of impairment and an impairment charge recognised as required.

Fair value accounting adjustments are made in respect of acquisitions. Fair value adjustments based on provisional estimates are amended within one year of the acquisition if required, with a corresponding adjustment to goodwill, in order to refine adjustments to reflect further evidence gained post-acquisition.

Where goodwill forms part of a cash-generating unit and all or part of that unit is disposed of, the associated goodwill is included in the carrying amount of the operation when determining the gain or loss on the disposal of the operation.

**Property, plant and equipment**

All property, plant and equipment is stated at historic cost less accumulated depreciation and accumulated impairment losses. Under the transitional arrangements of IFRS 1, the Group elected to deem the fair value of certain revalued assets to be equivalent to cost.

Land and buildings comprise mainly vehicle depots and garages, and offices. Freehold land is not depreciated. Other property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives as follows:

Freehold buildings	– 30 to 50 years
Long leasehold property improvements	– 15 to 40 years
Public service vehicles	– 8 to 15 years
Plant and equipment, fixtures and fittings	– 3 to 15 years

Useful lives and residual values are reviewed annually and adjustments, where applicable, are made on a prospective basis. Repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the derecognition of the asset is included in the income statement in the period of derecognition.

**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 the 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 there are 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. Impairments to goodwill cannot be reversed.

## 2 Accounting policies continued

### Financial instruments

The Group determines the classification of its financial instruments at initial recognition. The Group classifies its financial assets in the following categories: at fair value through profit or 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 or 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 carried at fair value through profit or 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 or 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. The Group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the balance sheet.

#### Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this 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.

The Group's investments in entities that are not subsidiaries, associates or joint ventures are classified as available-for-sale financial assets. After initial recognition these assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or the investment is determined to be impaired, at which time the previously reported cumulative gain or loss is included in the income statement. Where there is no active market for the Group's investments, fair value is determined using valuation techniques including recent commercial transactions and discounted cash flow analyses. In the absence of any other reliable external information, assets are carried at cost or amortised cost as appropriate.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

#### Financial liabilities

When a financial liability is recognised initially, the Group measures it at its fair value. Financial liabilities include trade payables, accruals, other payables, borrowings and derivative financial instruments. In the case of a financial liability not at fair value through profit or loss, an adjustment is made for transaction costs that are directly attributable to the issue of the financial liability. Subsequent measurement depends on its classification as follows:

#### Financial liabilities at fair value through profit or loss

Financial liabilities classified as held for trading and derivative liabilities that are not designated as effective hedging instruments are classified as financial liabilities at fair value through profit or loss. These liabilities are carried on the balance sheet at fair value with gains or losses being recognised in the income statement.

#### Other

All other financial liabilities not classified as fair value through profit or loss are measured at amortised cost using the effective interest method.

#### **2 Accounting policies** continued

##### **Derivative financial instruments**

The Group uses derivative financial instruments such as foreign currency forward exchange contracts, fuel derivatives and interest rate derivatives to hedge its risks associated with foreign currency, fuel price and interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value and subsequently remeasured to fair value for the reported balance sheet. The fair value of foreign currency forward exchange contracts, interest rate and fuel derivatives is calculated by reference to market exchange rates, interest rates and fuel prices at the period end.

The Group's fuel derivatives are designated as cash flow hedges. The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in equity, and the ineffective portion in the income statement. The gains or losses deferred in equity in this way are recycled through the income statement in the same period in which the hedged underlying transaction or firm commitment is recognised in the income statement.

The Group's interest rate derivatives are designated as fair value hedges. The gain or loss on the hedging instrument is recognised immediately in the income statement. The carrying amount of the hedged item is adjusted through the income statement for the gain or loss on the hedged item attributable to the hedged risk, in this case movements in the risk free interest rate.

Foreign currency derivatives are used to hedge the Group's net investment in foreign currency denominated operations and to the extent they are designated and effective as net investment hedges are matched in equity against foreign exchange exposure in the related assets and liabilities. Gains and losses accumulated in equity are included in the income statement when the foreign operation is partially disposed of or sold. Foreign currency forward contracts are also used to hedge transactional exposures. These contracts are not hedge accounted and all gains and losses are taken directly to the income statement.

For derivatives that do not qualify for hedge accounting, gains or losses are taken directly to the income statement in the period.

Hedge accounting is discontinued when the hedging instrument expires, is sold, terminated, exercised, or no longer qualifies for hedge accounting.

##### **Inventories**

Inventories are valued at the lower of cost and net realisable value on a FIFO basis, after making due allowance for obsolete or slow moving items.

##### **Pre-contract costs**

Pre-contract costs associated with securing new rail franchises are expensed as incurred up to the point when a franchise is awarded. From this point in time, they are recognised as an asset and are expensed to the income statement over the life of the franchise. Costs associated with the commencement of all new contracts other than rail franchises are expensed as incurred.

##### **Trade and other receivables**

Trade and other receivables are recognised and carried at original invoice amount less an allowance for any uncollectable amounts. Doubtful debts are provided for when collection of the full amount is no longer probable, whilst bad debts are written off when identified.

##### **Cash and cash equivalents**

Cash and cash equivalents as defined for the cash flow statement comprise cash in hand, cash held at bank with immediate access, other short term investments and bank deposits with maturities of three months or less from the date of inception and bank overdrafts. In the consolidated balance sheet, cash includes cash and cash equivalents excluding bank overdrafts. Bank overdrafts that have no legal right of set-off against cash and cash equivalents are included within borrowings in current liabilities.

##### **Trade and other payables**

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

##### **Interest-bearing borrowings**

All loans and borrowings are initially recognised at cost being the net fair value of the consideration received plus transaction costs that are directly attributable to the issue of the financial asset or liability. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

## 2 Accounting policies continued

### Insurance

The Group's policy is to self-insure high frequency claims within the businesses. To provide protection above these types of losses the Group purchases insurance cover from a selection of proven and financially strong insurers. The insurance provision is based on estimated exposures at the year end principally for claims arising in the UK and North America prior to the year-end date, subject to the overall stop loss within the Group's insurance arrangements. The majority of provisions will be utilised within 5 years, and the provision has been discounted to take account of the expected timing of future cash settlements.

### Pensions and other post-employment benefits

The Group has a number of pension schemes, both of a defined benefit and defined contribution nature. Full details are provided in note 34.

The balance sheet position in respect of defined benefit schemes comprises the net value for each scheme of the present value of the relevant defined benefit obligation at the balance sheet date less the fair value of plan assets. The trustees complete a full actuarial valuation triennially, separately for each plan, but the obligation is updated annually for financial reporting purposes by independent actuaries, using the projected unit credit method. The present value of the obligation is determined by the estimated future cash outflows discounted using interest rates of high quality corporate bonds which have terms to maturity equivalent to the terms of the related liability.

The current service cost and losses on settlements and curtailments are recognised in staff pension costs within operating costs in the income statement. Past service costs are included in operating costs where the benefits have vested, otherwise they are amortised on a straight-line basis over the vesting period. The finance elements of the pension cost, comprising the expected return on assets of funded defined benefit schemes and the interest on pension scheme liabilities, are also included in operating costs. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income in the period in which they arise.

Our TOCs participate in the RPS, a defined benefit scheme which covers the whole of the UK rail industry. This is partitioned into sections and the Group is responsible for the funding of these sections whilst it operates the relevant franchise. In contrast to the pension schemes operated by most businesses, the RPS is a shared cost scheme, which means that costs are formally shared 60% by the employer and 40% by the employee. A liability is recognised in line with other defined benefit schemes in the Group, although this is offset by a franchise adjustment so that the net liability represents the deficit that the Group expects to fund during the franchise term.

The charges in respect of defined contribution schemes are recognised when they are due. The Group has no legal or constructive obligation to pay further contributions into a defined contribution scheme if the fund has insufficient assets to pay all employees benefits relating to employee service in the current and prior periods.

### Share-based payment

The Group awards equity-settled share-based payments to certain employees, under which the Group receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted, excluding the impact of any non-market service and performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

### Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material using a pre-tax discount rate. The amortisation of the discount is recognised as a finance cost.

Contingent liabilities are obligations that arise from past events that are dependent on future events. They are disclosed in the notes to the accounts where the expected future outflow is not probable.

#### **2 Accounting policies** continued

##### **Share capital, share premium and dividends**

Where either the Company or employee share trusts purchase the Company's equity share capital, the consideration paid, including any transaction costs, is deducted from total shareholders' equity as own shares until they are cancelled or reissued. Any consideration subsequently received on sale or re-issue is included in shareholders' equity.

Dividend distributions to the Company's shareholders are recognised as a liability in the Group's accounts on the date when dividends are approved by the Company's shareholders. Interim dividends are recognised in the period they are paid.

##### **Non-current assets held for sale and discontinued operations**

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use.

A discontinued operation is a component of the Group that has been disposed of, or is classified as held for sale and it either represents a separate major line of business or geographical area; is part of a plan to dispose of a separate major line of business or geographical area; or was an acquired subsidiary intended for resale. The resulting profit or loss from discontinued operations is reported separately in the income statement.

Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortised.

##### **Foreign currencies**

The trading results of foreign currency denominated subsidiaries, joint ventures and associates are translated into Sterling, the presentation currency of the Group and functional currency of the parent, using average rates of exchange for the year as a reasonable approximation to actual exchange rates at the dates of transactions.

The balance sheets of foreign currency denominated subsidiaries, joint ventures and associates are translated into Sterling at the rates of exchange ruling at the year end and exchange differences arising are taken directly to the translation reserve in equity. On disposal of a foreign currency denominated subsidiary, the deferred cumulative amount recognised in the translation reserve (since 1 January 2004 under the transitional rules of IFRS 1) relating to that entity is recognised in the income statement. All other translation differences are taken to the income statement, with the exception of differences on foreign currency borrowings and forward foreign currency contracts which are used to provide a hedge against the Group net investments in foreign enterprises. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in the income statement.

##### **New standards and interpretations not applied**

The IASB and IFRIC have issued the following standards, interpretations and amendments with an effective date after the date of these financial statements:

IFRS 10 Consolidated Financial Statements (effective for annual periods beginning on or after 1 January 2013) – the standard establishes the principles for the presentation of consolidated accounts when an entity controls one or more other entities.

IFRS 11 Joint Arrangements (effective for annual periods beginning on or after 1 January 2013) – the standard determines the type of joint arrangement by assessing the rights and obligations, and accounts for those rights and obligations in accordance with that type of joint arrangement.

IFRS 12 Disclosure of Interests in Other Entities (effective for annual periods beginning on or after 1 January 2013) – the standard sets out the requirements to disclose information that enables users of accounts to evaluate the nature of, and risks associated with, its interests in other entities and the effects of these interests on its financial position, financial performance and cash flows.

IFRS 13 Fair Value Measurement (effective for annual periods beginning on or after 1 January 2013) – the standard defines fair value, and a framework for measuring fair value.

IAS 19 (revised) Employee Benefits (effective for annual periods beginning on or after 1 January 2013) – the standard will impact the measurement of the various components representing movements in the defined benefit pension obligation and associated disclosures, but not the Group's total obligation. It is likely that following the replacement of expected returns on plan assets with a net finance cost in the income statement, the operating profit for the period will be reduced and accordingly other comprehensive income increased.

IFRS 9 Financial Instruments (effective for annual periods beginning on or after 1 January 2015) – the standard deals with the classification, recognition and measurement of financial assets and liabilities, but has yet to be adopted by the EU.

The Directors assess that the standards and interpretations issued but not yet effective are not likely to have a significant impact on future financial statements.

### 3 Exchange rates

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

	2012 Closing rate	2012 Average rate	2011 Closing rate	2011 Average rate
US dollar	1.63	1.59	1.55	1.61
Canadian dollar	1.61	1.59	1.58	1.58
Euro	1.23	1.23	1.20	1.15

If the results for the year to 31 December 2011 had been retranslated at the average exchange rates for the year to 31 December 2012, North American Bus would have achieved normalised operating profit of £48.2m on revenue of £484.5m, compared to normalised operating profit of £47.9m on revenue of £481.0m as reported, and European Bus & Coach would have achieved a normalised operating profit of £84.4m on revenue of £515.8m, compared to normalised operating profit of £90.1m on revenue of £551.1m as reported.

### 4 Revenue

	2012 £m	2011 £m
Rendering of services	1,828.0	2,231.3
Rental income	3.2	6.7
Revenue	1,831.2	2,238.0
Finance income	4.4	6.7
Total revenue from continuing operations	1,835.6	2,244.7

### 5 Segmental analysis

The operating businesses are organised and managed separately according to the nature of the public transport services they provide and the geographical market they operate in. Commentary on the segments is included in the Business review.

Analysis by class and geography of business

	External revenue 2012 £m	Inter- segment sales 2012 £m	Segment revenue 2012 £m	External revenue 2011 £m	Inter- segment sales 2011 £m	Segment revenue 2011 £m
UK Bus	268.8	0.2	269.0	263.1	0.4	263.5
UK Coach	254.0	1.1	255.1	254.5	4.6	259.1
Rail	195.1	-	195.1	688.3	-	688.3
North American Bus	578.3	-	578.3	481.0	-	481.0
European Coach & Bus	535.0	-	535.0	551.1	-	551.1
Inter-segment sales elimination	-	(1.3)	(1.3)	-	(5.0)	(5.0)
<b>Total revenue</b>	<b>1,831.2</b>	<b>-</b>	<b>1,831.2</b>	<b>2,238.0</b>	<b>-</b>	<b>2,238.0</b>

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

## 5 Segmental analysis continued

	Normalised operating profit 2012 £m	Intangible amortisation and exceptional items 2012 £m	Segment result 2012 £m	Normalised operating profit 2011 £m	Intangible amortisation and exceptional items 2011 £m	Segment result 2011 £m
UK Bus	34.1	(3.7)	30.4	32.7	–	32.7
UK Coach	20.6	(2.5)	18.1	34.9	–	34.9
Rail	26.7	(17.7)	9.0	43.4	(1.7)	41.7
North American Bus	59.1	(25.9)	33.2	47.9	(3.3)	44.6
European Coach & Bus	83.8	(41.8)	42.0	90.1	(45.8)	44.3
Central functions	(12.4)	(2.7)	(15.1)	(14.6)	–	(14.6)
Project costs	–	–	–	(9.2)	–	(9.2)
<b>Operating profit from continuing operations</b>	<b>211.9</b>	<b>(94.3)</b>	<b>117.6</b>	225.2	(50.8)	174.4
Share of post-tax results from associates and joint ventures			1.4			1.4
Net finance costs			(49.2)			(46.4)
Profit before tax			69.8			129.4
Tax charge			(8.5)			(26.8)
Profit for the year			61.3			102.6

During 2011, one-off project related costs of £9.2m were charged within operating costs. £5.2m related to the settlement and associated legal expenses of a working time claim in North America; the remainder related to external fees in response to the Competition Commission enquiry into the UK bus industry, costs associated with the acquisition of Petermann and professional fees relating to the strategic and Board debate ahead of the 2011 Annual General Meeting.

## 5 Segmental analysis continued

Intangible asset amortisation and operating exceptional items can be analysed by class and location of business as follows:

	Intangible asset amortisation 2012 £m	Operating exceptional items 2012 £m	Total 2012 £m
UK Bus	–	3.7	3.7
UK Coach	–	2.5	2.5
Rail	0.1	17.6	17.7
North American Bus	11.1	14.8	25.9
European Coach & Bus	40.4	1.4	41.8
Central functions	0.1	2.6	2.7
<b>Total</b>	<b>51.7</b>	<b>42.6</b>	<b>94.3</b>

	Intangible asset amortisation 2011 £m	Operating exceptional items 2011 £m	Total 2011 £m
UK Bus	–	–	–
UK Coach	–	–	–
Rail	1.7	–	1.7
North American Bus	3.3	–	3.3
European Coach & Bus	45.8	–	45.8
Central functions	–	–	–
Total continued operations	50.8	–	50.8
Discontinued operations (note 11)	–	–	–
<b>Total</b>	<b>50.8</b>	<b>–</b>	<b>50.8</b>

In the year to 31 December 2012, exceptional costs of £16.3m were incurred in relation to UK rail bids. This includes the costs of bidding for the Great Western and Essex Thameside rail franchises. In addition, £1.3m was incurred in bidding for a number of regional rail opportunities in Germany.

Exceptional costs of £13.4m were incurred in relation to the acquisition and integration of school bus and transit businesses in North America. This includes the acquisitions of Petermann Partners Inc, the Thompson Transit joint venture and Forsythe Transportation Inc. Further details of these acquisitions are disclosed in note 19. In addition, £3.0m of business development costs have been incurred across the Group as part of a major investment to create other new contract and passenger business pipelines.

Exceptional restructuring and rationalisation costs of £8.6m have been incurred, primarily within UK Bus, UK Coach and Spain.

There were no exceptional costs incurred during 2011.

5 Segmental analysis continued

Assets, liabilities and capital expenditure can be analysed by class and geography of business as follows:

	Of which non-current		Liabilities	Capital**	Of which non-current		Liabilities	Capital**
	Assets	assets*			Assets	assets*		
	2012	2012	2012	2012	2011	2011	2011	2011
	£m	£m	£m	£m	£m	£m	£m	£m
UK Bus	142.9	124.5	(115.1)	24.7	137.7	117.3	(105.6)	24.0
UK Coach	66.7	53.0	(36.5)	6.6	72.1	53.1	(43.4)	12.8
Rail	14.7	2.4	(47.6)	0.2	71.6	11.3	(186.4)	2.3
North American Bus	878.0	789.4	(203.9)	58.9	720.1	656.9	(168.6)	63.1
European Coach & Bus	1,172.5	1,076.3	(159.7)	43.1	1,244.4	1,128.3	(150.4)	54.5
Central functions	34.0	4.7	(57.3)	0.3	33.1	0.1	(67.7)	0.1
Unallocated	125.3	–	(911.6)	–	153.8	–	(745.3)	–
Intercompany elimination	(18.8)	–	18.8	–	(14.7)	–	14.7	–
<b>Total</b>	<b>2,415.3</b>	<b>2,050.3</b>	<b>(1,512.9)</b>	<b>133.8</b>	<b>2,418.1</b>	<b>1,967.0</b>	<b>(1,452.7)</b>	<b>156.8</b>

\* Non-current assets only include intangible assets, property, plant and equipment.

\*\* The net capital expenditure, after allowing for the movements in capital creditors, disposal of fixed assets and payments to acquire intangibles, was £125.4m (2011: £145.8m).

Capital expenditure comprises property, plant and equipment additions as disclosed above and in note 15. In 2012 software intangible assets of £6.6m (2011: £1.3m) were acquired as disclosed in note 14.

Unallocated assets and liabilities comprise the following items:

	Unallocated assets	Unallocated liabilities	Unallocated assets	Unallocated liabilities
	2012	2012	2011	2011
	£m	£m	£m	£m
Cash and cash equivalents	72.8	–	92.5	–
Other debt receivables	1.0	–	0.7	–
Current tax	0.8	(19.9)	0.9	(19.7)
Non-current tax	–	–	–	(5.4)
Available for sale investments	7.1	–	7.6	–
Derivative financial assets/(liabilities)	35.8	(5.2)	52.1	(2.6)
Borrowings, excluding finance leases	–	(801.1)	–	(621.9)
Dividend payable	–	(0.6)	–	(0.5)
Deferred tax	7.8	(84.8)	–	(95.2)
<b>Total</b>	<b>125.3</b>	<b>(911.6)</b>	<b>153.8</b>	<b>(745.3)</b>

## 6 Operating costs

	2012 £m	2011 £m
Cost of inventories recognised in expense	67.0	66.0
Staff costs (including exceptional cost of £5.8m (2011: £nil))	765.5	816.7
Depreciation – Owned assets (including exceptional costs of £2.6m (2011: £nil))	90.0	92.8
– Leased assets	19.8	12.7
Amortisation of fixed asset grants	(1.2)	(1.5)
Operating lease charges		
Rolling stock: capital element	31.0	101.2
Rolling stock: non-capital element	5.0	45.6
Public service vehicles	4.0	4.3
Other	6.0	7.6
– Plant and equipment	46.0	158.7
Fixed track access	14.9	57.3
Other	24.4	33.3
– Land and buildings	39.3	90.6
Foreign exchange differences	(0.4)	(0.9)
Other charges (including exceptional expense of £34.2m (2011: £nil))	635.9	777.7
Operating costs before intangible asset amortisation	1,661.9	2,012.8
Intangible asset amortisation	51.7	50.8
<b>Total operating costs</b>	<b>1,713.6</b>	<b>2,063.6</b>

The TOCs have fixed track access contracts with Network Rail Infrastructure Limited for access to the railway infrastructure (tracks, stations and depots). The TOCs also have contracts under which rolling stock is leased. The capital element of the rolling stock lease charge is based on the purchase price, capital funded refurbishments and modifications. The non-capital element of the lease charge includes heavy maintenance charges and charges based on mileage.

An analysis of fees paid to the Group's auditors is provided below:

	2012 £m	2011 £m
Fees payable to the Company's auditors for the audit of the consolidated and parent Company accounts	0.3	0.3
Fees payable to the Company's auditors and its associates for other services:		
The audit of the Company's subsidiaries	0.6	0.6
Other services	0.3	–
	<b>1.2</b>	<b>0.9</b>

**7 Employee benefit costs**

(a) Staff costs

	<b>2012</b>	2011
	<b>£m</b>	£m
Wages and salaries	<b>657.3</b>	704.4
Social security costs	<b>96.1</b>	95.6
Pension costs (note 34)	<b>6.9</b>	11.7
Share-based payment (note 8)	<b>5.2</b>	5.0
	<b>765.5</b>	816.7

The average number of employees, including Executive Directors, during the year was as follows:

	<b>2012</b>	2011
Managerial and administrative	<b>3,697</b>	3,318
Operational	<b>35,937</b>	35,603
	<b>39,634</b>	38,921

Included in the above costs are the following costs related to the Group's key management personnel who comprise the Directors of the parent Company.

	<b>2012</b>	2011
	<b>£m</b>	£m
Basic salaries	<b>1.0</b>	1.0
Benefits	<b>0.3</b>	0.3
Performance-related bonuses	<b>1.1</b>	1.2
Share-based payment	<b>1.5</b>	1.0
	<b>3.9</b>	3.5

(b) Share schemes

Details of options or awards outstanding as at 31 December 2012 under the Group's share schemes are as follows:

	<b>Number of share options 2012</b>	Number of share options 2011	<b>Exercise price</b>	<b>Future exercise periods</b>
Executive Share Option Plan	<b>35,508</b>	57,042	<b>207p-354p</b>	<b>2013-2014</b>
Long Term Incentive Plan	<b>6,986,836</b>	5,093,870	<b>nil</b>	<b>2013-2018</b>
Share Matching Plan	<b>1,089,251</b>	1,026,550	<b>nil</b>	<b>2013-2015</b>
Deferred Annual Share Bonus Plan	<b>1,325,234</b>	1,075,762	<b>nil</b>	<b>2013-2015</b>
WMT Long Service Option Scheme	<b>283,628</b>	296,361	<b>129p-604p</b>	<b>2013-2020</b>
Sharesave Scheme	<b>-</b>	923,603	<b>n/a</b>	<b>n/a</b>
Executive Deferred Bonus Plan	<b>127,249</b>	88,968	<b>nil</b>	<b>2013</b>
	<b>9,847,706</b>	8,562,156		

## 7 Employee benefit costs continued

### (b) Share schemes continued

#### (i) Executive Share Option Plan

The Company operates tax approved and unapproved executive share option schemes open to Group employees in senior management positions. Options granted by this Plan have a maximum term of 10 years. The options vest after three years subject to the satisfaction of certain performance criteria based on the achievement of a target growth in earnings per share. If the performance criteria are not met when initially tested, in some instances they may be reassessed during the term of the option. From 2005 executive share option grants have been replaced by awards made under the Long Term Incentive Plan, as described in (ii). There are no cash settlement alternatives.

#### (ii) Long Term Incentive Plan (LTIP)

The LTIP was introduced in 2005 on the recommendation of the Remuneration Committee to replace the annual award under the Executive Share Option Plan to Executive Directors and to certain senior employees. Under the LTIP, a Performance Award to acquire a specified number of free shares may be made to the employee or Director. In addition, a Matching Award may be made, as described in (iii). Performance conditions are attached to the vesting of Performance and Matching Awards based on both the achievement of target growth in earnings per share and the relative total shareholder return (TSR) of the Company against a comparator group of companies. If the performance conditions are met, Performance and Matching Awards vest on the third anniversary of the grant date and remain exercisable for a period of up to six months following the vesting date. There are no cash settlement alternatives at present.

In 2011 and 2012 HMRC approved share option plans were added as an appendix to the LTIP ('Approved Plan'). A participant can only hold an option under the Approved Plan over shares with a market value of up to £30,000 at the grant date. Options under the Approved Plan are granted in tandem with the usual options under the LTIP. The options are structured such that on exercise, the proportion of the gain in respect of the first £30,000 worth of shares (as measured at the date of grant) will be delivered under the Approved Option and the LTIP option shall be scaled back to deliver the remaining gross gain that would have been delivered had the option been granted alone. The excess shares under the LTIP will be forfeited such that both awards will never become fully vested.

During 2012, a supplementary five year long term incentive award was granted to the Chief Executive subject to targets linked to the Group's five year plan. This comprised a Performance Award (with no matching element). If performance conditions are met, the Performance award will vest on the fifth anniversary of the grant date and remain exercisable for a period of up to twelve months following the vesting date. There are no cash settlement alternatives at present.

#### (iii) Share Matching Plan (the 'Plan')

The Share Matching Plan was introduced in 2005 as part of the new Long Term Incentive Plan arrangements described in (ii). Under the Plan, a Matching Award to acquire a specified number of shares for free may be made if the employee pledges a number of shares as investment shares which are then matched by the Company on up to a 2:1 basis with the number of shares that could have been purchased with the gross-tax equivalent of the amount invested. The Matching Awards vest on the third anniversary of the grant date and remain exercisable for a period of up to six months following the vesting date. There are no cash settlement alternatives at present.

#### (iv) Deferred Annual Share Bonus Plan

The Deferred Annual Share Bonus Plan is a discretionary scheme which forms part of the bonus arrangements for certain senior employees. Under the scheme, part of any bonus may be received in cash whilst the remainder is used to make an award of nil cost options which vest three years after the award date. The options must be exercised within six months of vesting. There are no cash settlement alternatives at present.

#### (v) West Midlands Travel Ltd (WMT) Long Service Option Scheme

The WMT Long Service Option Scheme utilises a fixed amount of shares set aside for this purpose following the acquisition of WMT in 1995 and is open to all WMT employees who have been in service for more than 25 years. The options are exercisable between three and ten years following the grant date. There are no cash settlement alternatives.

#### (vi) TWM Share Incentive Plan (the 'SIP')

The TWM SIP exists for the benefit of WMT employees. At the end of the year, 965 (2011: 908) National Express Group PLC shares were held for the benefit of the Trustee. Dividends on shares held in the SIP forfeited shares account are waived. There are no cash settlement alternatives.

**7 Employee benefit costs** continued

(b) Share schemes continued

*(vii) Savings Related Share Option Scheme (Sharesave Scheme)*

The National Express Group approved Sharesave Scheme enabled eligible UK employees, including Executive Directors, to acquire shares in the Company through monthly savings over a three-year period, at the end of which they also received a tax free bonus. The savings and bonus could be used to purchase shares at a discounted option price set at the beginning of the savings contract. The options matured three years after the grant date and could be exercised for a period of up to six months after this date. There are no cash settlement alternatives.

*(viii) Executive Deferred Bonus Plan*

As detailed in the Directors' remuneration report, the Committee considered it appropriate for bonuses awarded in respect of the calendar year to be deferred for a period of one year and that these would vest, subject to the terms of the award and the relevant Director's continuing employment. The deferred forfeitable ordinary shares are awarded under the terms of The National Express Group Executive Deferred Bonus Plan which was adopted by the Board of the Company on 10 March 2009.

The principal terms of awards under the Executive Deferred Bonus Plan are summarised below:

- awards under the Plan may be cash awards, conditional awards or forfeitable shares awards;
- awards normally vest one year from the date of grant, subject to the relevant Director's continued employment with the Company;
- the Committee may decide that participants shall be entitled to receive a benefit determined by reference to the value of the dividends that would have been paid on the vested shares in respect of dividend record dates occurring during the period between the grant date and the date of vesting; and
- the awards will normally lapse on cessation of employment save in certain compassionate 'good leaver' circumstances (eg death or disability).

In the event of a variation of the share capital of the Company, the Committee may make such adjustments to the awards as it considers appropriate.

## 8 Share-based payment

The charge in respect of share-based payment transactions included in the Group's income statement for the year is as follows:

	2012 £m	2011 £m
Expense arising from share and share option plans – continuing operations	<b>5.2</b>	5.0

There were exceptional costs included within the charge during the year of £0.1m (2011: £nil).

During the year ended 31 December 2012, the Group had eight share-based payment arrangements, which are described in note 7(b).

For the following disclosure, share options with a nil exercise price have been disclosed separately to avoid distorting the weighted average exercise prices. The number of share options in existence during the year was as follows:

	2012		2011	
	Number of share options	Weighted average exercise price p	Number of share options	Weighted average exercise price p
Options without a nil exercise price:				
At 1 January	1,277,006	445	1,460,728	442
Granted during the year	26,660	252	14,140	242
Forfeited during the year	(9,708)	424	(133,551)	410
Exercised during the year	(29,877)	146	(2,735)	143
Expired during the year	(944,945)	475	(61,576)	434
Outstanding at 31 December <sup>1</sup>	<b>319,136</b>	<b>368</b>	1,277,006	445
Exercisable at 31 December	<b>211,343</b>	<b>430</b>	247,755	241
Options with a nil exercise price:				
At 1 January	7,285,150	nil	6,116,309	nil
Granted during the year	4,754,977	nil	4,143,972	nil
Forfeited during the year	(333,117)	nil	(1,245,344)	nil
Exercised during the year	(1,954,978)	nil	(1,172,720)	nil
Expired during the year	(223,462)	nil	(557,067)	nil
Outstanding at 31 December	<b>9,528,570</b>	<b>nil</b>	7,285,150	nil
Exercisable at 31 December	<b>197,069</b>	<b>nil</b>	444,461	nil
Total outstanding at 31 December	<b>9,847,706</b>	<b>nil</b>	8,562,156	nil
Total exercisable at 31 December	<b>408,412</b>	<b>nil</b>	692,216	nil

<sup>1</sup> There are no options (2011: 21,342) for which no expense has been recognised in accordance with the transitional provisions of IFRS 2 as the options were granted before 7 November 2002. Although there has been subsequent modification to the options, no IFRS 2 charge has been recognised as the amounts are not material.

The options outstanding at 31 December 2012 had exercise prices that were between 129p and 604p (2011: between 129p and 604p) excluding options with a nil exercise price. The range of exercise prices for options was as follows:

Exercise price (p)	2012	2011
0-300	<b>123,278</b>	127,710
300-350	<b>12,141</b>	33,483
350-650	<b>183,717</b>	1,115,813
	<b>319,136</b>	1,277,006

The options have a weighted average contractual life of one year (2011: one year). Options were exercised regularly throughout the year and the weighted average share price at exercise was 225p (2011: 241p).

**8 Share-based payment** continued

The weighted average fair value of the share options granted during the year was calculated using a stochastic model, with the following assumptions and inputs:

	Share options without nil exercise price		Share options with nil exercise price	
	2012	2011	2012	2011
Risk free interest rate	<b>0.50%-1.16%</b>	2.70%	<b>0.50%-0.55%</b>	1.30%-1.44%
Expected volatility	<b>36.8%-40.0%</b>	36.4%	<b>40.0%-44.5%</b>	51.5%-51.6%
Peer group volatility	–	–	<b>38.5%-45.5%</b>	55.1%-57.0%
Expected option life in years	<b>3-6 years</b>	8 years	<b>3-5 years</b>	3 years
Expected dividend yield	<b>3.97%-4.16%</b>	3.60%	<b>4.16%-4.56%</b>	3.47%-3.64%
Weighted average share price at grant date	<b>239p</b>	242p	<b>225p</b>	242p
Weighted average exercise price at grant date	<b>252p</b>	242p	<b>nil</b>	nil
Weighted average fair value of options at grant date	<b>49p</b>	56p	<b>171p</b>	153p

Experience to date has shown that approximately 24% (2011: 24%) of options are exercised early, principally due to leavers. This has been incorporated into the calculation of the expected option life for the share options without nil exercise price.

Expected volatility in the table above was determined from historical volatility over the last eight years, adjusted for one-off events that were not considered to be reflective of the volatility of the share price going forward. The expected dividend yield represents the dividends declared in the 12 months preceding the date of the grant divided by the average share price in the month preceding the date of the grant.

For share options granted during the year under the LTIP, the TSR targets have been reflected in the calculation of the fair value of the options above.

**9 Net finance costs**

	2012	2011
	£m	£m
Bond and bank interest payable	<b>(47.4)</b>	(46.2)
Finance lease interest payable	<b>(4.7)</b>	(5.0)
Other interest payable	<b>(0.2)</b>	(0.2)
Unwind of provision discounting	<b>(1.3)</b>	(1.7)
<b>Finance costs</b>	<b>(53.6)</b>	(53.1)
Other financial income	<b>4.4</b>	6.7
<b>Net finance costs</b>	<b>(49.2)</b>	(46.4)
Of which, from financial instruments:		
Cash and cash equivalents	<b>(1.6)</b>	(0.1)
Financial liabilities measured at amortised cost	<b>(46.9)</b>	(40.2)
Derivatives used for hedging	<b>4.0</b>	3.8
Loan fee amortisation	<b>(2.4)</b>	(2.2)

## 10 Taxation

### (a) Analysis of taxation charge in the year

	2012 £m	2011 £m
Current taxation:		
UK corporation tax	1.6	13.2
Overseas taxation	7.0	7.9
Current income tax charge	8.6	21.1
Adjustments with respect to prior years – UK and overseas	(0.5)	(1.1)
Total current income tax charge	8.1	20.0
Deferred taxation (note 27):		
Origination and reversal of temporary differences – continuing operations	(0.3)	6.8
Adjustments with respect to prior years – UK and overseas	0.7	–
Deferred tax charge	0.4	6.8
Total tax charge	8.5	26.8

The tax charge is disclosed as follows:

Tax charge on profit before intangible asset amortisation and exceptional items	32.7	41.5
Tax credit on intangible asset amortisation and exceptional items	(24.2)	(14.7)
	8.5	26.8

Tax credit on intangible asset amortisation and exceptional items is analysed as follows:

Tax credit on intangible asset amortisation	(15.1)	(14.7)
Tax credit on exceptional items	(9.1)	–
	(24.2)	(14.7)

### (b) Tax on items recognised in other comprehensive income or equity

	2012 £m	2011 £m
Current taxation:		
Credit on exchange movements offset in reserves	–	7.0
	–	7.0
Deferred taxation:		
Deferred tax (charge)/credit on share-based payment	(0.1)	0.1
Deferred tax credit on actuarial losses	7.2	0.4
Deferred tax credit/(charge) on cash flow hedges	4.9	(0.6)
Deferred tax credit/(charge) on exchange	1.6	(4.1)
	13.6	(4.2)

**10 Taxation** continued**(c) Reconciliation of the total tax charge**

	<b>2012</b>	2011
	<b>£m</b>	£m
Accounting profit before income tax	<b>69.8</b>	129.4
Notional charge at UK corporation tax rate of 24.5% (2011: 26.5%)	<b>17.1</b>	34.3
Non-deductible goodwill impairment and intangible amortisation	<b>0.7</b>	0.5
Recognition of a deferred tax asset for previously unrecognised tax losses	<b>(3.9)</b>	(1.2)
Effect of reduction in UK tax rates (note 10g)	<b>(0.1)</b>	(0.4)
Prior year adjustments within current and deferred tax	<b>0.2</b>	(1.1)
Spanish reinvestment relief and other tax credits	<b>(1.6)</b>	(0.9)
Effect of overseas tax rates	<b>6.8</b>	5.7
Tax on Spanish goodwill and intangibles	<b>(5.8)</b>	(6.2)
Overseas financing deductions	<b>(9.1)</b>	(5.8)
Non-deductible expenditure	<b>4.2</b>	1.9
Total tax charge reported in the income statement (note 10a)	<b>8.5</b>	26.8

**(d) Temporary differences associated with Group investments**

No deferred tax (2011: £nil) is recognised on the unremitted earnings of subsidiaries, associates and joint ventures, as the Group has determined that these undistributed profits will not be distributed in the near future. As a result of changes to tax legislation in 2009, overseas dividends received on or after 1 July 2009 are generally exempt from UK corporation tax, but may be subject to withholding tax. There are no temporary differences (2011: £nil) associated with investments in subsidiaries, associates and joint ventures, for which a deferred tax liability has not been recognised but for which a tax liability may arise.

**(e) Unrecognised tax losses**

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit against future taxable profits is probable. UK and overseas deferred tax assets that the Group has not recognised in the accounts amount to £9.4m (2011: £40.3m), which arise in tax jurisdictions where the Group does not expect to generate sufficient suitable future profits. In addition, there are capital losses of £5.9m (2011: £7.1m) which have not been recognised, recoverability of which is dependent on capital gains arising.

The £5.9m of unrecognised capital losses will expire at various dates from 2013 through to 2016, as follows:

	<b>2012</b>
	<b>£m</b>
2013	<b>0.1</b>
2014	<b>3.5</b>
2015	<b>1.3</b>
2016	<b>1.0</b>
	<b>5.9</b>

**(f) Deferred tax included in the income statement**

	<b>2012</b>	2011
	<b>£m</b>	£m
Accelerated capital allowances	<b>7.2</b>	6.8
Other short term temporary differences	<b>(1.2)</b>	(3.6)
Utilisation of losses	<b>(5.6)</b>	3.6
Deferred tax charge	<b>0.4</b>	6.8

Details on the balance sheet position of deferred tax are included in note 27.

**(g) Factors that may affect future tax charges**

On 21 March 2012, the UK Chancellor of the Exchequer announced a 1% reduction in the UK corporation tax rate to 24% effective from 1 April 2012, along with two subsequent reductions to 23% from 1 April 2013 and 22% from 1 April 2014. On 5 December 2012, in the Chancellor's Autumn Statement, a further reduction to 21% on 1 April 2014 was announced.

At the balance sheet date, a rate of 23% (2011: 25%) was substantively enacted. The change in rate from 25% to 23% has resulted in a tax credit of £0.1m to the income statement.

The proposed changes to reduce the UK corporation tax rate from 23% to 21% on 1 April 2014 will have a similar effect in future years.

### 11 Discontinued operations

In 2012 and 2011 there were no material movements arising from discontinued operations.

### 12 Dividends paid and proposed

	2012 £m	2011 £m
<b>Declared and paid during the year</b>		
Ordinary final dividend for 2011 paid of 6.5p per share	<b>33.2</b>	30.5
Ordinary interim dividend for 2012 of 3.15p per share	<b>16.1</b>	15.3
	<b>49.3</b>	45.8

### Proposed for approval (not recognised as a liability at 31 December)

Ordinary final dividend for 2012 of 6.6p per share (2011: 6.5p per share)	<b>33.7</b>	33.3
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### 13 Earnings per share

	2012	2011
Basic earnings per share	<b>11.8p</b>	19.9p
Normalised basic earnings per share	<b>25.5p</b>	27.0p
Diluted earnings per share	<b>11.7p</b>	19.8p
Normalised diluted earnings per share	<b>25.4p</b>	26.9p

Basic earnings per share is calculated by dividing the earnings attributable to equity shareholders of £60.0m (2011: £101.2m) by the weighted average number of ordinary shares in issue during the year, excluding those held by employee share ownership trusts and those held as treasury shares which are both treated as cancelled.

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

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

	2012	2011
Basic weighted average shares	<b>510,552,927</b>	509,388,824
Adjustment for dilutive potential ordinary shares	<b>1,626,921</b>	1,556,324
Diluted weighted average shares	<b>512,179,848</b>	510,945,148

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

**13 Earnings per share** continued

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

	2012			2011		
	£m	Basic EPS p	Diluted EPS p	£m	Basic EPS p	Diluted EPS p
Profit attributable to equity shareholders	60.0	11.8	11.7	101.2	19.9	19.8
Intangible asset amortisation	51.7	10.1	10.1	50.8	10.0	10.0
Exceptional items	42.6	8.3	8.3	–	–	–
Tax relief on goodwill and exceptional items	(24.2)	(4.7)	(4.7)	(14.7)	(2.9)	(2.9)
Normalised profit from continuing operations and attributable to equity shareholders	130.1	25.5	25.4	137.3	27.0	26.9

**14 Intangible assets**

	Customer contracts £m	Rail franchise £m	Brand £m	Software £m	Contractual relationships £m	Finite life assets £m	Goodwill £m	Total £m
Cost:								
At 1 January 2012	417.9	9.9	–	23.0	57.0	507.8	1,082.9	1,590.7
Acquisitions	54.3	–	2.3	3.4	–	60.0	65.6	125.6
Additions	–	–	–	3.2	3.2	6.4	3.1	9.5
Transfer from property, plant and equipment	–	–	–	3.0	–	3.0	–	3.0
Disposal	–	(9.9)	–	–	–	(9.9)	–	(9.9)
Foreign exchange	(12.1)	–	–	(0.7)	(1.5)	(14.3)	(30.3)	(44.6)
<b>At 31 December 2012</b>	<b>460.1</b>	<b>–</b>	<b>2.3</b>	<b>31.9</b>	<b>58.7</b>	<b>553.0</b>	<b>1,121.3</b>	<b>1,674.3</b>
Amortisation and impairment:								
At 1 January 2012	272.3	9.7	–	11.8	–	293.8	84.4	378.2
Charge for year	43.6	0.2	0.3	4.3	3.3	51.7	–	51.7
Disposals	–	(9.9)	–	–	–	(9.9)	–	(9.9)
Foreign exchange	(7.1)	–	–	(0.4)	(0.1)	(7.6)	(1.0)	(8.6)
<b>At 31 December 2012</b>	<b>308.8</b>	<b>–</b>	<b>0.3</b>	<b>15.7</b>	<b>3.2</b>	<b>328.0</b>	<b>83.4</b>	<b>411.4</b>
Net book value:								
<b>At 31 December 2012</b>	<b>151.3</b>	<b>–</b>	<b>2.0</b>	<b>16.2</b>	<b>55.5</b>	<b>225.0</b>	<b>1,037.9</b>	<b>1,262.9</b>
At 1 January 2012	145.6	0.2	–	11.2	57.0	214.0	998.5	1,212.5

During the year the Directors revised their estimate of the useful economic life of the Group's contractual relationships to 8-20 years.

## 14 Intangible assets continued

	Customer contracts £m	Rail franchise £m	Software £m	Finite life assets £m	Contractual relationships £m	Goodwill £m	Indefinite life assets £m	Total £m
Cost:								
At 1 January 2011	426.3	9.9	22.0	458.2	57.8	1,104.4	1,162.2	1,620.4
Additions	2.6	–	1.3	3.9	–	0.4	0.4	4.3
Foreign exchange	(11.0)	–	(0.3)	(11.3)	(0.8)	(21.9)	(22.7)	(34.0)
<b>At 31 December 2011</b>	<b>417.9</b>	<b>9.9</b>	<b>23.0</b>	<b>450.8</b>	<b>57.0</b>	<b>1,082.9</b>	<b>1,139.9</b>	<b>1,590.7</b>
Amortisation and impairment:								
At 1 January 2011	233.4	8.0	9.3	250.7	–	85.5	85.5	336.2
Charge for year	46.6	1.7	2.5	50.8	–	–	–	50.8
Foreign exchange	(7.7)	–	–	(7.7)	–	(1.1)	(1.1)	(8.8)
<b>At 31 December 2011</b>	<b>272.3</b>	<b>9.7</b>	<b>11.8</b>	<b>293.8</b>	<b>–</b>	<b>84.4</b>	<b>84.4</b>	<b>378.2</b>
Net book value:								
<b>At 31 December 2011</b>	<b>145.6</b>	<b>0.2</b>	<b>11.2</b>	<b>157.0</b>	<b>57.0</b>	<b>998.5</b>	<b>1,055.5</b>	<b>1,212.5</b>
At 1 January 2011	192.9	1.9	12.7	207.5	57.8	1,018.9	1,076.7	1,284.2

During 2011 and prior years, contractual relationships were deemed to have an indefinite life and together with goodwill were allocated to individual cash-generating units for annual impairment testing on the basis of the Group's business operations. The carrying value of these assets by cash-generating unit is as follows:

	2012 Contractual relationships £m	2012 Goodwill £m	Total £m	2011 Contractual relationships £m	2011 Goodwill £m	Total £m
UK Coach	–	13.2	13.2	–	13.2	13.2
North American Bus	35.5	330.5	366.0	39.7	276.1	315.8
European Coach & Bus	20.0	694.2	714.2	17.3	709.2	726.5
	<b>55.5</b>	<b>1,037.9</b>	<b>1,093.4</b>	<b>57.0</b>	<b>998.5</b>	<b>1,055.5</b>

In 2011 and prior years, the useful economic lives of contractual relationships in North American Bus and European Coach & Bus were deemed to be indefinite where historical experience had shown that these contracts were consistently renewed. During 2012, the Directors revised their estimate of the useful economic life of the Group's contractual relationships to 8-20 years reflecting changes in legislation in the contract tendering process. The customer contract and rail franchise intangible assets are amortised over the finite duration of the contract or franchise as appropriate. All amortisation charges in the year have been charged to operating costs.

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 senior management covering a five year period. The assumptions, including growth rates and operating margins, are based on historical experience, 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.

**14 Intangible assets** continued

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

The key assumptions used for the cash-generating units, are as follows:

	Pre-tax discount rate applied to cash flow projections		Growth rate used to extrapolate cash flows beyond five year period of management plan	
	2012	2011	2012	2011
UK Coach	<b>11.9%</b>	9.8%	<b>2.0%</b>	2.0%
North American Bus	<b>11.5%</b>	11.3%	<b>2.5%</b>	2.0%
European Coach & Bus	<b>9.0%</b>	9.0%	<b>2.0%</b>	2.0%

The value in use of the North American Bus division exceeds its carrying amount by £55.4m (2011: £31.5m). Sensitivity analysis has been completed on each key assumption in isolation, and this indicates that the value in use of the division will be equal to its carrying amount following an increase in the discount rate of 40 basis points (2011: 30 basis points) or a reduction in the growth rates used to extrapolate cash flows beyond the five year period of the management plan of 150 basis points (2011: 100 basis points).

The value in use of the European Coach & Bus division exceeds its carrying amount by £47.4m (2011: £176.8m). Sensitivity analysis has been completed on each key assumption in isolation, and this indicates that the value in use of the division will be equal to its carrying amount following, an increase in the discount rate of 30 basis points (2011: 90 basis points) or a reduction in growth rates used to extrapolate cash flows beyond five year period of management plan of 130 basis points (2011: 410 basis points). The decrease in headroom and increased sensitivity reflects the Spanish macro-economic risks, which have been incorporated into the future cash flow assumptions (see Principal risk and uncertainties section for further details regarding how Group management recognises, prioritises and puts in place measures to mitigate these risks).

It is believed that any reasonably possible movement on key assumptions will not lead to an impairment of goodwill allocated to UK Coach.

**Sensitivities to other assumptions**

In North American Bus, a reduction in operating profit margin in perpetuity of 60 basis points (2011: 50 basis points) will result in the value in use of the division being equal to its carrying amount. In European Coach & Bus a reduction in operating profit margin in perpetuity of 80 basis points (2011: 260 basis points) will also result in the value in use of the division being equal to its carrying amount.

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

## 15 Property, plant and equipment

	Freehold land and buildings £m	Long leasehold property improvements £m	Public service vehicles £m	Plant and equipment, fixtures and fittings £m	Total £m
Cost:					
At 1 January 2012	95.1	4.2	1,025.5	173.6	1,298.4
Additions	3.7	0.2	117.6	12.3	133.8
Acquisitions of businesses	1.2	–	57.3	1.1	59.6
Transfer to intangible assets	–	–	–	(3.0)	(3.0)
Disposals	(0.5)	(0.1)	(30.1)	(17.8)	(48.5)
Foreign exchange	(1.0)	(0.2)	(30.4)	(1.9)	(33.5)
<b>At 31 December 2012</b>	<b>98.5</b>	<b>4.1</b>	<b>1,139.9</b>	<b>164.3</b>	<b>1,406.8</b>
Depreciation:					
At 1 January 2012	13.0	2.0	401.3	127.6	543.9
Charge for the year	2.1	0.5	95.0	12.2	109.8
Disposals	(0.2)	–	(10.4)	(10.5)	(21.1)
Foreign exchange	0.5	(0.2)	(12.3)	(1.2)	(13.2)
<b>At 31 December 2012</b>	<b>15.4</b>	<b>2.3</b>	<b>473.6</b>	<b>128.1</b>	<b>619.4</b>
Net book value:					
<b>At 31 December 2012</b>	<b>83.1</b>	<b>1.8</b>	<b>666.3</b>	<b>36.2</b>	<b>787.4</b>
At 1 January 2012	82.1	2.2	624.2	46.0	754.5

Cost of disposals includes £12.5m of divested assets relating to the acquisition of Petermann, as described in note 19.

## 15 Property, plant and equipment continued

	Freehold land and buildings £m	Long leasehold property improvements £m	Public service vehicles £m	Plant and equipment, fixtures and fittings £m	Total £m
Cost:					
At 1 January 2011	95.2	3.7	906.8	165.7	1,171.4
Additions	1.9	0.5	139.7	14.7	156.8
Acquisitions of businesses	–	–	1.5	–	1.5
Disposals	–	–	(15.2)	(5.4)	(20.6)
Foreign exchange	(2.0)	–	(7.3)	(1.4)	(10.7)
<b>At 31 December 2011</b>	<b>95.1</b>	<b>4.2</b>	<b>1,025.5</b>	<b>173.6</b>	<b>1,298.4</b>
Depreciation:					
At 1 January 2011	11.2	1.6	327.9	116.6	457.3
Charge for the year	1.9	0.5	86.7	16.4	105.5
Disposals	–	–	(10.7)	(4.7)	(15.4)
Foreign exchange	(0.1)	(0.1)	(2.6)	(0.7)	(3.5)
<b>At 31 December 2011</b>	<b>13.0</b>	<b>2.0</b>	<b>401.3</b>	<b>127.6</b>	<b>543.9</b>
Net book value:					
<b>At 31 December 2011</b>	<b>82.1</b>	<b>2.2</b>	<b>624.2</b>	<b>46.0</b>	<b>754.5</b>
At 1 January 2011	84.0	2.1	578.9	49.1	714.1

Property, plant and equipment held under finance lease agreements are analysed as follows:

		2012 £m	2011 £m
Land and buildings	– cost	1.3	1.4
	– depreciation	(0.1)	(0.1)
Net land and buildings		1.2	1.3
Public service vehicles	– cost	255.4	245.6
	– depreciation	(75.1)	(61.5)
Net public service vehicles		180.3	184.1
Plant and equipment	– cost	0.2	0.9
	– depreciation	(0.2)	(0.8)
Net plant and equipment		–	0.1
Total net book value		181.5	185.5

Finance leased assets and assets under hire purchase contracts are pledged as security for the related finance lease and hire purchase liabilities.

## 16 Subsidiaries

The companies listed below include all those which principally affect the results and net assets of the Group. A full list of subsidiaries, joint ventures and associates will be annexed to the next Annual Return to Companies House. The principal country of operation in respect of the companies below is the country in which they are incorporated.

National Express Group PLC is the beneficial owner of all the equity share capital, either itself or through subsidiaries, of the companies. The Group's train passenger services in the UK are operated through franchises awarded by DfT Rail, as delegated by the UK Government.

### Incorporated in England and Wales

National Express Limited	Administration and marketing of express coach services in Great Britain
Eurolines (UK) Limited	Administration and marketing of express coach services to Europe
Airlinks Airport Services Limited	Operation of coach services
National Express Rail Replacement Limited	Operation of coach services
The Kings Ferry Limited	Operation of coach services
West Midlands Travel Limited	Operation of bus services
c2c Rail Limited	Operation of train passenger services

### Incorporated in Scotland

Tayside Public Transport Co Limited (trading as Travel Dundee)	Operation of bus services
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### Incorporated in the US

Durham School Services LP	Operation of school bus services
Petermann LLC	Operation of school bus services
YCN Transportation LLC	Operation of school bus services
The Joint Venture of Thompson Transit Inc and YCN Transportation LLC	Operation of transit bus services
National Express Transit Services Corporation	Operation of transit bus services

### Incorporated in Canada

Stock Transportation Limited	Operation of school bus services
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### Incorporated in Spain

NEX Continental Holdings SL*	Holding company for operating companies
Tury Express SA*	Holding company for operating companies
General Tecnica Industrial SLU*	Holding company for operating companies

### Incorporated in Morocco

GAT Groupe Alsa Transport SA (Marrakesh)	Operation of bus services
TVAM Transport de Voyageurs en Autocar Maroc SA (Marrakesh)	Operation of bus services
ACA Alsa City Agadir SA	Operation of bus services

\* The main holding companies of the ALSA Group.

## 17 Derivative financial assets and available for sale investments

	2012 £m	2011 £m
Available for sale investments – Unlisted ordinary shares	7.1	7.6
Derivative financial instruments – Interest rate derivatives	31.0	23.7
Derivative financial instruments – Fuel derivatives	0.1	7.3
<b>Derivative financial instruments included in non-current assets</b>	<b>31.1</b>	<b>31.0</b>
Derivative financial instruments – Fuel derivatives	4.6	13.1
Derivative financial instruments – Foreign exchange derivatives	0.1	8.0
<b>Derivative financial instruments included in current assets</b>	<b>4.7</b>	<b>21.1</b>

Further information on the Group's use of fuel, interest rate and foreign exchange derivatives is included in note 31.

## Available for sale investments

	2012 £m	2011 £m
Cost or valuation and net book value:		
At 1 January	7.6	7.8
Disposals	(0.3)	–
Foreign exchange	(0.2)	(0.2)
<b>At 31 December</b>	<b>7.1</b>	<b>7.6</b>

The principal available for sale investments are as follows:

Name	Country of registration	Class of share	2012 Proportion held %	2011 Proportion held %
Metros Ligeros de Madrid, S.A. (MLM)	Spain	Ordinary shares	15	15
Various investments within ALSA and Continental Auto	Spain	Ordinary shares	1-16	1-16

### 18 Investments accounted for using the equity method

Investments accounted for using the equity method are as follows:

	<b>2012</b>	2011
	<b>£m</b>	£m
Joint ventures	<b>2.2</b>	2.0
Associates	<b>2.2</b>	4.6
<b>Total investments accounted for under the equity method</b>	<b>4.4</b>	6.6

The Group's share of post-tax results from associates and joint ventures accounted for using the equity method is as follows:

	<b>2012</b>	2011
	<b>£m</b>	£m
Share of joint venture's profit	<b>0.1</b>	0.1
Share of associates' profit	<b>1.3</b>	1.3
<b>Total share of results from associates and joint ventures</b>	<b>1.4</b>	1.4

#### (a) Investments in joint ventures

The Group's interests in joint ventures are as follows:

Name	Country of registration	Activity	Proportion held %
Ibero-Eurosur S.L.	Spain	Holding company of Deutsche Touring	20

The financial information of this joint venture is summarised below:

	<b>2012</b>	Ibero 2011
	<b>£m</b>	£m
Share of joint venture's balance sheet and results		
Non-current assets	<b>3.5</b>	3.5
Current assets	-	-
Share of gross assets	<b>3.5</b>	3.5
Non-current liabilities	<b>(0.9)</b>	(1.2)
Current liabilities	<b>(0.4)</b>	(0.3)
Share of gross liabilities	<b>(1.3)</b>	(1.5)
Share of net assets	<b>2.2</b>	2.0
Revenue	<b>0.2</b>	0.1
Share of profit	<b>0.1</b>	0.1

The carrying amount of the investment in joint ventures matches the Group's share of the net assets.

**18 Investments accounted for using the equity method** continued**(b) Investments in associates**

The Group's interests in associates are as follows:

Name	Country of registration	Proportion held %
European Coach & Bus associates	Spain	20-50

European Coach & Bus's associates are generally involved in the operation of coach and bus services, management of bus stations and similar operations.

The aggregate amounts related to associates are summarised below:

	<b>2012</b>	2011
	<b>£m</b>	£m
Share of associates' balance sheets and results		
Non-current assets	<b>3.1</b>	4.7
Current assets	<b>3.9</b>	5.9
Share of gross assets	<b>7.0</b>	10.6
Non-current liabilities	<b>(2.2)</b>	(2.4)
Current liabilities	<b>(2.6)</b>	(3.6)
Share of gross liabilities	<b>(4.8)</b>	(6.0)
Share of net assets	<b>2.2</b>	4.6
Total revenue	<b>12.7</b>	15.6
Share of profit	<b>1.3</b>	1.3

## 19 Business combinations

### (a) Acquisitions

#### 2012 acquisitions

##### i) Petermann Partners Inc

On the 1 May 2012, in the United States, the Group acquired the entire share capital of MGOP Petermann Holdings 2 LLC and, directly and indirectly, the entire share capital of Petermann Partners Inc ('Petermann'). The business operates transportation for students, including transportation for special needs students.

	Book value £m	Fair value adjustments £m	Fair value total £m
Intangible assets	–	42.3	<b>42.3</b>
Property, plant and equipment	47.4	(8.3)	<b>39.1</b>
Inventory	0.9	–	<b>0.9</b>
Trade and other receivables	13.7	–	<b>13.7</b>
Cash and cash equivalents	7.6	–	<b>7.6</b>
Trade and other payables	(10.5)	(7.6)	<b>(18.1)</b>
Deferred tax asset	13.0	(11.6)	<b>1.4</b>
Net assets acquired	72.1	14.8	<b>86.9</b>
Goodwill on acquisition			<b>55.2</b>
<b>Total</b>			<b>142.1</b>
Represented by:			
Consideration			<b>123.0</b>
Payment for cash acquired in the business			<b>7.6</b>
Working capital adjustment			<b>3.9</b>
Capital expenditure adjustment			<b>7.9</b>
Proceeds from asset sale			<b>(3.9)</b>
Related loss on cash flow hedges (net of tax)			<b>3.6</b>
			<b>142.1</b>
Add back: tax on loss on cash flow hedges			<b>1.1</b>
Less: net cash acquired			<b>(7.6)</b>
<b>Net cash outflow</b>			<b>135.6</b>

The acquisition balance sheet has been adjusted to reflect fair value adjustments. The intangible asset adjustment recognises customer contracts and relationships acquired with Petermann (£39.3m), trademarks (£2.3m) and the value of non-compete agreements (£0.7m). The customer contracts are amortised over the life of the contracts, which is on average 15 years, the trademarks are amortised over 5 years being the length of expected continued use of the trademarks and the non-compete agreements over 3 years.

The tangible fixed asset adjustment largely comprises a fair value write down of the carrying value of buses acquired, along with a write down of certain software assets and leasehold improvements. The trade and other payables adjustment comprises provisions for insurance and environmental claims.

The net consideration paid, including adjustments, was £138.5m. Within this amount was a £3.9m receipt for the sale of certain assets in Texas and Washington that were required to be divested by the Department of Justice as a prerequisite for completing the purchase of Petermann. In addition, a cash outflow of £4.7m arose from hedging the acquisition using US dollar foreign exchange derivatives. Cash acquired in the business was £7.6m, therefore the net cash outflow for the Group was £135.6m.

In addition £5.3m of acquisition costs were incurred and have been expensed, of which £0.6m was expensed in 2011.

From the date of acquisition the acquired business contributed £8.7m to operating profit. If the combination had taken place at the beginning of 2012 the Group operating profit in 2012 would have increased by £5.2m and revenue from continuing operations in 2012 would have increased by £39.6m.

Included in the goodwill recognised above are certain intangible assets that cannot be separately identified and measured due to their nature. This includes control over the acquired business and increased scale in our North American school bus operations. Management believes that goodwill represents value to the Group for which the recognition of a discrete intangible asset is not permitted. The majority of the value was assessed to comprise of synergy benefits expected to be achieved by merging the business into the Group's North American operations.

**19 Business combinations** continued**ii) Other acquisitions**

On the 23 March 2012, in the United States, the Group acquired the entire share capital of The Joint Venture of Thompson Transit Inc and YCN Transportation LLC ('JV'). The JV operates part of The Ride service for the Massachusetts Bay Transit Authority, which provides transportation services under the Americans for Disability Act. The fair value of net assets acquired was £11.2m. Consideration was £16.7m, resulting in goodwill of £5.5m. There was £0.2m of cash acquired in the business and £2.6m of deferred consideration, therefore the net cash outflow was £13.9m.

On the 23 March 2012, in the United States, the Group acquired the entire share capital of YCN Transportation LLC ('YCN') which operates Special Education School Transportation Services in the City of Boston. The fair value of net assets acquired was £2.6m. Consideration was £4.7m, resulting in goodwill of £2.1m. There was £0.2m of cash acquired in the business, therefore the net cash outflow was £4.5m.

On the 24 July 2012, in the United States, the Group acquired the trade and assets of Forsythe Transportation Inc which operates fixed-route transit contracts for Arlington County (Virginia) and the Westmoreland County Transit Authority (Pennsylvania). Consideration was £3.1m, resulting in goodwill of £1.0m.

A number of small controlling interests were acquired within the Group's Spanish division, including Compañía Navarra De Autobuses SA (Pamplona), Biobide (Bilbao) Urban Transport, Automóviles Casado and Alsa City Sightseeing in Morocco. The combined cash paid for these businesses was £0.8m. Included in the acquired balance sheets was cash of £1.0m, therefore the net cash inflow was £0.2m. In addition, there were bank borrowings and lease obligations in the acquired businesses of £1.4m.

£0.6m of deferred consideration was paid relating to the 2010 acquisition of school bus operator Vogel Bus Company Inc.

**2011 acquisitions**

During the year the Group paid £0.4m to acquire a controlling interest in Dainco S.A., a company that operates coach services in Spain. Goodwill arising on the acquisition was £0.4m. Included in the acquired balance sheet was £1.0m of bank borrowings.

**(b) Disposals****2012 disposals**

There were no business disposals in the Group in 2012.

**2011 disposals**

There were no business disposals in the Group in 2011. However, during the year £0.9m of deferred consideration was received in relation to the 2008 disposal of the Group's Portuguese transport business.

**20 Non-current assets – trade and other receivables**

	<b>2012</b>	2011
	<b>£m</b>	£m
Trade receivables	<b>1.1</b>	4.7
Prepayments and accrued income	<b>1.0</b>	–
Other receivables	<b>3.5</b>	1.2
	<b>5.6</b>	5.9

**21 Inventories**

	<b>2012</b>	2011
	<b>£m</b>	£m
Raw materials and consumables	<b>19.3</b>	18.8

The movement on the provision for slow moving and obsolete inventory is immaterial.

## 22 Current assets – trade and other receivables

	2012 £m	2011 £m
Trade receivables	130.4	155.8
Less: provision for impairment of receivables	(10.1)	(10.2)
Trade receivables – net	120.3	145.6
Amounts due from associates and joint ventures (note 36)	0.9	1.0
Amounts due from other related parties (note 36)	0.9	1.0
Other receivables	38.2	47.2
Prepayments and accrued income	34.5	53.3
	<b>194.8</b>	<b>248.1</b>

An analysis of the provision for impairment of receivables is provided below:

	2012 £m	2011 £m
At 1 January	(10.2)	(14.3)
Utilised in the year	0.1	4.1
<b>At 31 December</b>	<b>(10.1)</b>	<b>(10.2)</b>

Included within trade receivables are balances with a carrying value of £13.8m (2011: £27.6m) which are past due at the reporting date. The Directors believe that based on the ongoing contractual relationships with predominantly government bodies that these amounts will be collected.

## 23 Cash and cash equivalents

	2012 £m	2011 £m
Cash at bank and in hand	41.7	64.8
Overnight deposits	28.6	25.0
Other short term deposits	2.5	2.7
Cash and cash equivalents	<b>72.8</b>	<b>92.5</b>

Cash and cash equivalents include restricted balances of £6.7m (2011: 14.0m) held by the Rail subsidiaries (TOCs). Under the terms of the train franchise agreements, cash can only be distributed by the TOCs either up to the value of retained profits or the amount determined by prescribed liquidity ratios. The restricted cash represents the balance that is either not available for distribution or the amount required to satisfy the liquidity ratio at the balance sheet date.

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates. Short term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group and earn interest at the agreed short term floating deposit rate. The fair value of cash and cash equivalents is equal to the carrying value.

## 24 Current liabilities – trade and other payables

	2012 £m	2011 £m
Trade payables	133.1	168.6
Amounts owed to associates and joint ventures (note 36)	0.8	1.0
Amounts owed to other related parties (note 36)	3.6	0.7
Other tax and social security payable	23.8	17.2
Accruals and deferred income	92.3	182.8
Other payables	94.8	96.1
	<b>348.4</b>	<b>466.4</b>

Trade payables are non-interest bearing and are normally settled on 30 day terms and other payables are non-interest bearing and have an average term of two months. Included within other payables are deferred fixed asset grants from government or other public bodies of £1.4m (2011: £2.6m).

**25 Other non-current liabilities**

	<b>2012</b>	2011
	<b>£m</b>	£m
Deferred fixed asset grants	<b>3.0</b>	3.7
Other liabilities	<b>2.9</b>	1.2
	<b>5.9</b>	4.9

**26 Provisions**

	Claims provision <sup>1</sup>	Eurostar onerous contract provision <sup>2</sup>	Other <sup>3</sup>	<b>Total</b>
	£m	£m	£m	£m
At 1 January 2012	<b>44.2</b>	<b>9.0</b>	<b>11.7</b>	<b>64.9</b>
Charged to the income statement	<b>21.5</b>	–	<b>1.7</b>	<b>23.2</b>
Utilised in the year	<b>(25.2)</b>	<b>(9.0)</b>	<b>(7.9)</b>	<b>(42.1)</b>
Amortisation of discount	<b>1.3</b>	–	–	<b>1.3</b>
Acquired in business combinations	<b>9.9</b>	–	<b>1.0</b>	<b>10.9</b>
Exchange difference	<b>(1.1)</b>	–	<b>(0.1)</b>	<b>(1.2)</b>
At 31 December 2012	<b>50.6</b>	–	<b>6.4</b>	<b>57.0</b>
Current 31 December 2012	<b>22.3</b>	–	<b>6.4</b>	<b>28.7</b>
Non-current 31 December 2012	<b>28.3</b>	–	–	<b>28.3</b>
	<b>50.6</b>	–	<b>6.4</b>	<b>57.0</b>
Current 31 December 2011	21.4	9.0	10.5	40.9
Non-current 31 December 2011	22.8	–	1.2	24.0
	44.2	9.0	11.7	64.9

<sup>1</sup> The claims provision arises from estimated exposures at the year end for auto and general liability, workers compensation and environmental claims, the majority of which will be utilised in the next five years. It comprises provisions for claims arising in the UK and North America.

<sup>2</sup> A provision was recognised in 2006 for the Group's onerous contract for Eurostar with ICRRL. This was settled in 2012 with a final payment of £9.0m.

<sup>3</sup> Other includes amounts provided for restructuring activities across the Group and dilapidation provisions in Rail.

When the effect is material, the provisions are discounted to their net present value.

**27 Deferred tax**

	<b>2012</b>	2011
	<b>£m</b>	£m
Net deferred tax liability at 1 January	<b>(95.2)</b>	(84.1)
Charge to income statement	<b>(0.4)</b>	(6.8)
Credit/(charge) to other comprehensive income or equity	<b>13.6</b>	(4.2)
Exchange differences	<b>3.0</b>	1.4
Acquired in business combinations	<b>2.0</b>	(1.5)
Net deferred tax liability at 31 December	<b>(77.0)</b>	(95.2)

Based on current capital investment plans, the Group expects to be able to claim capital allowances in excess of depreciation in future years at a similar level to the current year.

Deferred tax assets and liabilities within the same jurisdiction have been offset.

**27 Deferred tax** continued

	<b>2012</b>	2011
	<b>£m</b>	£m
Deferred tax assets		
Accelerated tax depreciation	<b>(6.1)</b>	–
Losses carried forward	<b>10.3</b>	–
Other short term temporary differences	<b>3.6</b>	–
<b>Total</b>	<b>7.8</b>	–

	<b>2012</b>	2011
	<b>£m</b>	£m
Deferred tax liabilities		
Accelerated tax depreciation	<b>(158.3)</b>	(151.7)
Losses carried forward	<b>42.1</b>	30.1
Other short term temporary differences	<b>31.4</b>	26.4
<b>Total</b>	<b>(84.8)</b>	(95.2)

**28 Borrowings and derivative financial liabilities**

	<b>2012</b>	2011
	<b>£m</b>	£m
<b>Non-current</b>		
Bank loans	<b>3.7</b>	5.5
Bonds	<b>590.0</b>	583.4
Finance lease obligations	<b>127.1</b>	129.2
Other debt payable	<b>66.0</b>	0.3
<b>Non-current borrowings</b>	<b>786.8</b>	718.4
Fuel derivatives	<b>2.2</b>	2.4
Non-current derivative financial instruments	<b>2.2</b>	2.4
<b>Non-current borrowing and derivative financial liabilities</b>	<b>789.0</b>	720.8
<b>Current</b>		
Bank loans	<b>110.9</b>	2.4
Bonds – accrued interest	<b>29.2</b>	29.9
Finance lease obligations	<b>27.6</b>	22.1
Other debt payable	<b>1.3</b>	0.4
<b>Current borrowings</b>	<b>169.0</b>	54.8
Fuel derivatives	<b>2.5</b>	–
Foreign exchange derivatives	<b>0.5</b>	0.2
Current derivative financial instruments	<b>3.0</b>	0.2
<b>Current borrowings and derivative financial liabilities</b>	<b>172.0</b>	55.0

An analysis of interest-bearing loans and borrowings is provided in note 29. Further information on derivative financial instruments is provided in note 31.

**29 Interest-bearing borrowings**

The effective interest rates on loans and borrowings at the balance sheet date were as follows:

	2012 £m	Maturity	Effective interest rate	2011 £m	Maturity	Effective interest rate
7 year Sterling bond	360.1	January 2017	6.54%	351.6	January 2017	6.54%
10 year Sterling bond	229.9	June 2020	6.85%	231.8	June 2020	6.85%
<b>Bonds</b>	<b>590.0</b>			583.4		
Accrued interest – bonds	29.2			29.9		
European bank loans	79.4	August 2014 <sup>1</sup>	LIBOR + 1.45%	–		
European bank loans	28.4	February 2013	1.2%	–		
European bank loans	5.8	2013-2017	5.02%	6.3	2012-2016	4.95%
European bank loans	1.0	2013-2017	EURIBOR + 2.85%	1.6	2012-2016	4.74%
<b>Bank loans</b>	<b>114.6</b>			7.9		
US dollar finance leases at fixed rate	127.5	2013-2019	2.34%	117.3	2012-2018	2.67%
European finance leases at fixed rate	6.0	2013-2019	5.88%	8.1	2012-2017	6.09%
European finance leases at floating rate	4.5	2013-2019	EURIBOR + 1.21%	5.8	2012-2017	EURIBOR + 1.07%
Sterling finance leases at fixed rate	16.7	2013-2019	4.76%	20.1	2012-2018	4.76%
<b>Finance leases</b>	<b>154.7</b>			151.3		
Euro Private Placement	65.2	August 2021	4.55%	–		
Accrued interest – Private placement	1.2			–		
Euro loans	0.9	2013-2016		0.7	2012-2014	
<b>Other debt payable</b>	<b>67.3</b>			0.7		
<b>Total</b>	<b>955.8</b>			773.2		

<sup>1</sup> This date is the ultimate maturity date of the syndicated credit facility.

During 2012, the Group issued a €78.5m Private Placement, repayable in August 2021 at a fixed rate of 4.55%.

Under the terms of the £1bn EMTN programme, there is a change in control put option such that, upon a change of control event, any holder of any MTN may require the Company to redeem or purchase that MTN.

Details of the Group's interest rate risk management strategy and associated interest rate derivatives are included in notes 30 and 31.

The Group is subject to a number of financial covenants in relation to its syndicated credit facilities which, if contravened, could result in its borrowings under the facility becoming immediately repayable. These covenants specify maximum net debt to EBITDA and minimum EBITDA to net interest payable.

## 29 Interest-bearing borrowings continued

The following table sets out the carrying amount, by maturity of the Group's interest bearing borrowings.

As at 31 December 2012	< 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	> 5 years £m	Total £m
<b>Fixed rate</b>							
Bank loans	(31.0)	(1.4)	(1.2)	(0.6)	–	–	(34.2)
Bonds	–	–	–	–	(360.1)	(229.9)	(590.0)
Finance leases	(26.1)	(32.1)	(20.9)	(18.6)	(28.2)	(24.3)	(150.2)
Other debt payable	(1.3)	(0.3)	(0.5)	–	–	(65.2)	(67.3)
<b>Floating rate</b>							
Cash assets	72.8	–	–	–	–	–	72.8
Bank loans	(79.9)	(0.3)	(0.2)	–	–	–	(80.4)
Finance leases	(1.5)	(1.2)	(1.1)	(0.5)	(0.2)	–	(4.5)
<b>As at 31 December 2011</b>							
As at 31 December 2011	< 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	> 5 years £m	Total £m
<b>Fixed rate</b>							
Bank loans	(1.5)	(1.4)	(1.5)	(1.3)	(0.6)	–	(6.3)
Bonds	–	–	–	–	–	(613.3)	(613.3)
Finance leases	(20.3)	(21.8)	(34.8)	(14.9)	(12.7)	(41.0)	(145.5)
Other debt payable	(0.4)	(0.2)	(0.1)	–	–	–	(0.7)
<b>Floating rate</b>							
Cash assets	92.5	–	–	–	–	–	92.5
Bank loans	(0.9)	(0.3)	(0.3)	(0.1)	–	–	(1.6)
Finance leases	(1.8)	(1.2)	(1.0)	(1.1)	(0.5)	(0.2)	(5.8)

## 30 Financial risk management objectives and policies

### Financial risk factors and management

The Group's multinational operations and debt levels expose it to a variety of financial risks, of which the most material are market risks relating to fuel prices, foreign currency exchange rates, interest rates and the availability of funding at reasonable margins. The Group has in place a risk management programme that seeks to manage the impact of these risks on the financial performance of the Group by using financial instruments including borrowings, committed facilities and forward foreign exchange, fuel and interest rate derivatives.

The Board of Directors has delegated the responsibility for implementing the financial risk management policies laid down by the Board to the Group Finance Director and Group Treasurer. The policies are implemented by the Group Treasury department with regular reporting to the Group Finance Director on its activities.

**30 Financial risk management objectives and policies** continued**Foreign currency**

The Group has major foreign operations in the US, Canada and Spain and as a result is exposed to the movements in foreign currency exchange rates on the translation of these foreign currency denominated net assets and earnings. These movements can have a significant impact on the Group's reported results. The Group seeks to manage this foreign currency exchange movements risk by aligning its foreign currency denominated liabilities with the EBIT generated in each currency, such that some protection is afforded to the net debt: EBITDA covenant within the Group's core borrowing facility. This is achieved by a combination of foreign currency borrowings and finance leases, and entering into derivative financial instruments such as cross currency interest rate swaps and foreign exchange swaps. At the year end, the Group had outstanding foreign exchange derivatives of €50.0m and US\$50.0m; swaps of US\$60.5m, €5.0m, C\$23.3m and finance leases of US\$207.2m and €13.0m.

Derivative financial instruments are designated as net investment hedges of foreign currency assets. The effective portion of the gain or loss on the hedge is recognised in the statement of comprehensive income and recycled to the income statement at the same time as the underlying hedged net assets affect the income statement. Any ineffectiveness is taken to the income statement.

The table below demonstrates the sensitivity of the Group's financial instruments to a reasonably possible change in foreign exchange rates, with all other variables held constant. This would affect the Group's profit before tax and translation reserve. The effect on the translation reserve represents the movement in the translated value of the foreign currency denominated loans and change in fair value of cross-currency swap contracts. These movements would be offset by an opposite movement in the translated value of the Group's overseas net investments. It is estimated that a 10% change in the corresponding exchange rates would result in an exchange gain or loss in the translation reserve of £19.1m.

	Strengthening/ (weakening) in currency	2012		2011	
		Effect on profit before tax £m	Effect on translation reserve £m	Effect on profit before tax £m	Effect on translation reserve £m
As at 31 December					
US dollar	10%	–	<b>(8.0)</b>	–	1.5
Euro	10%	–	<b>(11.6)</b>	–	(19.6)
Canadian dollar	10%	–	<b>0.5</b>	–	0.9
US dollar	(10)%	–	<b>8.0</b>	–	(1.5)
Euro	(10)%	–	<b>11.6</b>	–	19.6
Canadian dollar	(10)%	–	<b>(0.5)</b>	–	(0.9)

**Interest rate risk**

The Group is exposed to movements in interest rates on both interest-bearing assets and liabilities. It is the Group's policy to maintain an appropriate balance between fixed and floating interest rates on borrowings in order to provide a level of certainty to interest expense in the short term and to reduce the year on year impact of interest rate fluctuations over the medium term. To achieve the desired fixed/floating ratio, the Group has entered into a series of interest rate swaps that have the effect of converting fixed rate debt to floating rate debt. The net effect of these transactions was that as at 31 December 2012 the proportion of Group net debt at floating rates was 37% (2011: 16%).

The table below demonstrates the sensitivity of the Group's financial instruments to a reasonably possible change in interest rates, with all other variables held constant, on the Group's profit before tax and on the Group's hedging reserve.

The sensitivity analysis covers all floating rate financial instruments, including the interest rate swaps. If the interest rates applicable to floating rate instruments denominated in Sterling were increased by 100bps, it is estimated that the Group's profit before taxation would decrease by approximately £1.6m. If the interest rates applicable to floating rate instruments denominated in US\$ were increased by 50bps, it is estimated that the Group's profit before taxation would increase by approximately £0.1m. If the interest rates applicable to floating rate instruments denominated in Euro were increased by 75bps, it is estimated that the Group's profit before taxation would be reduced by £0.5m. The analysis assumes that the amount and mix of floating rate debt, including finance leases, remains unchanged from that in place at 31 December 2012.

### 30 Financial risk management objectives and policies continued

	Increase/ (decrease) in basis points	2012		2011	
		Effect on profit before tax £m	Effect on hedging reserve £m	Effect on profit before tax £m	Effect on hedging reserve £m
As at 31 December					
Sterling	100	<b>(1.6)</b>	–	(1.3)	–
US dollar	50	<b>0.1</b>	–	–	–
Euro	75	<b>(0.5)</b>	–	–	–
Sterling	(100)	<b>1.6</b>	–	1.3	–
US dollar	(50)	<b>(0.1)</b>	–	–	–
Euro	(75)	<b>0.5</b>	–	–	–

#### Commodity prices

The Group is exposed to movements in commodity prices as a result of its fuel usage. It is the Group's policy 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. At 31 December 2012, the Group had hedged approximately 100% of its 2013 expected usage and 91% of its expected usage in 2014 (see the Finance Director's review for further details).

The table below demonstrates the effect of a reasonably possible variation in fuel prices, with all other variables held constant, on the fair value of the Group's financial instruments and accordingly on the Group's profit before tax and on the Group's hedging reserve.

The sensitivity analysis includes all fuel derivatives. The effect on the hedging reserve arises through movements on the fair value of the Group's fuel derivatives. For these derivative contracts the sensitivity of the net fair value to an immediate 20% increase or decrease in all prices would have been £40.9m at 31 December 2012. The figure does not include any corresponding economic advantage or disadvantage that would arise from the natural business exposure which would be expected to offset the gain or loss on the derivatives.

	Increase/ (decrease) in price	2012		2011	
		Effect on profit before tax £m	Effect on hedging reserve £m	Effect on profit before tax £m	Effect on hedging reserve £m
As at 31 December					
Sterling denominated ULSD	20%	–	<b>14.9</b>	–	11.6
US dollar denominated heating oil/diesel	20%	–	<b>9.6</b>	–	12.1
Euro denominated ULSD	20%	–	<b>16.4</b>	–	13.4
Sterling denominated ULSD	(20)%	–	<b>(14.9)</b>	–	(11.6)
US dollar denominated heating oil/diesel	(20)%	–	<b>(9.6)</b>	–	(12.1)
Euro denominated ULSD	(20)%	–	<b>(16.4)</b>	–	(13.4)

#### Credit risk

The maximum credit risk exposure of the Group is the gross carrying value of each of its financial assets. This risk is mitigated by a number of factors. Many of the Group's principal customers, suppliers and financial institutions with which it conducts business are public (or quasi-public) bodies, both national (DfT Rail and Network Rail in the UK) and local (school boards in North America, municipal authorities in Spain and Morocco, Transport for London and Centro in the UK). The Group does not consider these counterparties to pose a significant credit risk. Outside of this the Group does not consider it has significant concentrations of credit risk. The Group has implemented policies that require appropriate credit checks on potential customers before sales commence.

The only elements of the Group's financial assets which are not impaired but are past due are certain trade receivable items. An ageing of the assets which are past due is included in the table below. In terms of trade receivables that are neither impaired nor past due, there are no indications as at the year-end reporting date that the debtors will not meet their payment obligations (see Risk and risk management section for details of how management manages this process).

30 Financial risk management objectives and policies continued

	Carrying amount £m	Of which: neither impaired nor past due £m	Of which: not impaired and past due in the following periods			
			Less than 30 days £m	Between 30 and 60 days £m	Between 61 and 90 days £m	Over 90 days £m
<b>Trade receivables at 31 December 2012</b>	<b>121.4</b>	<b>96.7</b>	<b>9.4</b>	<b>4.7</b>	<b>1.7</b>	<b>8.9</b>
Trade receivables at 31 December 2011	150.3	90.8	26.5	10.2	4.8	18.0

Liquidity risk

The Group's liquidity risk is managed centrally by the Group Treasury department with operating units forecasting their cash requirements. The Group actively maintains a mixture of long term and medium term committed facilities that are designed to ensure the Group has sufficient available funds to meet current and forecast funding requirements. In managing the liquidity risk, the Group has access to a range of funding sources through the banking and capital markets.

At 31 December 2012, the Group had committed bank borrowing and finance lease facilities of £616.2m (2011: £620.5m). The Group has a £500m committed unsecured revolving bank facility, maturing in August 2014, of which £419.3m was unused at 31 December 2012 (2011: £500m). Letters of credit issued to support insurance retentions were £38.5m (2011: £30.8m).

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2012 based on the contractual undiscounted cash flows including interest cash flows. As such the amounts in this table will not agree to the carrying amounts disclosed in the Balance Sheet or other Notes. The table includes cash flows associated with derivative hedging instruments. Their amounts reflect the maturity profile of the fair value liability where the instrument will be settled net, and the gross settlement amount where the pay leg of a derivative will be settled separately to the receive leg.

Year ended 31 December 2012	On demand £m	Less than	1-5 years £m	> 5 years £m	Total £m
		1 year £m			
Bank loans	-	112.6	3.8	-	116.4
Bonds	-	36.8	497.1	269.7	803.6
Finance lease obligations	-	29.7	135.3	12.7	177.7
Other debt payable	-	3.8	11.6	76.8	92.2
Trade and other payables	-	347.0	2.9	-	349.9
	-	529.9	650.7	359.2	1,539.8
Foreign exchange derivatives	-	0.4	-	-	0.4
Interest rate derivatives	-	(5.6)	(21.4)	(4.7)	(31.7)
Fuel derivatives	-	(1.9)	1.4	-	(0.5)
	-	(7.1)	(20.0)	(4.7)	(31.8)

Year ended 31 December 2011	On demand £m	Less than	1-5 years £m	> 5 years £m	Total £m
		1 year £m			
Bank loans	-	2.4	5.5	-	7.9
Bonds	-	36.8	147.1	656.5	840.4
Finance lease obligations	-	31.2	92.9	45.0	169.1
Other debt payable	-	0.4	0.1	0.2	0.7
Trade and other payables	-	463.8	1.2	-	465.0
ICRRL onerous contract obligation	-	9.0	-	-	9.0
	-	543.6	246.8	701.7	1,492.1
Foreign exchange derivatives	-	(8.0)	-	-	(8.0)
Interest rate derivatives	-	(4.0)	(12.3)	(8.5)	(24.8)
Fuel derivatives	-	(16.5)	(5.7)	-	(22.2)
	-	(28.5)	(18.0)	(8.5)	(55.0)

### 30 Financial risk management objectives and policies continued

#### Capital risk management

The Group seeks to adopt efficient financing structures that enable it to use its balance sheet strength to achieve the Group's objectives without putting shareholder value at risk. The Group's capital structure comprises its equity (refer to the Group Statement of Changes in Equity) and its net debt (refer to note 37).

The increase in the Group's net debt from £633.7m to £828.2m (excluding accrued interest) is explained in the Finance Director's review. Information about the financial covenants in relation to the Group's borrowing facilities is included in note 29.

### 31 Financial instruments (including cash, trade receivables and payables)

#### Fair values

The table below illustrates the fair values of all financial assets and liabilities held by the Group at 31 December 2012.

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are measured at amortised cost using the effective interest rate method and the carrying value in all cases approximates to the fair value.

Available for sale investments are non-derivative assets that are either designated as available for sale, or are not classified as loans and receivables or held to maturity investments. The Group's available for sale investments have no active market, and in the absence of any other reliable external information are carried at cost or amortised cost which approximates to the fair value.

The fair value of derivatives is either determined by the third-party financial institution with which the Group holds the instrument, in line with the market value of similar financial instruments or by use of valuation techniques using market data. Derivatives, other than those designated as effective hedging instruments, are classified as fair value through profit or loss and are carried on the balance sheet at their fair value with gains or losses recognised in the income statement. Derivatives designated as hedging instruments in an effective hedge are carried on the balance sheet at their fair value. For cash flow hedges and hedges of net investments in foreign operations, the effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income, while the ineffective portion is recognised in the income statement. Amounts taken to other comprehensive income are transferred to the income statement when the hedged transaction affects profit or loss or when the foreign operation is sold or partially disposed. For fair value hedges, all gains or losses are recognised in the income statement.

Derivatives are the only instrument which the Group holds at fair value. The fair value measurement of these instruments is categorised within the Level 2 (ie the fair values are derived based on observable market inputs), in accordance with IFRS 7.

The Group's bonds are held at a hybrid amortised cost with a fair value adjustment. After initial recognition at fair value, the bonds are measured at amortised cost using the effective interest rate method. A portion of the bonds are designated as the hedged item in an effective fair value hedging relationship. As such the carrying value of this portion is adjusted for changes in fair value attributable to the risk being hedged. This net carrying value will differ to the fair value depending on movements in the Group's credit risk, movements in interest rates on the un-hedged portion and unamortised fees.

All other liabilities including finance leases, banks loans, trade and other payables and other debt payable are held at amortised cost. After initial fair value recognition, these instruments are measured at amortised cost using the effective interest rate method. The carrying value of these liabilities approximates to the fair value.

31 Financial instruments (including cash, trade receivables and payables) continued

Classification of financial instruments As at 31 December 2012	Loans and receivables £m	Available- for-sale assets £m	Derivatives used for hedging £m	Liabilities measured at amortised cost £m	At fair value through profit or loss £m	Total £m
<b>Assets</b>						
Investments	-	7.1	-	-	-	7.1
Fuel derivatives	-	-	4.7	-	-	4.7
Foreign exchange derivatives	-	-	0.1	-	-	0.1
Interest rate derivatives	-	-	31.0	-	-	31.0
Cash and cash equivalents	72.8	-	-	-	-	72.8
Trade and other receivables	165.1	-	-	-	-	165.1
	<b>237.9</b>	<b>7.1</b>	<b>35.8</b>	<b>-</b>	<b>-</b>	<b>280.8</b>
<b>Liabilities</b>						
Bank loans	-	-	-	(114.6)	-	(114.6)
Bonds including accrued interest	-	-	-	(619.2)	-	(619.2)
Finance lease obligations	-	-	-	(154.7)	-	(154.7)
Other debt payable	-	-	-	(67.3)	-	(67.3)
Fuel derivatives	-	-	(4.7)	-	-	(4.7)
Foreign exchange derivatives	-	-	(0.5)	-	-	(0.5)
Trade and other payables	-	-	-	(349.9)	-	(349.9)
	<b>-</b>	<b>-</b>	<b>(5.2)</b>	<b>(1,305.7)</b>	<b>-</b>	<b>(1,310.9)</b>

Classification of financial instruments As at 31 December 2011	Loans and receivables £m	Available- for-sale assets £m	Derivatives used for hedging £m	Liabilities measured at amortised cost £m	At fair value through profit or loss £m	Total £m
<b>Assets</b>						
Investments	-	7.6	-	-	-	7.6
Fuel derivatives	-	-	20.4	-	-	20.4
Foreign exchange derivatives	-	-	8.0	-	-	8.0
Interest rate derivatives	-	-	23.7	-	-	23.7
Cash and cash equivalents	92.5	-	-	-	-	92.5
Trade and other receivables	200.7	-	-	-	-	200.7
	<b>293.2</b>	<b>7.6</b>	<b>52.1</b>	<b>-</b>	<b>-</b>	<b>352.9</b>
<b>Liabilities</b>						
Bank loans	-	-	-	(7.9)	-	(7.9)
Bonds including accrued interest	-	-	-	(613.3)	-	(613.3)
Finance lease obligations	-	-	-	(151.3)	-	(151.3)
Other debt payable	-	-	-	(0.7)	-	(0.7)
Fuel derivatives	-	-	(2.4)	-	-	(2.4)
Foreign exchange derivatives	-	-	(0.2)	-	-	(0.2)
Trade and other payables	-	-	-	(465.0)	-	(465.0)
ICRRL onerous contract obligation	-	-	-	(9.0)	-	(9.0)
	<b>-</b>	<b>-</b>	<b>(2.6)</b>	<b>(1,247.2)</b>	<b>-</b>	<b>(1,249.8)</b>

Other receivables and other payables are to be settled in cash in the currency they are held in.

In accordance with IAS 39, 'Financial Instruments: Recognition and Measurement', the Group has reviewed all contracts for embedded derivatives that are required to be separately accounted for. No embedded derivatives have been identified.

### 31 Financial instruments (including cash, trade receivables and payables) continued

The Group assesses at each year-end reporting date whether a financial asset or group of financial assets is impaired. In the financial year 2012 there was no objective evidence that would have necessitated the impairment of loans and receivables or available-for-sale assets except the provision for impairment of receivables (see note 22).

#### Hedging activities

The Group uses derivative financial instruments to manage exposures to market risk, such as movements in foreign exchange rates, fuel prices and interest rates. Such derivative financial instruments are initially recognised at fair value and are subsequently re-measured at fair value. In line with IAS 39 the Group classifies hedges as (a) fair value hedges used to hedge exposure to changes in the fair value of a recognised asset or liability, (b) cash flow hedges used to hedge exposure to variability in cash flows associated with a recognised asset or liability or a highly probable forecast transaction, and (c) hedges of a net investment in a foreign operation.

In 2012 the Group applied cash flow hedge accounting for hedging floating fuel price risks in highly probable forecast purchase transactions and for hedging net investments in US dollar and Euro foreign operations. The Group applied fair value hedge accounting for the fair value interest rate risk on £200m of the Group's fixed rate bonds and €78.5m Private Placement.

The movement on derivative financial instruments is detailed below:

	Interest rate swaps £m	Foreign exchange forward contracts £m	Fuel swaps £m	Total £m
Net asset at 1 January 2012	23.7	7.8	18.0	49.5
Transfers to the income statement on cash flow hedges	–	–	(20.2)	(20.2)
Cash settlements/accrual	0.3	(4.2)	–	(3.9)
Revaluation through income statement	7.0	–	–	7.0
Revaluation through other comprehensive income	–	–	2.2	2.2
Exchange differences	–	(4.0)	–	(4.0)
<b>Net asset/(liability) at 31 December 2012</b>	<b>31.0</b>	<b>(0.4)</b>	<b>–</b>	<b>30.6</b>

	Interest rate swaps £m	Foreign exchange forward contracts £m	Fuel swaps £m	Total £m
Net (liability)/asset at 1 January 2011	(1.3)	(10.0)	19.3	8.0
Transfers to the income statement on cash flow hedges	–	–	(25.3)	(25.3)
Cash settlements/accrual	7.5	12.8	–	20.3
Revaluation through income statement	17.5	–	–	17.5
Revaluation through other comprehensive income	–	–	24.2	24.2
Exchange differences	–	5.0	(0.2)	4.8
<b>Net asset at 31 December 2011</b>	<b>23.7</b>	<b>7.8</b>	<b>18.0</b>	<b>49.5</b>

The movement on the hedging reserve is detailed below:

	2012 £m	2011 £m
At 1 January	15.9	17.6
Transferred to income statement – operating costs	(20.2)	(25.3)
Revaluation through other comprehensive income	2.2	24.2
Tax on revaluation	4.9	(0.6)
<b>At 31 December</b>	<b>2.8</b>	<b>15.9</b>

**31 Financial instruments (including cash, trade receivables and payables)** continued**Hedge of net investments in foreign entities**

The Group uses foreign currency borrowings and derivative financial instruments to hedge the net investment in material foreign currency net assets of the Group and are used to reduce the exposure to foreign exchange rate movements. At 31 December 2012, the Group had designated €50m of synthetic debt in the form of foreign exchange derivatives; €100m of revolving credit facility drawings; €78.5m private placement; and €35m of other loans as net investment hedges of the net assets of its Spanish subsidiaries. Similarly, \$50m of synthetic debt in the form of foreign exchange derivatives were designated as a hedge of the net assets of the Group's US subsidiaries. No ineffectiveness was recognised in relation to these hedges.

**Fuel derivatives**

The Group has a number of fuel derivatives in place to hedge the different types of fuel used in each division. Ultra low sulphur diesel is used in the UK Bus, UK Coach and European Coach & Bus divisions and is hedged by swaps in the same type of fuel. Diesel used in the North American division is hedged using the heating oil and diesel market. The timing of the swap cash flows match underlying fuel purchases from 2013 through to 2015. There was no significant element of hedge ineffectiveness requiring recognition in the income statement.

During the year £2.2m of fair value losses (2011: £24.2m gains) have been transferred to the hedging reserve due to movements in market fuel prices. Fair value movements of £20.2m (2011: £25.3m) have been transferred from the hedging reserve to the income statement following settlement of fuel trades, of which £20.7m was recognised in the hedging reserve at 1 January 2012 and the remainder was generated during the year due to the movement in market fuel prices.

Fuel derivatives can be analysed as follows:

	<b>31 December 2012 Fair value £m</b>	31 December 2011 Fair value £m	<b>31 December 2012 Volume million litres</b>	31 December 2011 Volume million litres
<b>Hedge fuel derivatives</b>				
Sterling denominated – UK Bus, UK Coach and Rail	<b>(0.2)</b>	3.4	<b>76.9</b>	80.6
US dollar denominated – North American Bus	<b>0.1</b>	3.2	<b>66.9</b>	74.5
Euro denominated – European Coach & Bus	<b>2.2</b>	6.5	<b>93.0</b>	90.0
Fuel derivatives included in current assets	<b>2.1</b>	13.1	<b>236.8</b>	245.1
Sterling denominated – UK Bus, UK Coach and Rail	<b>(1.1)</b>	2.8	<b>79.0</b>	36.0
US dollar denominated – North American Bus	<b>(0.5)</b>	(0.6)	<b>62.0</b>	39.7
Euro denominated – European Coach & Bus	<b>(0.5)</b>	2.7	<b>77.0</b>	45.0
Fuel derivatives included in non-current assets/(liabilities)	<b>(2.1)</b>	4.9	<b>218.0</b>	120.7
<b>Total hedge fuel derivatives</b>	<b>–</b>	18.0	<b>454.8</b>	365.8

### 31 Financial instruments (including cash, trade receivables and payables) continued

#### Interest rate swaps at fair value through profit or loss

In July 2010 the Group entered into four £50m denominated interest rate swaps on a total of £200m of the Group's Sterling bonds. These interest rate swaps all pay floating interest (LIBOR + a margin) semi-annually, receive fixed interest annually with maturities matching the Group's Sterling bonds (two swaps with total notional value £100m mature in January 2017, two swaps with notional value £100m mature June 2020) and are designated as a fair value hedge of the interest rate risk on £200m of these bonds. These swaps are measured at fair value through profit or loss, with any gains or losses being taken immediately to the income statement to offset any fair value gains or losses due to changes in the risk free interest rate on the swapped portion of the bonds. As at 31 December 2012 a total fair value gain of £5.4m was recognised in the income statement in relation to these swaps. This is offset by a fair value loss of £5.4m on the underlying hedged item, in this case changes in fair value on the £200m of the Group's bonds due to changes in the risk free interest rate.

In September 2012, the Group entered into two €39.25m denominated interest rate swaps equal in value to the Euro Private Placement. These interest rate swaps all pay floating interest (EURIBOR+ a margin) semi-annually, receive fixed interest annually with maturities matching the Euro Private placement and are designated as a fair value hedge of the interest rate risk on the Private Placement. These swaps are measured at fair value through profit and loss, with any gains or losses being taken immediately to the income statement to offset any fair value gains or losses due to changes in the risk free rate on the Euro Private Placement. As at 31 December 2012 a total fair value gain of £1.7m was recognised in the income statement in relation to these swaps. This is offset by a fair value loss of £1.7m on the underlying hedged item, in this case changes in fair value of the Euro Private Placement due to changes in the risk free interest rate.

### 32 Called-up share capital

	2012 £m	2011 £m
At 31 December:		
Authorised:		
800,000,000 (2011: 800,000,000) ordinary shares of 5p each	<b>40.0</b>	40.0
Issued called-up and fully paid:		
511,732,603 (2011: 511,726,026) ordinary shares of 5p each	<b>25.6</b>	25.6

The total number of share options exercised in the year by employees of the Group was 1,984,855 (2011: 1,175,455) of which nil exercises were satisfied by newly issued shares (2011: nil) and 1,919,772 (2011: 1,175,455) exercises were satisfied by transferring shares from the National Express Employee Benefit Trust. The remaining exercises were settled via a direct purchase of shares from the open market.

#### Own shares

Own shares comprises 535,658 (2011: 380,430) ordinary shares in the Company that have been purchased by the Trustees of the National Express Employee Benefit Trust (the 'Trust'). During the year, the Trust purchased 2,075,000 (2011: 991,615) shares and 1,919,772 (2011: 1,175,455) shares were used to satisfy options granted under a number of the Company's share schemes. The market value of these shares at 31 December 2012 was £1.1m (2011: £0.9m). The dividends payable on these shares have been waived.

The Group's treasury shares were sold during the year and therefore are nil (2011: 1,668,688). No shares were added or cancelled during the year (2011: nil).

**33 Other reserves**

	Merger reserve £m	Hedging reserve £m	Translation reserve £m	Total £m
At 1 January 2012	15.4	15.9	68.6	99.9
Hedge movements, net of tax	–	(13.1)	–	(13.1)
Exchange differences, net of tax	–	–	(42.6)	(42.6)
<b>At 31 December 2012</b>	<b>15.4</b>	<b>2.8</b>	<b>26.0</b>	<b>44.2</b>

	Merger reserve £m	Hedging reserve £m	Translation reserve £m	Total £m
At 1 January 2011	15.4	17.6	92.1	125.1
Hedge movements, net of tax	–	(1.7)	–	(1.7)
Exchange differences, net of tax	–	–	(23.5)	(23.5)
<b>At 31 December 2011</b>	<b>15.4</b>	<b>15.9</b>	<b>68.6</b>	<b>99.9</b>

The nature and purpose of the other reserves are as follows:

- The merger reserve includes the premium on shares issued to satisfy the purchase of Prism Rail PLC in 2000;
- The hedging reserve records the movements on designated hedging items, offset by any movements recognised in equity on underlying hedged items; and
- The translation reserve records exchange differences arising from the translation of the accounts of foreign currency denominated subsidiaries offset by the movements on loans and derivatives used to hedge the net investment in foreign subsidiaries.

**34 Pensions and other post-employment benefits****(a) Summary of pension benefits and assumptions**

The UK Bus and UK Coach divisions operate both funded defined benefit schemes and a defined contribution scheme. The majority of employees of the Rail companies are members of the appropriate shared-cost section of the Railways Pension Scheme (RPS), a funded defined benefit scheme. The assets of all schemes are held separately from those of the Group. Contributions to the schemes are determined by independent professionally qualified actuaries.

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

During the period, certain liabilities of the Travel West Midlands Pension Fund relating to current and deferred pensioners valued at £238m on an accounting basis, were insured at a cost of £272m at the transaction date. This insurance policy is a qualifying insurance policy, and therefore the value of the policy and the value of the liabilities have been recognised within actuarial losses in the Group statement of comprehensive income. This buy-in has reduced risk and volatility, and brought greater stability to the Group's pension contribution commitments. As a result of this transaction, further assets due to the Travel West Midlands Pension Fund were identified and recovered which substantially offset these losses.

The total pension cost for the year was £6.9m (2011: £11.7m), of which £3.5m (2011: £3.5m) relates to the defined contribution schemes.

The UK Coach plan is now closed to all future accrual. A funding plan aimed at bringing the plan to self sufficiency over a six year period was agreed in 2010; National Express contributes £4.2m annually to this scheme. In 2011 UK Bus agreed a £5.5m annual deficit repayment plan with the trustees of the West Midlands Passenger Transport Authority Pension Fund to fund a £71m scheme funding deficit over 12 years. The plan remains open to accrual for existing members only.

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

	2012 £m	2011 £m
UK Bus	(32.9)	(16.8)
UK Coach	16.6	18.6
Rail	(1.8)	(2.2)
Other	(1.2)	(1.4)
<b>Total</b>	<b>(19.3)</b>	<b>(1.8)</b>

### 34 Pensions and other post-employment benefits continued

#### (a) Summary of pension benefits and assumptions continued

The valuations conducted for financial reporting purposes are based on the triennial actuarial valuations. A summary of the latest triennial actuarial valuations, and assumptions made, is as follows.

	UK Bus		UK Coach	Rail
	Tayside 31 March 2011	Travel West Midlands 31 March 2010	5 April 2010	31 December 2010
Date of actuarial valuation				
Actuarial method used	Attained age*	Attained age*	Projected unit	Projected unit
Rate of investment returns per annum	4.3%-6.9%	5.0%-7.0%	4.1%	5.5%-7.6%
Increase in earnings per annum	5.0%	4.5%	–	4.2%
Scheme assets taken at market value	£45.5m	£382.0m	£54.8m	£66.8m
Funding level	97%	84%	68%	95%-99%

\* Amounts included in the income statement, other comprehensive income and the balance sheet are calculated using the projected unit method.

The range of funding levels and scheme assets for Rail reflects the range of funding levels and assets in the various sections of the RPS relating to the franchises which the Group operated at 31 December 2012. The plans do not provide medical benefits.

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

	2012			2011		
	UK Bus	UK Coach	Rail	UK Bus	UK Coach	Rail
Rate of increase in salaries	<b>2.5%</b>	<b>2.5%</b>	<b>3.0%</b>	3.0%	3.0%	3.0%
Rate of increase of pensions	<b>2.0%</b>	<b>2.8%</b>	<b>2.0%</b>	2.0%	3.0%	2.0%
Discount rate	<b>4.4%</b>	<b>4.4%</b>	<b>4.4%</b>	5.0%	5.0%	5.0%
Inflation assumption (RPI)	<b>2.8%</b>	<b>2.8%</b>	<b>2.8%</b>	3.0%	3.0%	3.0%
Inflation assumption (CPI)	<b>2.0%</b>	<b>2.0%</b>	<b>2.0%</b>	2.0%	2.0%	2.0%
Expected rates of return on scheme assets:						
Equities	<b>7.7%</b>	<b>7.7%</b>	<b>7.7%</b>	7.7%	7.7%	7.7%
Bonds	<b>3.0%</b>	<b>3.0%</b>	<b>3.0%</b>	3.0%	3.0%	3.0%
Other	<b>1.25%</b>	<b>1.25%</b>	<b>1.25%</b>	1.25%	1.25%	1.25%
Post-retirement mortality in years:						
Current pensioners at 65 – male	<b>21.0</b>	<b>24.7</b>		20.9	24.5	
Current pensioners at 65 – male, pension under £9,300 pa or pensionable pay under £35,000 pa			<b>20.6</b>			20.5
Current pensioners at 65 – male – others			<b>22.8</b>			22.6
Current pensioners at 65 – female	<b>23.7</b>	<b>27.6</b>		23.6	27.5	
Current pensioners at 65 – female, pension under £3,300 pa or pensionable pay under £35,000 pa			<b>22.5</b>			22.4
Current pensioners at 65 – female – others			<b>24.9</b>			24.8
Future pensioners at 65 – male	<b>22.4</b>	<b>26.7</b>		22.3	26.6	
Future pensioners at 65 – male, pension under £9,300 pa or pensionable pay under £35,000 pa			<b>23.0</b>			22.8
Future pensioners at 65 – male – others			<b>25.0</b>			24.9
Future pensioners at 65 – female	<b>25.3</b>	<b>29.6</b>		25.2	29.5	
Future pensioners at 65 – female, pension under £3,300 pa or pensionable pay under £35,000 pa			<b>25.0</b>			24.9
Future pensioners at 65 – female – others			<b>27.3</b>			27.1

**34 Pensions and other post-employment benefits** continued**(a) Summary of pension benefits and assumptions continued**

The demographic assumptions reflect those adopted in the most recent triennial actuarial valuation. For the Rail scheme, mortality assumptions have been set by reference to the recent experience of the scheme. Mortality is assumed to improve in the future in line with the 'core projection' model published by the actuarial profession's Continuous Mortality investigation, incorporating a long term improvement rate of 1.5% pa.

The Directors regard the assumption around the discount rate to be the key assumption in the IAS 19 valuation, and the following table provides an approximate sensitivity analysis of the impact of a 0.1% change in the discount rate assumption.

	UK Bus £m	UK Coach £m	Rail £m
Defined benefit pension (liability)/asset at 31 December 2012	<b>(32.9)</b>	<b>16.6</b>	<b>(1.8)</b>
Effect of a 0.1% increase in the discount rate	<b>7.6</b>	<b>1.3</b>	–
Current service cost for the year ended 31 December 2012	<b>(3.3)</b>	–	<b>(3.0)</b>
Effect of a 0.1% increase in the discount rate	<b>0.1</b>	–	–

Scheme assets are stated at their market values at the respective balance sheet dates. The expected rate of return on scheme assets is determined based on market returns on each category of scheme assets.

**(b) Accounting for the Railways Pension Scheme**

The majority of employees of the Rail companies are members of the appropriate section of the RPS, a funded defined benefit scheme. The RPS is a shared cost scheme, which means that costs are formally shared 60% employer and 40% employee. To date, the Group has experienced eleven changes of Rail franchise ownership where the current owner has funded the scheme during the franchise term and the pension deficit at franchise exit has transferred to the new owner, without cash settlement. By entering into the franchise contract, the TOC becomes the designated employer for the term of the contract and under the rules of the RPS must fund its share of the pension liability in accordance with the schedule of contributions agreed with the Scheme trustees and actuaries.

In determining the appropriate accounting policy for the RPS to ensure that the Group's accounts present fairly its financial position, financial performance and cash flows, management has consulted with TOC industry peers and has concluded that the Group's constructive obligations should be accounted for in accordance with IAS 19. This accounting policy, which in all other respects is consistent with that set out in this note for the Group's other defined benefit schemes, means that the Group's accounts reflect that element of the deficits anticipated to be settled by the Group during the franchise term and will prevent gains arising on transfer of the existing RPS deficits to a new owner at franchise exit.

In calculating the Group's constructive obligations in respect of the RPS, the Group has calculated the total pension deficits in each of the RPS sections in accordance with IAS 19 and the assumptions set out above. These deficits are reduced by a 'franchise adjustment' which is that portion of the deficit projected to exist at the end of the franchise and which the Group will not be required to fund. The franchise adjustment, which has been calculated by the Group's actuaries, is offset against the present value of the RPS liabilities so as to fairly present the financial performance, position and cash flows of the Group's obligations.

The franchise adjustment decreased from £59.6m at 31 December 2011 to £18.1m at 31 December 2012. The principal reason for the decrease was the handback of the East Anglia franchise reducing the franchise adjustment by £49.0m. In addition the adjustment increased due to interest on the franchise adjustment of £0.7m and other net actuarial movements of £6.8m. In the prior year, the franchise adjustment decreased from £72.4m at 31 December 2010 to £59.6m at 31 December 2011. The decrease was caused by interest on the franchise adjustment of £3.9m and net actuarial movements of £16.7m.

### 34 Pensions and other post-employment benefits continued

#### (c) Financial results for pension benefits

The amounts charged to the Group income statement and Group statement of comprehensive income for the years ended 31 December 2012 and 2011 are set out in the following tables.

	UK Bus 2012 £m	UK Coach 2012 £m	Rail 2012 £m	Total 2012 £m
<b>Group income statement</b>				
Amounts (charged)/credited to Group operating profit/(loss):				
Current service cost	(3.3)	–	(3.0)	(6.3)
Expected return on pension scheme assets	23.9	2.2	3.9	30.0
Interest on pension liabilities	(21.9)	(2.4)	(3.5)	(27.8)
Interest on franchise adjustment	–	–	0.7	0.7
Total charge to income statement	(1.3)	(0.2)	(1.9)	(3.4)
Actual return on plan assets	32.5	2.7	11.9	47.1

	UK Bus 2012 £m	UK Coach 2012 £m	Rail 2012 £m	Total 2012 £m
<b>Group statement of comprehensive income</b>				
Actual return less expected return on pension scheme assets	8.6	0.3	7.8	16.7
Other actuarial gains and losses	(33.1)	(6.3)	(8.4)	(47.8)
Actuarial losses	(24.5)	(6.0)	(0.6)	(31.1)

	UK Bus 2011 £m	UK Coach 2011 £m	Rail 2011 £m	Total 2011 £m
<b>Group income statement</b>				
Amounts (charged)/credited to Group operating profit/(loss):				
Current service cost	(4.1)	(0.1)	(10.3)	(14.5)
Expected return on pension scheme assets	25.1	3.5	14.4	43.0
Interest on pension liabilities	(22.9)	(2.9)	(14.8)	(40.6)
Interest on franchise adjustment	–	–	3.9	3.9
Total (charge)/credit to income statement	(1.9)	0.5	(6.8)	(8.2)
Actual return on plan assets	17.8	13.2	1.0	32.0

	UK Bus 2011 £m	UK Coach 2011 £m	Rail 2011 £m	Total 2011 £m
<b>Group statement of comprehensive income</b>				
Actual return less expected return on pension scheme assets	(7.3)	9.7	(13.4)	(11.0)
Other actuarial gains and losses	(12.4)	2.5	12.3	2.4
Actuarial (losses)/gains	(19.7)	12.2	(1.1)	(8.6)

**34 Pensions and other post-employment benefits** continued

(c) Financial results for pension benefits continued

The amounts recognised in the balance sheet at 31 December are:

	UK Bus 2012 £m	UK Coach 2012 £m	Rail 2012 £m	Other 2012 £m	Total 2012 £m
<b>As at 31 December 2012</b>					
Equities	85.6	–	62.9	–	148.5
Bonds	58.8	65.8	3.5	–	128.1
Property	3.7	–	–	–	3.7
Insurance policy	242.6	–	–	–	242.6
Diversified growth fund	53.3	–	–	–	53.3
Other	4.0	7.3	0.7	–	12.0
Fair value of scheme assets	448.0	73.1	67.1	–	588.2
Present value of scheme liabilities	(480.9)	(56.5)	(99.3)	(1.2)	(637.9)
Franchise adjustment	–	–	18.1	–	18.1
Defined benefit obligation	(480.9)	(56.5)	(81.2)	(1.2)	(619.8)
Members' share of deficit	–	–	12.3	–	12.3
Defined benefit pension (deficit)/surplus	(32.9)	16.6	(1.8)	(1.2)	(19.3)
	UK Bus 2011 £m	UK Coach 2011 £m	Rail 2011 £m	Other 2011 £m	Total 2011 £m
<b>As at 31 December 2011</b>					
Equities	191.7	–	303.7	–	495.4
Bonds	234.2	63.6	15.1	–	312.9
Property	3.6	–	–	–	3.6
Other	2.4	4.3	2.2	–	8.9
Fair value of scheme assets	431.9	67.9	321.0	–	820.8
Present value of scheme liabilities	(448.7)	(49.3)	(423.3)	(1.4)	(922.7)
Franchise adjustment	–	–	59.6	–	59.6
Defined benefit obligation	(448.7)	(49.3)	(363.7)	(1.4)	(863.1)
Members' share of deficit	–	–	40.5	–	40.5
Defined benefit pension (deficit)/surplus	(16.8)	18.6	(2.2)	(1.4)	(1.8)

The movement in the present value of the defined benefit obligation in the year is as stated below. For Rail, the RPS is a shared cost scheme, which means that costs are formally shared 60% employer and 40% employee.

The Group's defined benefit obligation comprises £618.6m (2011: £861.7m) (including the members' share of the deficit) arising from plans that are wholly or partly funded and £1.2m (2011: £1.4m) from unfunded plans.

	UK Bus £m	UK Coach £m	Rail £m	Other £m	Total £m
Defined benefit obligation at 1 January 2012	(448.7)	(49.3)	(363.7)	(1.4)	(863.1)
Current service cost	(3.3)	–	(3.0)	–	(6.3)
Benefits paid	27.4	1.5	3.4	0.2	32.5
Contributions by employees	(1.3)	–	(1.7)	–	(3.0)
Finance charge	(21.9)	(2.4)	(3.5)	–	(27.8)
Interest on franchise adjustment	–	–	0.7	–	0.7
Franchise exit	–	–	307.3	–	307.3
Members' share of movement on liabilities	–	–	(12.3)	–	(12.3)
Actuarial loss recognised in statement of comprehensive income	(33.1)	(6.3)	(8.4)	–	(47.8)
<b>Defined benefit obligation at 31 December 2012</b>	<b>(480.9)</b>	<b>(56.5)</b>	<b>(81.2)</b>	<b>(1.2)</b>	<b>(619.8)</b>

**34 Pensions and other post-employment benefits** continued  
(c) Financial results for pension benefits continued

	UK Bus £m	UK Coach £m	Rail £m	Other £m	Total £m
Defined benefit obligation at 1 January 2011	(434.8)	(59.6)	(372.8)	(1.4)	(868.6)
Current service cost	(4.1)	(0.1)	(10.3)	–	(14.5)
Benefits paid	26.8	1.5	14.5	–	42.8
Contributions by employees	(1.3)	–	(6.1)	–	(7.4)
Finance charge	(22.9)	(2.9)	(14.8)	–	(40.6)
Interest on franchise adjustment	–	–	3.9	–	3.9
Settlement	–	9.3	–	–	9.3
Members' share of movement on liabilities	–	–	9.6	–	9.6
Actuarial (loss)/gain recognised in statement of comprehensive income	(12.4)	2.5	12.3	–	2.4
<b>Defined benefit obligation at 31 December 2011</b>	<b>(448.7)</b>	<b>(49.3)</b>	<b>(363.7)</b>	<b>(1.4)</b>	<b>(863.1)</b>

The movement in the fair value of scheme assets is as follows:

	UK Bus £m	UK Coach £m	Rail £m	Total £m
Fair value of scheme assets at 1 January 2012	<b>431.9</b>	<b>67.9</b>	<b>321.0</b>	<b>820.8</b>
Expected return on plan assets	<b>23.9</b>	<b>2.2</b>	<b>3.9</b>	<b>30.0</b>
Cash contributions – employer	<b>9.7</b>	<b>4.2</b>	<b>2.9</b>	<b>16.8</b>
Cash contributions – employee	<b>1.3</b>	–	<b>1.7</b>	<b>3.0</b>
Benefits paid	<b>(27.4)</b>	<b>(1.5)</b>	<b>(3.4)</b>	<b>(32.3)</b>
Members' share of return on assets	–	–	<b>7.8</b>	<b>7.8</b>
Franchise exit	–	–	<b>(274.6)</b>	<b>(274.6)</b>
Actuarial gain recognised in statement of comprehensive income	<b>8.6</b>	<b>0.3</b>	<b>7.8</b>	<b>16.7</b>
<b>Fair value of scheme assets at 31 December 2012</b>	<b>448.0</b>	<b>73.1</b>	<b>67.1</b>	<b>588.2</b>

	UK Bus £m	UK Coach £m	Rail £m	Total £m
Fair value of scheme assets at 1 January 2011	429.5	59.6	318.3	807.4
Expected return on plan assets	25.1	3.5	14.4	43.0
Cash contributions – employer	10.0	6.0	9.5	25.5
Cash contributions – employee	1.4	–	6.1	7.5
Benefits paid	(26.8)	(1.5)	(14.5)	(42.8)
Members' share of return on assets	–	–	0.6	0.6
Actuarial (loss)/gain recognised in statement of comprehensive income	(7.3)	9.7	(13.4)	(11.0)
Settlement	–	(9.4)	–	(9.4)
<b>Fair value of scheme assets at 31 December 2011</b>	<b>431.9</b>	<b>67.9</b>	<b>321.0</b>	<b>820.8</b>

**34 Pensions and other post-employment benefits** continued**(c) Financial results for pension benefits continued**

The Group expects to contribute £15.4m to its defined benefit pension plans in 2013.

History of experience gains and losses:	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
<b>UK Bus</b>					
Fair value of scheme assets	448.0	431.9	429.5	399.9	362.8
Present value of defined benefit obligation	(480.9)	(448.7)	(434.8)	(446.3)	(357.4)
Restriction on surplus	–	–	–	–	(9.0)
Deficit in the scheme	(32.9)	(16.8)	(5.3)	(46.4)	(3.6)
Experience adjustments arising on liabilities	5.0	(23.3)	(0.1)	0.2	(3.3)
Experience adjustments arising on assets	8.6	(7.3)	21.3	31.3	(62.8)
<b>UK Coach</b>					
Fair value of scheme assets	73.1	67.9	59.6	51.6	42.1
Present value of defined benefit obligation	(56.5)	(49.3)	(59.6)	(56.8)	(43.3)
Surplus/(deficit) in the scheme	16.6	18.6	–	(5.2)	(1.2)
Experience adjustments arising on liabilities	–	0.1	2.7	–	–
Experience adjustments arising on assets	0.5	9.7	2.3	3.8	(7.8)
<b>Rail</b>					
Fair value of scheme assets	67.1	321.0	318.3	284.4	444.7
Present value of defined benefit obligation	(81.2)	(363.7)	(372.8)	(342.0)	(526.7)
Members' share of deficit	12.3	40.5	50.8	55.7	43.3
Deficit in the scheme	(1.8)	(2.2)	(3.7)	(1.9)	(38.7)
Experience adjustments arising on liabilities	2.7	(8.5)	12.2	(1.1)	16.9
Experience adjustments arising on assets	8.0	13.4	6.1	23.2	(121.4)
<b>Other</b>					
Fair value of scheme assets	–	–	–	–	–
Present value of defined benefit obligation	(1.2)	(1.4)	(1.4)	(1.4)	(1.5)
Deficit in the scheme	(1.2)	(1.4)	(1.4)	(1.4)	(1.5)
Experience adjustments arising on liabilities	–	–	–	–	–

The cumulative amount of actuarial gains and losses recognised in the statement of comprehensive income since 1 January 2004 is £50.3m loss (2011: £19.2m loss). The Directors are unable to determine how much of the pension scheme deficit recognised on transition to IFRSs and taken directly to equity of £51.9m is attributable to actuarial gains and losses since inception of those pension schemes. Consequently the Directors are unable to determine the amount of actuarial gains and losses that would have been recognised in the statement of comprehensive income before 1 January 2004.

### 35 Commitments and contingencies

#### Operating lease commitments

The Group's total operating lease commitments are as follows:

		2012 £m	2011 £m
Future minimum rentals payable under non-cancellable operating leases:			
Within one year:	Land and buildings	23.3	36.6
	Plant and equipment	19.5	46.4
		<b>42.8</b>	83.0
After one year but not more than five years:	Land and buildings	32.9	31.2
	Plant and equipment	23.4	43.5
		<b>56.3</b>	74.7
More than five years:	Land and buildings	51.0	32.0
	Plant and equipment	–	0.9
		<b>51.0</b>	32.9
		<b>150.1</b>	190.6

#### Operating lease commitments

The majority of the Group's commitments arise in the Rail division. Rail division companies have contracts with Network Rail Infrastructure Limited for access to the railway infrastructure (tracks, stations and depots). They also have contracts under which rolling stock is leased. The TOCs' obligations to fulfil these commitments exist only as part of their franchise agreement. The table below reflects the commitments up to the current franchise end dates unless an extension or new franchise agreement has been signed. The commitments are based on charges advised by the Rail Regulator for the period starting on 1 April 2010. Commitments for future minimum rental payments under these contracts are shown below:

		Land and buildings		Plant and equipment	
		2012 £m	2011 £m	2012 £m	2011 £m
Rail division commitments					
Future minimum rentals payable under non-cancellable operating leases:					
Within one year:	Fixed track access	5.4	14.8	–	–
	Rolling stock	–	–	9.5	36.2
	Other	1.9	7.4	0.3	0.8
		<b>7.3</b>	22.2	<b>9.8</b>	37.0
After one year but not more than five years:	Fixed track access	–	4.1	–	–
	Rolling stock	–	–	–	9.4
	Other	–	2.2	–	0.3
		–	6.3	–	9.7
		<b>7.3</b>	28.5	<b>9.8</b>	46.7

Fixed track access agreements have an average remaining life of 0.4 years (2011: 1.0 years), other land and buildings have an average duration of 0.4 years (2011: 1.0 years). Rolling stock agreements have an average life of 0.4 years (2011: 0.9 years) and other plant and equipment 0.4 years (2011: 1.2 years).

**35 Commitments and contingencies** continued

Outside of the Rail division the Group has entered into operating leases on certain properties, public service vehicles and various items of plant and equipment. Commitments for future minimum rental payments under cancellable operating leases are shown below:

	Land and buildings		Public service vehicles		Other	
	2012 £m	2011 £m	2012 £m	2011 £m	2012 £m	2011 £m
Other divisions' commitments						
Within one year	<b>16.0</b>	14.4	<b>9.3</b>	9.2	<b>0.4</b>	0.2
After one year but not more than five years	<b>32.9</b>	24.9	<b>23.0</b>	33.5	<b>0.4</b>	0.3
More than five years	<b>51.0</b>	32.0	–	0.9	–	–
	<b>99.9</b>	71.3	<b>32.3</b>	43.6	<b>0.8</b>	0.5

The average remaining life of operating lease commitments in the other divisions is 6.2 years (2011: 4.0 years) for land and buildings, 3.4 years (2011: 3.5 years) for public service vehicles and 2.0 years (2011: 2.4 years) for other plant and equipment.

**Operating lease agreements where the Group is the lessor**

The Group receives rent on properties as follows:

	2012 £m	2011 £m
Future minimum rentals receivable under non-cancellable operating leases:		
Within one year	<b>0.4</b>	1.4
After one year but not more than five years	–	0.4
	<b>0.4</b>	1.8

The leases have an average unexpired duration of 0.3 years (2011: 1.3 years).

**Finance lease commitments**

The Group has finance leases for public service vehicles and various items of plant and equipment. These leases have terms of renewal but no purchase options and escalation clauses. Renewals are at the option of the specific entity that holds the lease.

	2012		2011	
	Minimum payments £m	Present value of payments £m	Minimum payments £m	Present value of payments £m
Within one year	<b>28.2</b>	<b>27.5</b>	22.6	22.1
After one year but not more than five years	<b>113.4</b>	<b>102.8</b>	95.4	85.9
More than five years	<b>27.5</b>	<b>24.4</b>	51.4	43.3
Total minimum lease payments	<b>169.1</b>	<b>154.7</b>	169.4	151.3
Less future financing charges	<b>(14.4)</b>	–	(18.1)	–
Present value of minimum lease payments	<b>154.7</b>	<b>154.7</b>	151.3	151.3

**Capital commitments**

	2012 £m	2011 £m
Contracted	<b>46.3</b>	43.7

The Group is committed to vehicle purchases and various land and buildings improvements.

**Contingent liabilities****Bonds and letters of credit**

In the ordinary course of business, the Group is required to issue counter-indemnities in support of its operations. As at 31 December 2012 there were Rail performance bonds of £4.0m (2011: £25.8m) and Rail season ticket bonds of £21.1m (2011: £92.3m). The Group has other performance bonds which include the £nil (2011: £9.0m) performance bond in respect of Inter-Capital and Regional Rail Limited, a performance bond with Birmingham City Council relating to the building of the new coach station of £0.2m (2011: £0.2m), performance bonds in respect of businesses in the US of £104.7m (2011: £108.1m) and the rest of Europe of £23.5m (2011: £23.3m). Letters of credit have been issued to support insurance retentions of £36.1m (2011: £30.8m).

### 36 Related party transactions

	Amount of transactions		Amounts due from related parties		Amounts due to related parties	
	2012 £m	2011 £m	2012 £m	2011 £m	2012 £m	2011 £m
<b>Associates</b>						
ICRRL	9.0	9.0	–	–	–	(9.0)
Spain associates	2.3	2.6	0.9	1.0	(0.8)	(1.0)
Total associates	11.3	11.6	0.9	1.0	(0.8)	(10.0)
<b>Trade investments</b>						
Spain trade investments	4.4	4.3	0.5	0.6	(0.5)	(0.5)
<b>Property transactions</b>						
North America	2.7	–	–	–	(2.6)	–
Spain	3.7	5.0	0.4	0.4	(0.5)	(0.2)
Total other related parties	10.8	9.3	0.9	1.0	(3.6)	(0.7)
Total	22.1	20.9	1.8	2.0	(4.4)	(10.7)

A provision of £0.2m (2011: £0.2m) has been booked against amounts due from European Coach & Bus associates, which are presented net.

During the year the Group made a number of acquisitions. As part of the acquisition, certain personnel signed three year non-compete agreements.

A number of Spanish companies have leased properties from companies related to the Cosmen family. Jorge Cosmen is a Non-Executive Director of the Group and was appointed as Deputy Chairman in October 2008. These leases were in place before the Group's acquisition of ALSA and are for appropriate market rates.

The details of the post-employment benefit plans operated for the benefit of employees of the Group are disclosed in note 34.

#### Compensation of key management personnel of the Group

	2012 £m	2011 £m
Total compensation paid to key management personnel (note 7)	3.9	3.5

**37 Cash flow statement**

The net cash inflows from operating activities include outflows of £40.7m (2011: £8.2m) from continuing operations which are related to exceptional costs.

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

	<b>2012</b>	2011
	<b>£m</b>	£m
Total operations		
<b>Net cash inflow from operating activities</b>		
Profit before tax from continuing operations	<b>69.8</b>	129.4
Net finance costs	<b>49.2</b>	46.4
Share of post-tax results under the equity method	<b>(1.4)</b>	(1.4)
Depreciation of property, plant and equipment	<b>109.8</b>	105.5
Intangible asset amortisation	<b>51.7</b>	50.8
Amortisation of fixed asset grants	<b>(1.2)</b>	(1.5)
Profit on disposal of property, plant and equipment	<b>(4.5)</b>	(1.1)
Share-based payments	<b>5.2</b>	5.0
Decrease/(increase) in inventories	<b>0.4</b>	(1.4)
Decrease/(increase) in receivables	<b>68.4</b>	(18.8)
Decrease in payables	<b>(145.5)</b>	(28.9)
Decrease in provisions – continuing operations	<b>(32.3)</b>	(37.0)
Cash generated from operations	<b>169.6</b>	247.0

**(b) Analysis of changes in net debt**

	<b>At</b>					<b>At</b>
	<b>1 January</b>	<b>Cash flow</b>	<b>Acquisitions/</b>	<b>Exchange</b>	<b>Other</b>	<b>31 December</b>
	<b>2012</b>	<b>£m</b>	<b>disposals</b>	<b>differences</b>	<b>movements</b>	<b>2012</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Cash	<b>64.8</b>	<b>(31.6)</b>	<b>9.0</b>	<b>(0.5)</b>	<b>–</b>	<b>41.7</b>
Overnight deposits	<b>25.0</b>	<b>3.6</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>28.6</b>
Other short term deposits	<b>2.7</b>	<b>(0.2)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>2.5</b>
Cash and cash equivalents	<b>92.5</b>	<b>(28.2)</b>	<b>9.0</b>	<b>(0.5)</b>	<b>–</b>	<b>72.8</b>
Other debt receivables	<b>0.7</b>	<b>0.3</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>1.0</b>
Borrowings:						
Bank and other loans	<b>(7.9)</b>	<b>(109.6)</b>	<b>(0.3)</b>	<b>2.9</b>	<b>0.3</b>	<b>(114.6)</b>
Bonds	<b>(583.4)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(6.6)</b>	<b>(590.0)</b>
Fair value of hedging derivatives	<b>16.4</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>7.0</b>	<b>23.4</b>
Finance lease obligations	<b>(151.3)</b>	<b>18.1</b>	<b>(1.1)</b>	<b>5.8</b>	<b>(26.2)</b>	<b>(154.7)</b>
Other debt payable	<b>(0.7)</b>	<b>(65.4)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(66.1)</b>
Total borrowings	<b>(726.9)</b>	<b>(156.9)</b>	<b>(1.4)</b>	<b>8.7</b>	<b>(25.5)</b>	<b>(902.0)</b>
Net debt*	<b>(633.7)</b>	<b>(184.8)</b>	<b>7.6</b>	<b>8.2</b>	<b>(25.5)</b>	<b>(828.2)</b>

\* Excludes accrued interest on long term borrowings.

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

Borrowings include non-current interest bearing borrowings of £786.8m (2011: £718.4m) as disclosed in note 28.

Other non-cash movements in net debt represent finance lease additions of £26.2m (2011: £43.7m) and a £0.7m net positive movement in loan and bond arrangement fees (2011: £2.2m net negative movement). The £7.0m increase to the fair value of the hedging derivative is offset by equal and opposite movements in the fair value of the related hedged borrowings. This comprises a £5.4m fair value movement in bonds and a £1.6m fair value movement in other loans.

### 37 Cash flow statement continued

#### (b) Analysis of changes in net debt continued

	At 1 January 2011 £m	Cash flow £m	Acquisitions/ disposals £m	Exchange differences £m	Other movements £m	At 31 December 2011 £m
Cash	81.5	(16.3)	–	(0.4)	–	64.8
Overnight deposits	36.8	(11.8)	–	–	–	25.0
Other short term deposits	10.5	(7.8)	–	–	–	2.7
Cash and cash equivalents	128.8	(35.9)	–	(0.4)	–	92.5
Other debt receivables	0.7	–	–	–	–	0.7
<b>Borrowings:</b>						
Bank loans	(39.8)	34.5	(1.0)	0.3	(1.9)	(7.9)
Bonds	(565.6)	–	–	–	(17.8)	(583.4)
Fair value of bond hedging derivatives	(1.1)	–	–	–	17.5	16.4
Finance lease obligations	(131.6)	24.9	–	(0.9)	(43.7)	(151.3)
Other debt payable	(1.8)	1.1	–	–	–	(0.7)
Total borrowings	(739.9)	60.5	(1.0)	(0.6)	(45.9)	(726.9)
Net debt*	(610.4)	24.6	(1.0)	(1.0)	(45.9)	(633.7)

\* Excludes accrued interest on long term borrowings.

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

	2012 £m	2011 £m
Decrease in cash and cash equivalents in the year	<b>(28.2)</b>	(35.9)
Cash inflow from movement in other debt receivables	<b>0.3</b>	–
Cash (inflow)/outflow from movement in debt and finance leases	<b>(156.9)</b>	60.5
Change in net debt resulting from cash flows	<b>(184.8)</b>	24.6
Change in net debt resulting from acquisitions and disposals	<b>7.6</b>	(1.0)
Change in net debt resulting from non-cash movements	<b>(17.3)</b>	(46.9)
Movement in net debt in the year	<b>(194.5)</b>	(23.3)
Opening net debt	<b>(633.7)</b>	(610.4)
Net debt	<b>(828.2)</b>	(633.7)

### 38 Post balance sheet events

There are no post balance sheet events.

# Independent Auditor's Report to the Members of National Express Group PLC

We have audited the parent Company financial statements of National Express Group PLC for the year ended 31 December 2012 which comprise the parent Company Balance Sheet and the related notes 1 to 21. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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.

## Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the parent Company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## Opinion on financial statements

In our opinion the parent Company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2012;
- 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.

## Opinion 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; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the parent Company financial statements.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- 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 and the part of the Directors' Remuneration Report to be audited 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.

## Other matter

We have reported separately on the Group financial statements of National Express Group PLC for the year ended 31 December 2012.

## Nigel Mercer (Senior statutory auditor)

for and on behalf of Deloitte LLP,  
Chartered Accountants and Statutory Auditor  
Birmingham, UK  
28 February 2013

## Company Balance Sheet

At 31 December 2012

	Note	2012 £m	2011 £m
<b>Fixed assets</b>			
Intangible assets	4	0.5	–
Tangible assets	5	0.1	0.1
Investments	6	1,605.1	1,185.6
Derivative financial instruments	7	31.0	23.7
		<b>1,636.7</b>	1,209.4
<b>Current assets</b>			
Debtors	8	742.0	973.8
Derivative financial instruments	7	0.1	8.0
Cash at bank and in hand	9	36.6	32.2
		<b>778.7</b>	1,014.0
Creditors: amounts falling due within one year	10	(944.9)	(950.4)
Derivative financial instruments	7	(0.5)	(0.2)
Provisions for liabilities and charges	12	(2.6)	–
<b>Net current (liabilities)/assets</b>		<b>(169.3)</b>	63.4
<b>Total assets less current liabilities</b>		<b>1,467.4</b>	1,272.8
Creditors: amounts falling due after more than one year	11	(655.2)	(583.4)
Provisions for liabilities and charges	12	(2.7)	(14.5)
<b>Net assets</b>		<b>809.5</b>	674.9
<b>Shareholders' equity</b>			
Called-up share capital	15	25.6	25.6
Share premium account	16	532.7	532.7
Capital redemption reserve	16	0.2	0.2
Own shares	16	(0.5)	(14.0)
Profit and loss account	16	251.5	130.4
<b>Shareholders' equity</b>		<b>809.5</b>	674.9

D Finch Group Chief Executive  
 J K Maiden Group Finance Director  
 28 February 2013

Company Number 2590560

## Notes to the Company Accounts

**1 Accounting policies****Basis of preparation**

The separate accounts of the parent Company are presented as required by the Companies Act 2006. The accounts have been prepared on the going concern basis and under the historic cost convention, except for the recognition of derivative financial instruments and available for sale investments detailed below, and in accordance with applicable accounting standards in the United Kingdom.

In applying these policies management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the accounts and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

No profit and loss account is presented by the Company as permitted by Section 408 of the Companies Act 2006.

The retained profit of the Company for the year is £180.7m (2011: £84.7m).

**Leases**

Leases of tangible fixed assets where substantially all the risks and rewards of ownership of the asset have passed to the Company are classified as finance leases and the assets are capitalised in the balance sheet as plant and equipment. Finance leases are capitalised at the present value of the minimum lease payments. The capital element of future obligations under hire purchase contracts and finance leases is included as a liability in the balance sheet. The interest element of rental obligations is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding. Assets acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

Leases of assets where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Rentals paid under operating leases are charged to the profit and loss account on a straight-line basis over the term of the lease. Incentives received under operating leases and initial direct costs in negotiating the lease are amortised to the profit and loss account on a straight-line basis over the term of the lease, or to the first review if shorter.

**Tangible fixed assets**

Tangible fixed assets are stated at historic cost less accumulated depreciation and any impairment. Tangible fixed assets are depreciated on a straight-line basis over their estimated useful lives as follows:

Plant and equipment	–	3 to 5 years
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The carrying value of fixed assets is reviewed for impairment if events or changes in circumstances indicate that the current carrying value may not be recoverable, and are written down immediately to their recoverable amount. Repairs and maintenance are charged to the profit and loss account during the financial period in which they are incurred.

**Software**

Computer software that is not integral to an item of property, plant and equipment is recognised separately as an intangible asset and is carried at cost less accumulated amortisation and accumulated impairment losses. Costs include software licences, consulting costs attributable to the development, design and implementation of the computer software and internal costs directly attributable to the development, design and implementation of the computer software. Costs in respect of training are expensed as incurred. Amortisation is calculated using the straight-line method so as to charge the cost of the computer software to the income statement over its estimated useful life (3 to 7 years).

The carrying value of intangibles is reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable.

**Investments in subsidiaries**

Investments are held at historic cost less any provision for impairment.

**Available for sale investments**

Available for sale financial assets are non-derivative financial assets that are designated as such, or that are not classified as a loan or receivable, held to maturity or at fair value through profit or loss. After initial recognition these assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or the investment is determined to be impaired, at which time the previously reported cumulative gain or loss is included in the income statement.

**Interest bearing loans and borrowings**

Loans and borrowings are initially recognised at the fair value of the consideration received, net of issue costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Hedge accounting is adopted where derivatives such as fixed to floating interest rate swaps are held as fair value hedges against fixed interest rate borrowings. Under fair value hedge accounting, fixed interest rate borrowings are revalued at each balance sheet date by the change in fair value attributable to the interest rate being hedged.

## 1 Accounting policies continued

### Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Company expects a provision to be reimbursed the reimbursement is recognised as a separate asset but only when reimbursement is virtually certain.

### Pensions

The Company participates in both the National Express Group multi-employer funded defined benefit scheme and a defined contribution scheme. The Company is unable to identify its share of the underlying assets and liabilities of the multi-employer scheme on a consistent and reasonable basis, and therefore has accounted for the scheme as if it were a defined contribution scheme under the requirements of FRS 17, 'Retirement Benefits'.

### Share-based payment

In accordance with the transition provisions, FRS 20 has been applied to all grants after 7 November 2002 that were unvested as of 1 January 2005.

The Company awards equity-settled share-based payment 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.

### Deferred tax

Deferred tax is recognised in respect of all material timing differences that have originated, but not reversed, by the balance sheet date. Deferred tax is measured on a non-discounted basis at tax rates that are expected to apply in the periods in which the timing differences reverse based on tax rates and laws enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised where it is more likely than not that there will be suitable taxable profits from which the future reversal of underlying timing differences can be deducted.

### Foreign currencies

Foreign currency assets and liabilities are translated into sterling at the rates of exchange ruling at the year end. Foreign currency transactions arising during the year are translated into Sterling at the rate of exchange ruling on the date of the transaction. Any exchange differences so arising are dealt with through the profit and loss account.

### Derivative financial instruments

The Company uses derivative financial instruments such as foreign currency contracts and interest rate swaps to hedge its risks associated with foreign currency and interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value and subsequently remeasured to fair value for the reported balance sheet. The fair value of forward exchange contracts and interest rate swaps is calculated by reference to market exchange rates and interest rates at the period end.

In relation to cash flow hedges which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity, and the ineffective portion in the profit and loss account. The gains or losses deferred in equity in this way are recycled through the profit and loss account in the same period in which the hedged underlying transaction or firm commitment is recognised in the profit and loss account.

For derivatives that do not qualify for hedge accounting, including the foreign currency contracts, gains or losses are taken directly to the profit and loss account in the period.

Hedge accounting is discontinued when the hedging instrument expires, is sold, terminated or exercised, or no longer qualifies for hedge accounting.

The Company has taken advantage of the exemption under FRS 29 for parent Company accounts. The disclosures are included within the consolidated accounts.

**2 Exchange rates**

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

	2012		2011	
	Closing rate	Average rate	Closing rate	Average rate
US dollar	1.63	1.59	1.55	1.61
Canadian dollar	1.61	1.59	1.58	1.58
Euro	1.23	1.23	1.20	1.15

**3 Directors' emoluments**

Detailed information concerning Directors' emoluments, shareholdings and options is shown in the Directors' remuneration report.

**4 Intangible fixed assets**

	Software £m
Cost:	
At 1 January 2012	–
Additions	0.6
<b>At 31 December 2012</b>	<b>0.6</b>
Amortisation:	
Charge in the year	0.1
<b>At 31 December 2012</b>	<b>0.1</b>
Net book value:	
<b>At 31 December 2012</b>	<b>0.5</b>
At 31 December 2011	–

## 5 Tangible fixed assets

	Plant and equipment £m
Cost:	
<b>At 1 January 2012 and 31 December 2012</b>	<b>2.1</b>
Depreciation:	
<b>At 1 January 2012 and at 31 December 2012</b>	<b>2.0</b>
Net book value:	
<b>At 1 January 2012 and at 31 December 2012</b>	<b>0.1</b>

Tangible fixed assets held under finance lease agreements are analysed as follows:

	2012 £m	2011 £m
Plant and equipment		
– cost	0.2	0.2
– depreciation	(0.2)	(0.2)
	–	–

Leased assets and assets under hire purchase contracts are pledged as security for the related finance lease and hire purchase liabilities.

## 6 Financial assets: investments

	Investments in subsidiaries £m
Cost or valuation:	
<b>At 1 January 2012</b>	<b>1,691.5</b>
Additions	<b>419.5</b>
<b>At 31 December 2012</b>	<b>2,111.0</b>
Provisions:	
<b>At 1 January and 31 December 2012</b>	<b>(505.9)</b>
Net carrying amount:	
<b>At 31 December 2012</b>	<b>1,605.1</b>
At 31 December 2011	1,185.6

The information provided below is given for the Company's principal subsidiaries. A full list of subsidiaries and investments will be annexed to the next Annual Return to Companies House. The principal country of operation in respect of the companies below is the country in which they are incorporated.

The Group's train passenger services in the UK are operated through franchises awarded by DfT Rail, as delegated by the UK Government.

The following holdings are 100% held directly by the Company:

Incorporated in England and Wales

National Express Intermediate Holdings Limited	Holding company for all Group operating companies except Rail
National Express Trains Limited	Holding company for Rail operating companies

Incorporated in Guernsey

National Express Guernsey Limited	Insurance captive
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The £419.5m of additions represent shares acquired in National Express Intermediate Holdings Limited in relation to the Petermann and Transit acquisitions, and shares received from National Express Group Holdings Limited in exchange for an inter-company loan receivable.

**7 Derivative financial instruments**

	<b>2012</b>	2011
	<b>£m</b>	£m
Interest rate derivatives	<b>31.0</b>	23.7
<b>Derivative financial assets due over one year</b>	<b>31.0</b>	23.7
Foreign exchange forward contracts	<b>0.1</b>	8.0
<b>Derivative financial assets due under one year</b>	<b>0.1</b>	8.0
Foreign exchange forward contracts	<b>(0.5)</b>	(0.2)
<b>Derivative financial liabilities due under one year</b>	<b>(0.5)</b>	(0.2)

Full details of the Group's financial risk management objectives and policies can be found in note 30 of the consolidated accounts. As the holding company for the Group, the Company faces similar risks over foreign currency and interest rate movements.

The Company has taken advantage of the exemption under FRS 29 for parent company accounts. The disclosures are included within the consolidated accounts.

**8 Debtors**

	<b>2012</b>	2011
	<b>£m</b>	£m
Amounts owed by subsidiary undertakings	<b>732.2</b>	940.5
Corporation tax recoverable	–	27.1
Deferred tax asset (see note 13)	<b>9.0</b>	1.3
Other debtors	<b>0.5</b>	0.1
Prepayments and accrued income	<b>0.3</b>	4.8
	<b>742.0</b>	973.8

**9 Cash at bank and in hand**

	<b>2012</b>	2011
	<b>£m</b>	£m
Short term deposits	<b>28.6</b>	25.0
Cash at bank	<b>8.0</b>	7.2
	<b>36.6</b>	32.2

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates. Short term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Company, and earn interest at the respective short term deposit rates. The fair value of cash equals the carrying value.

**10 Creditors: amounts falling due within one year**

	<b>2012</b>	2011
	<b>£m</b>	£m
Bank overdraft	<b>40.8</b>	125.6
Bank loans	<b>107.8</b>	–
Trade creditors	<b>0.3</b>	0.7
Amounts owed to subsidiary undertakings	<b>741.0</b>	774.5
Corporation tax payable	<b>6.8</b>	–
Accruals and deferred income	<b>19.0</b>	19.7
Bonds – accrued interest	<b>29.2</b>	29.9
	<b>944.9</b>	950.4

Trade creditors are non-interest bearing and are normally settled on 30 day terms and other creditors are non-interest bearing and have an average term of six months.

### 11 Creditors: amounts falling due after more than one year

	2012 £m	2011 £m
Bonds	590.0	583.4
Other debt payable	65.2	–
	<b>655.2</b>	<b>583.4</b>

### 12 Provisions for liabilities and charges

	Claims provision <sup>1</sup> £m	Eurostar onerous contract <sup>2</sup> £m	Other £m	Total £m
At 1 January 2012	5.0	9.0	0.5	14.5
Charged to profit and loss account	0.4	–	–	0.4
Utilised in the year	(0.1)	(9.0)	(0.5)	(9.6)
<b>At 31 December 2012</b>	<b>5.3</b>	<b>–</b>	<b>–</b>	<b>5.3</b>

<sup>1</sup> The claims provision arises from estimated exposures at the year end, £2.6m of which will be utilised in the next year and the remaining in five years. It comprises provisions for existing claims arising in the UK and North America.

<sup>2</sup> A provision was recognised in 2006 for the Company's onerous contract for Eurostar with ICRRRL. This was settled in 2012 with a final payment of £9.0m.

### 13 Deferred tax

The major components of the provision for deferred taxation are as follows:

	2012 £m	2011 £m
Accelerated capital allowances	0.2	0.2
Other timing differences	0.2	0.4
Losses carried forward	8.6	0.7
<b>Net deferred tax asset</b>	<b>9.0</b>	<b>1.3</b>

The reconciliation of deferred tax balances is as follows:

	£m
Deferred tax asset at 1 January 2012	1.3
Credited to profit and loss	7.7
<b>Deferred tax asset at 31 December 2012</b>	<b>9.0</b>

#### Timing differences associated with Group investments

No deferred tax (2011: £nil) is recognised on the unremitted earnings of subsidiaries and associates, as no dividends have been accrued as receivable, and no binding agreement to distribute the past earnings in future has been entered into by the subsidiaries.

#### Unrecognised tax losses

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit against future taxable profits is probable. Deferred tax assets that the Company has not recognised in the accounts amount to £4.1m (2011: £9.2m), which arise where the Company does not expect to generate sufficient suitable future profits.

**14 Interest-bearing loans and borrowings**

The effective interest rates at the balance sheet date were as follows:

	2012 £m	Maturity	Effective interest rate	2011 £m	Maturity	Effective interest rate
<b>Current</b>						
Bank overdraft	40.8	On demand	LIBOR + 1%	125.6	On demand	LIBOR +1%
European bank loans	79.4	August 2014 <sup>1</sup>	LIBOR + 1.45%	–	–	–
European bank loans	28.4	Feb 2013	1.2%	–	–	–
Bank loans	107.8					
Accrued interest	30.4			29.9		
<b>Total current</b>	<b>179.0</b>			<b>155.5</b>		
<b>Non-current</b>						
7 year Sterling Bond	360.1	January 2017	6.54%	351.6	January 2017	6.54%
10 Year Sterling Bond	229.9	June 2020	6.85%	231.8	June 2020	6.85%
<b>Bonds</b>	<b>590.0</b>			<b>583.4</b>		
Euro Private Placement	65.2	August 2021	4.55%	–		
<b>Other debt payable</b>	<b>65.2</b>					
<b>Total non-current</b>	<b>655.2</b>			<b>583.4</b>		

<sup>1</sup> This date is the ultimate maturity date of the syndicated credit facility.

Details of the Company's interest rate management strategy and interest rate swaps are included in note 30 and note 31 of the consolidated accounts.

**15 Called-up share capital**

	2012 £m	2011 £m
At 31 December:		
Authorised:		
800,000,000 (2011: 800,000,000) ordinary shares of 5p each	40.0	40.0
Issued called-up and fully paid:		
511,732,603 (2011: 511,726,026) ordinary shares of 5p each	25.6	25.6

The total number of share options exercised in the year by employees of the Group was 1,984,855 (2011: 1,175,455) of which nil exercises were satisfied by newly issued shares (2011: nil) and 1,919,772 (2011: 1,175,455) exercises were satisfied by transferring shares from the National Express Employee Benefit Trust. The remaining exercises were settled via a direct purchase of shares from the open market.

## 16 Shareholders' funds and statement of changes in shareholders' equity

	Share capital £m	Share premium £m	Capital redemption reserve £m	Own shares £m	Profit and loss account £m	Total £m
At 1 January 2012	25.6	532.7	0.2	(14.0)	130.4	674.9
Shares purchased	-	-	-	(4.8)	-	(4.8)
Own shares released to satisfy employee share schemes	-	-	-	4.5	(4.5)	-
Disposal of own shares	-	-	-	13.8	(9.8)	4.0
Share-based payments	-	-	-	-	4.0	4.0
Profit for the year	-	-	-	-	180.7	180.7
Dividends	-	-	-	-	(49.3)	(49.3)
<b>At 31 December 2012</b>	<b>25.6</b>	<b>532.7</b>	<b>0.2</b>	<b>(0.5)</b>	<b>251.5</b>	<b>809.5</b>

### Own shares

Own shares comprises 535,658 (2011: 380,430) ordinary shares in the Company that have been purchased by the Trustees of the National Express Employee Benefit Trust (the 'Trust'). During the year, the Trust purchased 2,075,000 (2011: 991,615) shares and 1,919,772 (2011: 1,175,455) shares were used to satisfy options granted under a number of the Company's share schemes. The market value of these shares at 31 December 2012 was £1.1m (2011: £0.9m). The dividends payable on these shares have been waived.

The Group's treasury shares were sold during the year and therefore are nil (2011: 1,668,688). No shares were added or cancelled during the year (2011: nil).

	Share capital £m	Share premium £m	Capital redemption reserve £m	Own shares £m	Profit and loss account £m	Total £m
At 1 January 2011	25.6	532.7	0.2	(14.1)	91.4	635.8
Shares purchased	-	-	-	(2.7)	-	(2.7)
Own shares released to satisfy employee share schemes	-	-	-	2.8	(2.8)	-
Share-based payments	-	-	-	-	2.9	2.9
Profit for the year	-	-	-	-	84.7	84.7
Dividends	-	-	-	-	(45.8)	(45.8)
<b>At 31 December 2011</b>	<b>25.6</b>	<b>532.7</b>	<b>0.2</b>	<b>(14.0)</b>	<b>130.4</b>	<b>674.9</b>

### 17 Retirement benefits

The Company participates in both the National Express Group Staff Pension Fund (a multi-employer funded defined benefit scheme) and the WM Pension Scheme (a defined contribution scheme). The Company is unable to identify its share of the underlying assets and liabilities of the multi-employer scheme on a consistent and reasonable basis, and therefore has accounted for the scheme as if it were a defined contribution scheme under the requirements of FRS 17, 'Retirement Benefits'. Contributions to this scheme are determined by independent professionally qualified actuaries. The details of the latest actuarial valuation are detailed in note 34 to the consolidated accounts.

The total pension charge for the year, including contributions to the defined benefit scheme above the normal charge, amounted to £4.2m (2011: £5.9m).

**18 Share-based payment**

During the year ended 31 December 2012, the Company had the following share-based payment arrangements, which are described in note 7(b) to the consolidated accounts.

For the following disclosure, share options with a nil exercise price have been disclosed separately to avoid distorting the weighted average exercise prices. The number of share options in existence during the year was as follows:

	2012		2011	
	Number of share options	Weighted average exercise price (p)	Number of share options	Weighted average exercise price (p)
Options without a nil exercise price:				
At 1 January	15,035	479	26,724	386
Forfeited during the year	–	–	(16,544)	339
Group transfers during the year	–	–	12,511	474
Expired during the year	(15,035)	479	(7,656)	448
Outstanding at 31 December	–	–	15,035	479
Exercisable at 31 December	–	–	–	–
Options with a nil exercise price:				
At 1 January	3,819,477	nil	3,115,965	nil
Granted during the year	2,564,947	nil	2,103,653	nil
Forfeited during the year	(208,594)	nil	(595,456)	nil
Group transfers during the year	313,161	nil	220,151	nil
Exercised during the year	(796,482)	nil	(597,633)	nil
Expired during the year	(223,462)	nil	(427,203)	nil
Outstanding at 31 December	5,469,047	nil	3,819,477	nil
Exercisable at 31 December	193,928		444,461	
Total outstanding at 31 December	5,469,047		3,834,512	
Total exercisable at 31 December	193,928		444,461	

There were no options outstanding at 31 December 2012 excluding options with a nil exercise price (2011: none). The range of exercise prices for options was as follows:

Exercise price (p)	2012	2011
300-600	–	15,035
	–	15,035

The options have a weighted average contractual life of one year (2011: one year). Options were exercised throughout the year and the weighted average share price at exercise was 223p (2011: 244p).

### 18 Share-based payment continued

The weighted average fair value of the remaining share options granted during the year was calculated using a stochastic model, with the following assumptions and inputs:

	Share options with nil exercise price	
	2012	2011
Risk free interest rate	<b>0.50%-0.55%</b>	1.30%-1.44%
Expected volatility	<b>40.0%-44.5%</b>	51.5%-51.6%
Peer group volatility	<b>38.5%-45.5%</b>	55.1%-57.0%
Expected option life in years	<b>3-5 years</b>	3 years
Expected dividend yield	<b>4.16%-4.56%</b>	3.47%-3.64%
Weighted average share price at grant date	<b>223p</b>	244p
Weighted average exercise price at grant date	<b>nil</b>	nil
Weighted average fair value of options at grant date	<b>167p</b>	144p

Experience to date has shown that approximately 24% (2011: 24%) of options are exercised early, principally due to leavers. This has been incorporated into the calculation of the expected option life for the share options without nil exercise price.

Expected volatility in the table above was determined from historic volatility over the last nine years, adjusted for one-off events that were not considered to be reflective of the volatility of the share price going forward. The expected dividend yield represents the dividends declared in the 12 months preceding the date of the grant divided by the average share price in the month preceding the date of the grant.

For share options granted during the year under the LTIP, the TSR targets have been reflected in the calculation of the fair value of the options above.

### 19 Commitments and contingencies

#### Operating lease commitments

The Company has entered into operating leases on certain properties. Annual commitments under non-cancellable operating leases are as follows:

	Land and buildings	
	2012 £m	2011 £m
Operating leases which expire:		
Within one year	<b>0.1</b>	0.1
Within two to five years	<b>0.2</b>	0.3

#### Contingent liabilities

##### (a) Guarantees

The Company has guaranteed credit facilities totalling £159m (2011: £156m) of certain subsidiaries.

##### (b) Bonds and letters of credit

In the ordinary course of business, the Company is required to issue counter-indemnities in support of its operations. As at 31 December 2012 there was a performance bond for £nil (2011: £9.0m) in respect of Inter-Capital and Regional Rail Limited. Letters of credit have been issued to support insurance retentions of £36.1m (2011: £30.8m).

### 20 Related party transactions

The Company has taken advantage of the exemption in paragraph 3c of FRS 8, 'Related party disclosures' from disclosing transactions with wholly owned subsidiaries.

### 21 Post balance sheet events

There are no post balance sheet events

## Shareholder electronic communications

By registering for electronic communications you can help us to reduce print, paper and postage costs. Log on to [www.shareview.co.uk](http://www.shareview.co.uk) if you would like to:

- register your e-mail so that you are able to access future shareholder information, including the Annual Report and Accounts electronically;
- check the balance of your shareholding;
- set up a dividend mandate online;
- change your registered postal address or your dividend mandate details; or
- submit your vote online prior to a general meeting.

To sign up for the first time you should click on 'Register' and follow the simple instructions – you will need your shareholder reference number from your share certificate or dividend voucher or any other correspondence sent to you by Equiniti Limited.

## Dividends paid direct to your bank account

Having dividends paid direct to your bank account has the following advantages:

- avoids the risk of cheques being lost and incurring a replacement fee;
- saves you time in presenting the cheque for payment; and
- the dividend is credited to your account on the payment date.

## Consolidated Tax Vouchers

The Company currently issues tax vouchers to shareholders with every dividend payment. Following a review of this procedure, the Company will now issue a Consolidated Tax Voucher (CTV) once a year to all shareholders save for corporate and institutional shareholders. The first CTV will be despatched with the 2014 AGM mailing and will contain the tax and payment information for dividends paid during the tax year 2013/2014.

To set up a new dividend mandate please log on to [shareview.co.uk](http://shareview.co.uk) or contact the Registrar, Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA. Shareholder helpline number: 0871 384 2152\* or +44 121 415 7047 from overseas.

\* Calls to this number cost 8p per minute plus network extras. Lines open 8.30am to 5.30pm, Monday to Friday.

## Share dealing service

A telephone and internet share dealing service, which provides a simple way to buy and sell shares, is available through our Registrar, Equiniti. For further information log on to [shareview.co.uk/dealing](http://shareview.co.uk/dealing) or telephone 0845 603 7037\* or +44 121 415 7560 from overseas.

\* Calls to this number are charged by BT at the local rate.

## Company website

The Company website at [nationalexpressgroup.com](http://nationalexpressgroup.com) has information about the Group, including press releases, share price data and copies of the half year results and annual report and accounts as well as corporate responsibility reporting. The Company no longer publishes the half year results in hard copy. These will now only be available via the website.

## ShareGift

ShareGift is an independent charity share donation scheme administered by the Orr Mackintosh Foundation (registered charity number 1052686). Those shareholders who hold only a small number of shares, the value of which makes it uneconomic to sell them, can donate the shares to ShareGift who will sell them and donate the proceeds to a wide range of charities. Further information about ShareGift can be obtained from its website at [sharegift.org](http://sharegift.org) and a ShareGift transfer form can be downloaded from [nationalexpressgroup.com](http://nationalexpressgroup.com).

## Unclaimed assets register

The Company participates in the Unclaimed Assets Register (UAR) which provides a search facility for shareholdings and other financial assets that may have been forgotten. For further information contact UAR by email at [uarenquiries@uk.experian.com](mailto:uarenquiries@uk.experian.com), Tel: 0844 481 8180 or visit [uar.co.uk](http://uar.co.uk).

## Financial statements

# Dividends and financial calendar

Final dividend ex dividend date	24 April 2013
Final dividend record date	26 April 2013
Annual General Meeting	9 May 2013
Final dividend payment date	17 May 2013
Half year results announced	25 July 2013
Interim dividend ex dividend date	4 September 2013
Interim dividend record date	6 September 2013
Interim dividend payment date	20 September 2013

**Secretary and registered office**

**Michael Hampson**

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**Deloitte LLP**

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**Registrar**

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Lines open 8.30am to 5.30pm, Monday to Friday.

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**Financial advisors**

**Bank of America Merrill Lynch**

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**Morgan Stanley**

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Canary Wharf  
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E14 4QA

<b>BPS</b>	Basis points
<b>BSOG</b>	Bus Service Operators Grant
<b>Code</b>	The UK Corporate Governance Code published by the Financial Reporting Council in June 2010
<b>CPI</b>	Consumer Price Index
<b>CSOG</b>	Coach Service Operators Grant
<b>The Company</b>	National Express Group PLC
<b>CTV</b>	Consolidated Tax Voucher
<b>DfT</b>	Department for Transport
<b>EBT</b>	Employee Benefit Trust
<b>EBIT</b>	Earnings Before Interest and Tax
<b>EBITDA</b>	is 'Earnings Before Interest and Tax plus Depreciation and Amortisation'. It is calculated by taking normalised operating profit and adding depreciation, fixed asset grant amortisation, normalised profit on disposal of non-current assets and share-based payments.
<b>EFQM</b>	European Foundation for Quality Management
<b>EPS</b>	Earnings per share – the profit for the year attributable to shareholders, divided by the weighted average number of shares in issue, excluding those held by the Employee Benefit Trust and shares held in treasury which are treated as cancelled
<b>ETR</b>	Effective tax rate
<b>EU</b>	European Union
<b>EURIBOR</b>	Euro Interbank Offered Rate
<b>Gearing ratio</b>	For debt financing purposes is calculated as net debt, adjusted to reflect any cash which is restricted in use, divided by EBITDA
<b>The Group</b>	The Company and its subsidiaries
<b>HMRC</b>	Her Majesty's Revenue and Customs
<b>IAS</b>	International Accounting Standards
<b>IFRIC</b>	International Financial Reporting Interpretations Committee
<b>IFRS</b>	International Financial Reporting Standards
<b>KPI</b>	Key Performance Indicator
<b>LCR</b>	London and Continental Railway Ltd
<b>LIBOR</b>	London Interbank Offered Rate
<b>LTIP</b>	Long Term Incentive Plan
<b>NAPF</b>	National Association of Pension Funds
<b>Net capital expenditure</b>	is the increase in net debt arising on the purchase of property, plant and equipment and intangible assets less proceeds from disposals of property, plant and equipment. It excludes capital expenditure arising from UK rail franchise entry and exits and discontinued operations, which are included in these headings. Growth capital expenditure is calculated as investment in fleet for new contracts and concessions, after deducting fleet released from contracts and concessions lost and fleet re-used in new contracts and concessions
<b>Net debt</b>	is defined as cash and cash equivalents (cash overnight deposits, other short term deposits), and other debt receivables, offset by borrowings (loan notes, bank loans and finance lease obligations) and other debt payable
<b>Net interest expense</b>	is finance costs less finance income
<b>NXEA</b>	National Express East Anglia

<b>Normalised earnings per share</b>	earnings per share, excluding the profit or loss on sale of businesses, exceptional profit or loss on the disposal of non-current assets, intangible asset amortisation, exceptional items and tax relief on qualifying exceptional items
<b>Normalised operating profit</b>	are the statutory results excluding profit or loss on the sale of business, exceptional profit or loss on sale of non-current assets and charges for goodwill impairment, intangible asset amortisation, exceptional items and tax relief thereon. The Board believes that the normalised result gives a better indication of the underlying performance of the Group
<b>Normalised profit margin</b>	is normalised profit divided by revenue, expressed as a percentage
<b>Normalised results</b>	are defined as the statutory results before the following, as appropriate: profit or loss on the sale of business, exceptional profit or loss on sale of non-current assets and charges for goodwill impairment, intangible asset amortisation, exceptional items and tax relief thereon
<b>Operating cash flow</b>	is intended to be the cash flow equivalent of normalised operating profit
<b>RCF</b>	Revolving Credit Facility
<b>Return on capital employed (ROCE)</b>	is normalised operating profit divided by the sum of net assets and net debt
<b>Return on equity</b>	is normalised profit after tax less the post-tax amortisation of intangible assets divided by shareholders' equity
<b>Return on tangible assets</b>	is normalised operating profit divided by the sum of net assets (excluding intangible assets) and net debt
<b>RPS</b>	Railway Pension Scheme
<b>RREV</b>	Research Recommendation and Electronic Voting – a corporate governance advisory service
<b>SPAD</b>	Signal Passed at Danger
<b>TfL</b>	Transport for London
<b>Underlying revenue</b>	compares the current year with the prior year on a consistent basis, after adjusting for the impact of currency, acquisitions, disposals and rail franchises no longer operated
<b>TOC</b>	Train Operating Company
<b>TSR</b>	Total Shareholder Return – the growth in value of a shareholding over a specified period assuming that dividends are reinvested to purchase additional shares
<b>UK GAAP</b>	UK Generally Accepted Accounting Principles
<b>ULSD</b>	Ultra low sulphur diesel



# Financial statements

## Five year summary

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
<b>Bus and Coach (Non-Rail)</b>					
Revenue	<b>1,636.1</b>	1,549.7	1,488.4	1,521.4	1,434.5
Normalised operating profit*	<b>185.2</b>	181.8	170.4	147.8	172.6
Return on capital (pre tax)**	<b>10.6%</b>	10.6%	10.2%	9.3%	9.1%
Basic earnings per share	<b>21.6p</b>	20.7p	18.8p	27.7p	29.1p
<b>Group normalised*</b>					
Revenue	<b>1,831.2</b>	2,238.0	2,125.9	2,711.1	2,767.0
Normalised operating profit*	<b>211.9</b>	225.2	204.2	159.8	253.9
Return on capital (pre tax)**	<b>12.2%</b>	14.1%	13.2%	10.7%	14.4%
Diluted earnings per share <sup>1</sup>	<b>25.4p</b>	26.9p	23.5p	30.4p	48.6p
<b>Group Statutory</b>					
Revenue	<b>1,831.2</b>	2,238.0	2,125.9	2,711.1	2,767.0
Operating profit	<b>117.6</b>	174.4	85.9	(0.6)	167.8
Profit/(loss) before tax	<b>69.8</b>	129.4	40.2	(83.5)	109.9
Basic earnings/(loss) per share <sup>1</sup>	<b>11.8p</b>	19.9p	12.0p	(17.6)p	40.4p
Dividends per share - declared	<b>9.75p</b>	9.50p	6.00p	–	22.72p
<b>Net (debt)/funds</b>					
Cash at bank and in hand	<b>72.8</b>	92.5	128.8	105.8	105.9
Other debt receivable	<b>1.0</b>	0.7	0.7	0.8	0.9
Loan notes	<b>–</b>	–	–	–	(0.8)
Bonds	<b>(590.0)</b>	(583.4)	(565.6)	–	–
Bank and other loans	<b>(114.6)</b>	(7.9)	(39.8)	(687.7)	(1,150.8)
Fair value of bond hedging derivatives	<b>23.4</b>	16.4	(1.1)	–	–
Finance lease obligations	<b>(154.7)</b>	(151.3)	(131.6)	(75.6)	(133.9)
Other debt payable	<b>(66.1)</b>	(0.7)	(1.8)	(1.2)	(1.1)
Net debt	<b>(828.2)</b>	(633.7)	(610.4)	(657.9)	(1,179.8)
Gearing ratio	<b>2.5x</b>	1.9x	2.1x	2.5x	3.5x

\* Normalised results are defined as the statutory results before the following as appropriate: profit or loss on sale of businesses, exceptional profit or loss on sale of non-current assets, intangible amortisation, property, plant and equipment impairments, exceptional items and tax relief on qualifying exceptional items.

\*\* Normalised operating profit/capital employed.

<sup>1</sup> Earnings per share figures have been restated for the effect of the 2009 Rights Issue.

## Cautionary statement

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

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



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