# Press release

29 February 2012

## National Express Group PLC

**Full Year Results for the year ended 31 December 2011**

With a record financial performance in 2011, we are now delivering industry-leading performance in most of our markets and are well positioned to exploit emerging growth opportunities.

- Record statutory profit before tax and amortisation of £180.2 million (2010: £97.3m)
- Revenue growth of 5.3% to £2,238.0 million (2010: £2,125.9m)
- Operating profit[1] increased by 10.3% to £225.2 million (2010: £204.2m)
- Revenue and profit growth in every division. Record profits in our UK Coach business of £34.9 million
- Industry leading operating margins in Spain, North America, UK Coach and Rail – North America achieved 10% margin; Group margin has almost doubled since 2009
- Passenger journeys rose by 5.4 million journeys to 656.6 million
- Strong balance sheet with long-term funding maturity. Gearing ratio further improved to 1.9x (2010: 2.1x)
- Basic EPS increased 14.4% to 27.0p (2010: 23.6p); 20.3p delivered from non-rail earnings (2010: 17.9p)
- Final dividend increased 8.3% to 6.5p

### Financial summary

| Year ended 31 December | **2011** | 2010 | Change |
|---|---|---|---|
| Revenue (£m) | 2,238.0 | 2,125.9 | +5.3% |
| Group operating profit (£m) | 225.2 | 204.2 | +10.3% |
| Share of results from associates (£m) | 1.4 | 0.3 | +366% |
| Net finance costs (£m) | (46.4) | (44.0) | -5.5% |
| **Profit before taxation (£m)** | **180.2** | **160.5** | **+12.3%** |
| Operating margin (%) | 10.1 | 9.6 | +50 bps |
| Net debt[2] (£m) | 633.7 | 610.4 | +3.8% |
| Gearing ratio – net debt:EBITDA | 1.9x | 2.1x | +10% |
| Basic earnings per share (pence) | 27.0 | 23.6 | +14.4% |
| **Statutory profit for the period (£m)** | **102.6** | **62.3** | **+65%** |

Comment

Commenting on the results, Dean Finch, National Express Group Chief Executive, said:

“In just two years National Express has moved from reporting losses to the record profits we have announced today. We carried more passengers than in 2010 and are now the best performing operator in many of our markets. While our customers are increasingly cost conscious in these challenging economic times, we are focused on delivering excellent services at good value. We are determined to maintain this momentum in 2012. I believe our portfolio of businesses and track record of success mean we are also well placed to do this and target emerging growth opportunities.”

**Outlook**
Following a strong end to 2011, we expect passenger revenue to continue to grow in each of our bus and coach divisions. In 2012, as austerity measures, fuel and fare increases make passenger travel by other modes relatively more expensive, National Express provides attractive, value for money alternatives. We believe that our portfolio of businesses will provide sustainable earnings growth, continued cash generation and exciting opportunities for growth in selected markets in the medium term.

**Enquiries:**

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Notes to Editors

National Express Group PLC ("National Express" or the "Group"), a leading international public transport group, operates bus and coach services across the UK, continental Europe/North Africa and North America, together with rail services in the UK.

[1] All profit and margin numbers unless otherwise stated 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, for continuing operations. The Board believes that the normalised result gives a better indication of the underlying performance of the Group

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

[2] Net debt is defined as the Group's total borrowings, including bank debt, bonds and finance lease obligations (excluding accrued interest), less cash, overnight deposits and short term deposits.

# GROUP CHIEF EXECUTIVE'S REVIEW

**Overview of 2011**
In 2011 we completed our Business Recovery Programme. We delivered:

- Record statutory Group profit before tax and amortisation of £180.2 million (2010: £97.3m)
- Threefold increase in statutory profit before tax, up £89.2 million year-on-year to £129.4 million;
- Revenue and profit growth in every division;
- Record profits in our UK Coach business;
- Industry leading operating margins in Spain, North America, UK Coach and Rail – North America achieved 10% margin; Group margin has almost doubled since 2009;
- End of year contract order book[1] revenue of £3.7 billion in existing concessions and tendered contracts.

**Strong increase in profit**
Group revenue increased by over 5% to £2.2 billion, despite the backdrop of difficult economic conditions and austerity measures. Normalised operating profit increased by 10.3% to £225.2 million (2010: £204.2m) and we achieved a record statutory Group profit before tax and amortisation, delivering no exceptional charges in 2011. Statutory profit before tax rose more than three-fold to £129.4 million (2010: £40.2m).

**Secure financial platform**
Our basic earnings per share (EPS) increased 14.4% to 27.0 pence (2010: 23.6p) and we have increased our full year proposed dividend to 9.5 pence (2010: 6.0p); this is an 8.3% increase in the final dividend. We generated over £80 million in free cash flow in 2011, supporting the reintroduction of the dividend and investment in organic growth to drive future profitability. We maintained a strong financial platform, with over £500 million of undrawn committed facilities and cash at the end of 2011, a secure funding structure of primarily non-bank debt maturing between 2014 and 2020, and a debt gearing ratio below two times EBITDA.

**Successfully managing austerity**
During 2011 we dealt effectively with the challenges of economic austerity. In Spain we saw little impact on our public concessions. We saw some extension of receivable balances during the year and have managed them closely. In North America we met the challenge of reduced state funding by delivering more outsourced conversion contracts to school board customers. We are less exposed to UK government funding than many of our peers. Our UK and Spanish coach businesses benefited by delivering excellent value for money services to cash-strapped customers. Economic austerity continues to drive as many opportunities for public passenger transport as it does challenges.

**Core strengths in place to drive shareholder value**
National Express is now well positioned to capitalise on new value enhancing opportunities. The executive management team is well established and the Group has been restored to its position as a leading international operator of public transportation.

We are now focused on the following core initiatives to drive our progress:
- *Delivering operational excellence*, with consistent service performance and ongoing cost efficiency improvements;
- *Securing organic growth* from our existing portfolio of businesses; and
- *Developing new contract opportunities* in targeted businesses and geographies.

Building on our operational success over the last two years, with four of our divisions delivering industry leading margins, there are still many opportunities to further reduce costs and improve efficiencies. Our existing diversified portfolio of bus and coach businesses has excellent growth potential and we are well on the way to replacing earnings from the East Anglia rail franchise. Organically we will grow through new products, better marketing and improved service delivery. At the same time we are investing in new business opportunities – such as the acquisition of the Petermann school bus business in North America. The Group is also investing in commercial development teams to target exciting US and European markets.

**Delivering our strategy in 2011**

Last February I set out the first phase of our strategy, which was to complete the rebuilding of National Express and to establish a foundation for profitable and sustainable long-term growth. In 2011 I believe we have achieved this - not only have all five Group businesses reported increased profits, with four at industry leading margins, but all have achieved profitable revenue growth.

**Achieving margin improvement**

Over the last two years we have delivered significant improvement in every business. UK Bus and North America have both nearly doubled profit since 2009 and have increased operating margins over the two years – UK Bus achieved a margin of 12.4% in 2011 and North America 10.0%. In 2011 UK Coach delivered a record profit and a 13.5% margin. UK Rail margin rose from 5.3% to 6.3% - a very strong performance in this high revenue, low capital business. Spain's margin has remained stable, at an industry leading 16.4%.

This has been achieved through a clear focus on operational performance and delivering an efficient cost base. With new management teams in North America, UK Bus and UK Coach, as well as new leadership in UK Rail, we have delivered cost efficiency savings, removed unprofitable mileage, secured global procurement savings and ensured that capacity has adapted to meet demand. In North America alone, as promised we have delivered US$40 million of cost savings over two years.

**Delivering organic growth**

We have complemented margin improvement by increasing organic growth. Every division has grown revenue in 2011, either in line with or outperforming industry peers. With overall Group revenue up 5% year-on-year, UK Bus saw passenger revenue up 3%, UK Coach grew passenger revenue on the core National Express network by 5%, Spain grew passenger revenue by 6% and North America revenue was 8% higher.

Fares have been rebalanced – in UK Bus, the average passenger yield has been improved, yet our West Midlands fares remain amongst the lowest for comparable conurbations, offering excellent value-for-money. UK Coach eliminated heavily discounted promotional fares in favour of every day value pricing. In its regulated business, Alsa adapted fares and services to market conditions. Overall, we continue to deliver great value to our customers and are focused on driving greater volume growth with some customers switching from other high cost modes of transport, such as rail.

We have seen passenger volume growth in response to service improvements in both the UK Bus and Coach operations. More effective marketing strategies have targeted student travel in bus, coach and rail, together with commuter travel in coach. We are investing heavily in new fleet, spending £132 million across the Group in 2011. In UK Bus we will have introduced over 250 new buses onto the network over a 12-month period, along with 160 new vehicles introduced to our third-party operated UK Coach fleet in 2011, and 300 new vehicles in Spain. In North America we added over 600 new school buses in 2011 and cascaded over 900 existing buses across the fleet, driving better capital efficiency.

**Securing targeted expansion**

During 2011 we have begun to secure targeted expansion, adding revenue across the Group through contract wins and bolt-on acquisitions. This leverages the Group's strong market positions and proven expertise in winning new contracts, to deliver sustainable revenue and profit growth.

The Group has an existing 'order book' of £3.7 billion in its contract businesses, across North American school bus, Spain, and UK Rail. This represents over three years of contracted and concession-based revenues for the Group: six years in Spain, two years in North America and one year in rail franchising. Delivering a 98% retention rate in existing school bus contracts, North America also secured 1,000 new routes in 2011. The conversion of contracts to outsourcing is an increasingly important part of North America's growth, reflecting lower capital requirements and opportunities to tailor a specific service package to the new customer. In 2011 we secured ten conversion contracts and integrated the Vogel business in New Jersey, a bolt-on acquisition that consolidated our position and efficiencies in the local market.

In Spain, Alsa won the tender to operate the Madrid City Tour service and added a further concession in Agadir. Two small acquisitions were made, creating a foothold in a new territory, Navarre, and adding a further concession in the south of Spain. Contracts and opportunities such as these provide profitable revenue growth to complement and enhance the core transport operations at Alsa.

Growth through larger scale acquisition is also considered against specific criteria - in the same or similar modes of transport, in overlapping geographies, where scale gives immediate synergies and only where clear financial criteria will be met. In September 2011 we announced the acquisition of Petermann, a school bus business in the United States that met these criteria. With a strong reputation for customer service, a very experienced management team, annual revenue of around US$150 million and annual operating profit of US$13.5 million, Petermann is a high quality business. Strong synergies will complement the geographic coverage it adds to our Durham bus operation, whilst adding a contract in our targeted paratransit market. The acquisition is expected to complete during the first half of the year.

**Looking forward - key investment areas**
Our vision, set out at the start of 2011, is to earn the lifetime loyalty of our customers by consistently delivering excellent value, frequent, high performing mass public transport services. During the last 12 months, we have strengthened our core values to deliver this vision. In addition to improving the social, environmental and economic conditions of the communities in which we operate, these values will deliver three differentiating areas for National Express – safety leadership, customer service and people development, particularly in commercial development expertise.

**Safety**
More than anything else, we value the safety of our customers and employees. Last year we launched our 'Driving Out Harm' programme across the Group, a comprehensive five year plan to upgrade our entire safety management approach. We have adopted 12 global safety standards, including setting enhanced requirements for vehicle safety, all senior managers have completed formal safety training, and comprehensive driver safety management has retrained poorly performing drivers and implemented defensive driving techniques. With significant improvement in our Marrakesh operation, and UK Bus and Coach leading the industry in low accident rates, we are targeting a 70% reduction in lost time injuries and a 50% reduction in vehicle accidents over five years.

**Customer**
We place customers at the heart of our business and our goal is to be the customer service leader in the mass transport sector. With a new Group Customer Service Director in place, we are investing in our front line station staff, our contact centres and our drivers. In 2012 we have launched 'Master Drivers', a programme embedding advanced driving skills. These factors will help differentiate National Express in delivering our customer experience.

**People**
Our employees are core to enabling National Express to consistently deliver high performing services of which we can be proud. With a highly experienced Executive team established in 2010, this year saw the introduction of global HR standards, talent development and a new performance management scheme with clearer accountabilities, responsibilities and pay for performance. We are significantly strengthening employee engagement, education and capability development, and innovation. We are investing to drive our commercial business development capability – in rail, where we have assembled a small team of experienced industry experts to secure new profitable franchises; in North America, where we will drive new transit opportunities; and in Continental Europe, in selected bus and coach markets.

**Developing mass transport markets**
We believe public transport has a positive future. Social, environmental and economic trends will mean its core strengths will increasingly become competitive advantages. We believe public transport is distinguished by four crucial Cs:

- *Cost*: at a time when household budgets are increasingly pressured, the value offered by public transport is increasingly attractive;
- *Convenience*: in addition to its traditional strengths, the ability to work on the move – increasingly using smartphone and similar technology – builds on the convenience public transport offers;
- *Congestion*: congestion will continue to pose a challenge to policymakers and the public for years to come, strengthening the case for investment in public transport; and
- *Carbon*: public transport already has a significant carbon advantage over private and air transport, with the adoption of new technologies further reducing its carbon footprint.

**Strength of the National Express portfolio**
National Express is now well positioned for the future, as a distinctive mass transport contractor. Its combination of geographic presence and passenger transportation expertise will deliver long-term, sustainable growth in markets with good potential. Our portfolio of perpetuity owned businesses – UK Bus and Coach – and strong contract operations – North America, Spain and UK Rail – provides an excellent platform for future value generation. This platform reflects:

- The strength of our core existing Bus and Coach businesses – a unique, geographically diversified group with a balanced requirement for capital;
- Demonstrable resilience in business performance despite the economic challenges – significantly less uncertainty in Spain proven by results in both businesses, growth in North America and plans in place to mitigate UK austerity;
- Flexibility to adjust to stretched public and consumer budgets, whilst providing a core public service;
- Rail opportunities, with limited downside in existing profits and cash flows compared with peers;
- A stable financial structure – substantial, long term, committed debt funding, primarily sourced from non-bank markets;
- Substantial 'self-help' opportunities to drive further margin improvement, including in UK Bus and North America;
- Market leading positions offering good organic growth potential; and
- Significant market opportunities - mandated Continental Europe deregulation; US development into transit and para-transit, leveraging existing strong capabilities and management experience.

**Next steps in delivering the strategy**
The next phase of the Group's strategy will see implementation of the following steps:

- Delivering operational excellence in our existing businesses, to drive continued margin progress
- Securing organic growth opportunities in existing businesses
- Developing new contract opportunities in targeted markets.

**Delivering operational excellence in our existing businesses**
We will continue to focus on opportunities to enhance margins and profitability in the four core bus and coach divisions. Leveraging our international portfolio and scale, procurement savings, worth over £12 million year-on-year in 2011, will continue to bring benefits. In UK Bus we are targeting to further increase margin, through improved costs, depot improvements and growth. In North American school bus, already the industry leader in margin, further improvements will be delivered through improved maintenance schemes and the use of technology; GPS is already delivering better control of wage and fuel costs. Spain and UK Coach are focused on minimising the impact on 2012 margins of concession renewal and subsidy reduction respectively. Each business will continue to deliver cost savings and productivity gains, while keeping networks optimised.

**Securing organic growth opportunities**
Organic growth is a key target for each business. Austerity will continue to drive value services such as bus and coach. In North America, the school bus business presents significant opportunities to maintain our recent rate of winning market share, converting outsource tenders and selective market consolidation. The school bus market of 530,000 vehicles remains little over one third outsourced and there are 4,000 participants in the market, few of whom have the resources to compete nationally.

Alsa will continue to explore domestic market opportunities in concession and contract bids, together with selected consolidation opportunities. Morocco remains an exciting market as other major cities look to modernise their urban bus operations, following Alsa's success in Marrakesh and Agadir. UK Coach will continue to exploit the growth potential from modal shift away from higher rail ticket pricing.

We are also investing in technology that will make it easier for our customers to access our services and so increase travel. The UK Coach business now has real time fleet location data which is being used to improve customer information and vehicle routing. UK Bus is trialling smart card technology across its fleet to improve ease of customer use.

**Developing new contract opportunities in targeted markets**
The Group is building strong commercial development teams to develop a small number of target markets. The Group has identified selected markets in Europe and North America representing £60 billion of annual addressable revenue. The majority of those opportunities are in the contract transport market, where the Group can utilise and further develop its contract bidding and concession management capabilities. We will focus on new markets in North America and deregulating markets in Continental Europe:

- In *North America* we now have access to profitable additional markets, including transit and para-transit. This is a US$5 billion market, with low capital requirements complementary to the contract expertise we have in school bus. The senior citizen population in the US is expected to double by 2040, with disabled ridership also increasing. With the Petermann acquisition, our plans are well developed to target a greater presence in this market;
- In *Continental Europe* we are well placed to meet the needs of a market deregulating under EU rules. As Europe's leading scheduled coach operator, we will seek to leverage our proven skills and capability, along with the National Express, Alsa and Eurolines brands. We will also explore bus and rail opportunities that meet our rigorous investment criteria; and
- In *Rail* we retain our expertise and knowledge alongside our industry-leading c2c franchise, winner of 'Suburban and Metro Operator' for the last two years. Franchises have attractive characteristics, providing a stable cash flow and strong capital return, as long as the risk is acceptable. We have assembled a team of experienced rail professionals to lead our work. We have already secured four star accreditation under the European Foundation for Quality Management (EFQM) assessment for c2c. We are seeking to pre-qualify in the current round of UK rail franchise tenders, with around £6 billion of revenue to be tendered over the next four years.

**Outlook for 2012**
We operate in markets that combine to offer long-term growth, strong cash generation and scope to generate good returns for shareholders through dividends, capital return and reinvestment for growth. Our core business of international bus and coach services is robust, sustainable and defensible.

A discounted travel scheme alongside the introduction of new services in UK Coach, investment to stimulate passenger growth in UK Bus, and the integration of targeted acquisition opportunities are all expected to drive profitability. This will help to mitigate the reduction in concession income in UK Coach and a lower rail profit, following the handover of the East Anglia franchise. Alsa has an excellent track record of contract retention and is well positioned to renew upcoming intercity concessions over the next 18 months, and to develop new opportunities in both Spain and Morocco. In North America we expect economic constraints to continue to lead school boards towards outsourcing, whilst the integration of the Petermann acquisition will drive profit growth and synergies. Finally, future participation in UK Rail may offer additional upside opportunity for the Group.

Following a strong end to 2011, we expect passenger revenue to continue to grow in each of our bus and coach divisions. In 2012, as austerity measures, fuel and fare increases make passenger travel by other modes relatively more expensive, National Express provides attractive, value for money alternatives. We believe that our portfolio of businesses will provide sustainable earnings growth, continued cash generation and exciting opportunities for growth in selected markets in the medium term.

Dean Finch
Group Chief Executive
29 February 2012

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[1] Order book is defined as the total revenues expected for defined term contracts and concessions, in the Spanish, North American and Rail divisions of the Group

# Monitoring our business

The Group is managed using a set of key performance indicators (KPIs) that monitor delivery of performance improvement and to support our longer term objectives. The KPIs are set out in the table below.

**Financial**

| **Revenue Growth (%)** | **2011** | **2010** |
|---|---|---|
| Spain* | 4% | 0% |
| N. America* | 8% | 2% |
| UK Bus | 2% | 0% |
| UK Coach | 4% | 3% |
| UK Rail | 8% | 3% |

* Local currency

| **Normalised operating margin (%)** | **2011** | **2010** |
|---|---|---|
| Spain | 16.4 | 16.4 |
| N. America | 10.0 | 8.0 |
| UK Bus | 12.4 | 11.0 |
| UK Coach | 13.5 | 12.8 |
| UK Rail | 6.3 | 5.3 |

**Non-financial**

| **Mileage (m)** | **2011** | **2010** |
|---|---|---|
| Spain | 169.9 | 164.3 |
| UK Bus | 69.8 | 71.5 |
| UK Coach | 82.2 | 81.4 |

| **Passenger numbers (m)** | **2011** | **2010** |
|---|---|---|
| Spain | 207.5 | 188.9 |
| UK Bus | 273.6 | 294.3 |
| UK Coach – core network | 16.8 | 16.7 |
| UK Rail | 154.2 | 146.3 |

| **Routes operated in N. America** | **2011** | **2010** |
|---|---|---|
| | 15,292 | 14,371 |

| **Lost time employee injuries (per 1,000 full-time equivalent employees)** | **2011** | **2010** |
|---|---|---|
| Spain | 42.8 | 49.0 |
| N. America | 16.7 | 22.9 |
| UK Bus | 41.4 | 42.6 |
| UK Coach | 35.3 | 48.3 |
| UK Rail | 12.7 | 17.0 |

| **Preventable vehicle accidents (per million miles)** | **2011** | **2010** |
|---|---|---|
| Spain | 17.0 | 19.9 |
| N. America | 8.4 | 11.1 |
| UK Bus | 21.3 | 24.1 |
| UK Coach | 13.6 | 12.8 |

| **Signals passed at danger (per million train miles)** | **2011** | **2010** |
|---|---|---|
| NXEA | 0.96 | 0.44 |
| c2c | 0.48 | 0.25 |

# FINANCE REPORT

**Income Statement**
The Group has delivered a strong performance in 2011, recording a record profit before tax and intangible amortisation of £180.2 million.

**Revenue**
Group revenue in 2011 was £2,238.0 million, an increase of 5.3% from £2,125.9 million in 2010. Revenue growth in every division was primarily driven by yield improvement, on a contractual/regulated basis as in North America, Alsa and UK Rail, and through fare pricing in UK Bus and UK Coach.

**Operating Profit**
Group normalised operating profit increased by over 10% to £225.2 million, from £204.2 million in 2010. 2011 saw completion of the Group's two-year turnaround programme. Over this period, cost reduction programmes have reduced overhead and back office costs, improved driver and engineering efficiencies, and delivered substantial savings by leveraging the Group's global procurement scale.

Group normalised operating margin increased in 2011 by 50 basis points to 10.1% (2010: 9.6%). Four of our five divisions are now at industry-leading margins, with scope for further progress through a relentless focus on operational efficiency, combined with delivering high margin organic growth.

The principal areas that contributed to this increase in profitability were:

- Profitable organic growth adding £39 million, driven by yield and passenger journey growth and the addition of new contracts in North America and Spain;
- Cost reduction programmes focusing on:
    - Procurement savings of £12 million across the Group, including vehicle parts, telecoms and IT;
    - Insurance savings of £3 million, reflecting safety improvement led by the 'Driving Out Harm' programme; and
    - Targeted cost efficiencies savings of £21 million, mainly in overhead costs.

These benefits were partially offset by:

- Investment in business development resource to expand into new businesses and markets, together with investment in talent and people development, together adding £3 million;
- Project costs of £9 million (primarily settlement of a working time claim in the USA, professional and legal fees relating to the strategic and Board debate ahead of the 2011 AGM, Competition Commission project costs and pre-acquisition costs);
- Fuel costs rising by £1 million, with higher hedged prices;
- Depreciation increasing by £6 million, reflecting increased investment in vehicles in North America and Spain; and
- General cost base inflation of 3% adding £43 million.

**Normalised result**
Net finance costs were £46.4 million (2010: £44.0m), the increase from the previous year reflecting a full year of higher fixed interest rates on the 2010 bonds. Profit before tax increased by 12% to £180.2 million (2010: £160.5m).

The tax charge was £41.5 million (2010: £39.2m), an effective tax rate (ETR) of 23.0% (2010: 24.4%). Profit for the year was £138.7 million (2010: £121.3m), giving a basic EPS increase of 14.4% to 27.0 pence (2010: 23.6p).

**Dividends**
EPS estimated on non-rail earnings only (that is, excluding the after-tax UK Rail profit and benefit to interest of rail season ticket monies) was 20.3 pence (2010: 17.9p). With a paid interim dividend of 3 pence per share and a proposed final dividend of 6.5 pence, the total dividend for 2011 of 9.5 pence (2010: 6p) is covered 2.1 times (2010: 3.0x) by non-rail earnings and 2.8 times (2010: 3.9x) by total earnings. The proposed dividend record and payment dates are 27th April and 18th May respectively.

**Statutory profit**
Group statutory profit before tax increased threefold to £129.4 million (2010: £40.2m). The Group incurred no exceptional costs, maximising the benefit to shareholders of profit growth. This reflects significant progress delivered in 2010 to reduce or eliminate legacy risks, including resolution of outstanding UK tax issues with HMRC, termination of the Group's onerous contract for Eurostar operations and reduced future exposure to UK pension schemes.

Intangible asset amortisation (relating principally to the value of the Group's concessions and contracts in Spain and North America) reduced to £50.8 million (2010: £57.1m). Exceptional charges were nil (2010: £63.2m). Statutory profit for the year was £102.6 million (2010: £62.3m). Diluted EPS was 19.8 pence (2010: 12.0p).

**Cash Management**
National Express continues to focus on cash generation as a key driver of long term shareholder value. With the Group turnaround now complete, cash application has been aligned to our strategic objectives – investment in organic growth, acquisitions and a sustainable dividend payout.

**Operating cash flow**
Group operating cash flow in 2011 was £159.8 million (2010: £221.7m), reflecting reinvestment of higher profits in fleet renewal. Operating cash conversion in 2011 was 71% (2010: 109%).

| | 2011<br>£m | 2010<br>£m |
|---|---|---|
| Normalised operating profit | 225.2 | 204.2 |
| Depreciation | 105.5 | 99.8 |
| Grant amortisation, profit on disposal and share-based payment | 2.4 | 0.2 |
| EBITDA | 333.1 | 304.2 |
| Net maintenance capital expenditure | (110.2) | (87.7) |
| Working capital movement | (52.5) | 14.3 |
| Pension contributions above normal charge | (10.6) | (9.1) |
| Operating cash flow | 159.8 | 221.7 |

An increase in working capital of £52.5 million (2010: inflow £14.3m) was primarily driven by a £35 million increase in Spain. Of this, £18 million related to settlement of deferred social security, together with an increase in the receivables balance, due to revenue growth and slower payment, the latter principally from one public body, with whom a repayment schedule has been agreed. All receivables are closely managed and legally documented. The Spanish governing party recently confirmed that public body debts would be fully repaid. Ongoing pension deficit payments in the UK totalled £9.7 million.

Maintenance capital expenditure increased by £22.5 million to £110.2 million (2010: £87.7m), 104% of depreciation (2010: 88%), with spend primarily in the North America, Alsa and UK Bus divisions in fleet and real-time information technology. This level of expenditure is planned to be sustained over the next few years as a key driver of passenger growth. The average age of the Group's fleet reduced in 2011 to 5.8 years (2010: 6.1 years).

**Free cash flow**
Free cash flow in 2011 increased to £84.4 million (2010: £83.7m). Exceptional cash payments reduced significantly in 2011 with no in-year expense charge; cash payments of £22.0 million (2010: £86.7m) relate to final payments for exit from the East Coast rail franchise in 2009, redundancy and project costs provided in 2010, and the termination of an onerous contract between the Group and the Eurostar operator, LCR.

| | 2011 £m | 2010 £m |
|---|---|---|
| Operating cash flow | 159.8 | 221.7 |
| Discontinued operations | – | (3.5) |
| UK rail franchise entry and exit | (5.8) | (22.0) |
| Exceptional cash flow | (8.2) | (52.6) |
| Payments to associates | (8.0) | (8.6) |
| Subtotal – exceptional cash payments | (22.0) | (86.7) |
| Net interest | (44.6) | (42.7) |
| Dividends paid to minorities | (0.4) | – |
| Taxation | (8.4) | (8.6) |
| Free cash flow | 84.4 | 83.7 |

Net interest payments were £44.6 million (2010: £42.7m) and cash tax remained broadly unchanged at £8.4 million (2010: £8.6m), well below the Group's ETR due to tax amortisation of acquisition goodwill in Spain and tax losses in North America.

**Net funds flow**
A strong focus on cash generation allows the Group to allocate capital to growth, acquisition and dividends, whilst keeping debt levels within our gearing policy. A progressive dividend is well covered by non-rail earnings whilst future surplus capital will be invested in value-generating growth and acquisition projects, or returned to shareholders.

In 2011, £35.6 million was invested in organic growth capital (2010: £33.9m) - £23 million in North America, to fund fleet investment in new share gain and conversion contracts, and £9 million in Alsa to fund growth in Morocco and the new Madrid Tour service.

| | 2011 £m | 2010 £m |
|---|---|---|
| Free cash flow | 84.4 | 83.7 |
| Net growth capital expenditure | (35.6) | (33.9) |
| Financial investments and shares | (2.7) | (1.7) |
| Rights issue | – | (3.9) |
| Acquisitions and disposals | (7.6) | (2.6) |
| Cash flow on the maturity of foreign exchange contracts | (12.8) | (2.0) |
| Dividends | (45.8) | – |
| Foreign exchange and other non-cash movements | (3.2) | 7.9 |
| Net funds flow | (23.3) | 47.5 |

The Group invested £7.6 million (2010: £2.6m) in acquisitions in North America school bus and in Spain. It resumed dividend payments in 2011. Group net funds flow in 2011 was an outflow of £23.3 million (2010: inflow £47.5m).

Group net debt at 31 December 2011 was £633.7 million (2010: £610.4m).

**Capital allocation and returns**
National Express has a portfolio of businesses that provide a blend of opportunities for sustainable growth, profitability and cash generation. The Group's strategy is designed to use the funds at its disposal to make investment decisions that will result in long term generation of shareholder value. The Group uses pre-tax return on capital employed (ROCE) as a core KPI to decide upon and measure the delivery of strategic new investment. Internal capital allocation decisions are made with a 12% pre-tax return on capital hurdle rate, based on an estimated post-tax weighted average cost of capital of 8%. In 2011 Group ROCE increased to 14.1% (2010: 13.2%), with strong incremental returns in Spain and North America, the latter supported by initiatives to improve fleet utilisation. The Group is targeting a 15% pre-tax return on capital in the medium term (subject to the proportion of rail business).

**Treasury management**
The Group has a strong funding platform. A combination of long term maturity on bond and undrawn bank financing, strong liquidity and headroom capacity, together with a broad banking group, allow the Group to pursue its strategic goals effectively.

**Funding sources**
Long-term funding for the Group is provided from non-bank, long maturity, term financing. Two Sterling-denominated public bonds – comprising a 6.25% £350 million bond maturing in 2017 and a 6.625% £225 million bond maturing in 2020 – and long-term amortising finance leases of £129 million provide this capacity. In addition, the Group has a £500 million committed unsecured revolving bank facility, maturing in August 2014, which was undrawn at 31 December 2011. The Group is investment grade rated (Moodys Baa3, neutral outlook; Fitch BBB-, stable outlook).

**Covenant compliance**
The Group maintains adequate headroom over its banking covenants, which continued to improve during the year, as follows:

- Debt gearing ratio (net debt to EBITDA): 1.9 times (2010: 2.1x; covenant not to exceed 3.5x); and
- Interest cover ratio (EBITDA to net interest): 7.2 times (2010: 6.9x; covenant not to be less than 3.5x).

**Interest rate and currency hedging**
The acquisition of Petermann, when completed, will initially be funded by cash drawn down from the bank facility. Following this acquisition and the handover of the East Anglia rail franchise, the Board expects the Group to operate at the upper end of its target gearing ratio of 2.0 to 2.5 times EBITDA over the next eighteen months.

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/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 2011, the proportion of Group net debt at floating rates was 16% (2010: 19%).

As its debt is primarily denominated in Sterling, the Group uses foreign currency contracts to create synthetic debt positions to partially hedge the exposure of our Spanish and US EBITDA and assets. At 31 December 2011 the principal resultant foreign currency debt exposures were €250 million and US$204 million. Further details of the Group's treasury management policies are set out in the Accounts.

**Fuel risk management**
The Group consumes approximately 250 million litres of fuel each year, mostly of Ultra Low Sulphur Diesel and gasoline, which represented a total cost (including delivery and taxes) to the Group in 2011 of £181 million (8% of Group revenue), at an average fuel cost of 40 pence per litre. The Group has adopted a forward fuel buying policy in order to secure a degree of certainty in its planning. Based on expected hedgable consumption, a proportion of this is fixed for the future. Currently, the Group is 100% fixed for 2012 at an average price of 44 pence/litre (excluding delivery and tax) and 50% fixed for 2013 at an average price of 47 pence.

The Group seeks to hedge a minimum of 15 months demand across all exposed businesses. 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 principle defined benefit pension schemes are all in the UK. At 31 December 2011 these schemes had a combined deficit under IAS19 of £1.8 million, an improvement from a deficit position of £10.4 million at 31 December 2010. 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.

The IAS19 valuations by division at 31 December 2011 were as follows:

- UK Bus (under the WM plan and the Tayside Transport Superannuation Fund): £16.8 million deficit (2010: £5.3m deficit);
- UK Coach plan: £18.6 million surplus (2010: £nil); and
- UK Rail: £2.2 million deficit (2010: £3.7m 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 has happened on the East Anglia franchise.

# DIVISIONAL REVIEWS

**Spain**
Revenue for Alsa, Spain was £551.1 million (2010: £525.6m) and normalised operating profit was £90.1 million (2010: £86.2m). In local currency, revenue was €635.4 million (2010: €612.7 million) and normalised operating profit was €103.9 million (2010: €100.5m).

2011 was another successful year for Alsa, delivering both revenue and profit growth. The excellent value offered by our urban bus and intercity coach services continues to meet the growing needs of customers, providing a high quality transport service with fares that suit the domestic economic conditions. Long-term concessions, Alsa's market-leading position and a flexible cost base provide both a resilient platform and opportunities for expansion. Reflecting our confidence in the future we continue to invest in fleet renewal and growth in both Spain and Morocco.

Overall revenue growth for the division in local currency was 3.7%, (4.9% in Sterling terms), delivering €635.4 million (2010: €612.7 million) in total revenue. 3.5% more kilometres were operated than in 2010 as Alsa increased supply to meet passenger demand. Growth remained consistent throughout the year, supported by the new Agadir contract in Morocco.

Operating profit increased by 3.4% to €103.9 million (2010: €100.5 m). Operating margin was maintained at 16.4%. Growth and efficiency in the transport business, including a strong performance in Morocco, event services and international, offset reduced profitability in the peripheral non-transport businesses (primarily the fuel distribution and motorway service businesses, which represent only 8% of Alsa's total revenue).

Cash management continued to be strong. A planned increase in working capital reflected repayment of deferred social security. In addition, in light of public funding issues, Alsa has also managed outstanding receivables balances carefully to ensure timely collection. A key part of our business is the provision of contracts with various public bodies, primarily urban bus operations where we do not take demand risk in the operation of routes. At the end of 2011, Alsa's receivable balance from public bodies was €57.5 million (2010: €44.6m). This increase primarily related to a single customer, with which a new legally enforceable payment plan was agreed in December 2011. In addition, the national governing party has confirmed that all public debts will be paid, with the State now providing credit funding to public bodies.

**Delivering organic growth**
The Alsa business provides a stable platform of long-term contracts and concessions, together with opportunities for growth within both Spain and Morocco. Both intercity coach and urban bus operations delivered revenue and passenger growth in 2011. Revenue growth of 6% in intercity services reflected gains in both scheduled and tourist services, driven by an increase in passenger numbers of 1% and increased regulated prices. A strong summer period, reflecting increased domestic vacationing, was followed by continued robust growth through the remainder of the year. Growth was strong across all geographic areas, with particularly strong trends on Madrid routes and in Northern Spain.

The intercity coach business is becoming the preferred option for passengers in the current economic climate, where public subsidies to state-owned rail operators have decreased and where airline activity on competing routes has reduced. Consequently, Alsa has continued its investment in new coaches ahead of concession renewal later in 2012 and 2013, with an average coach fleet age of three years on the core network. The business is also adding more high quality 'Supra' services, with better yields, and is investing in web-based and mobile technology to attract new customers to the network.

The Urban bus business grew strongly in 2011, driven by expansion in Morocco, with a full year benefit from the Agadir contract, which started in September 2010. Moroccan annual revenue now exceeds €25 million and further growth is planned. Urban kilometres operated in Spain remained steady in 2011. Bus travel remains fundamental to mobility in Spanish cities and Alsa is well positioned in its concessional contracts.

Alsa continues to adjust costs and improve operational efficiencies to offset inflation. The coach operation is highly flexible and increases in demand were met in 2011 by increasing contracting with partner operators, allowing resources to be optimised.

**Securing targeted expansion**
New contracts and bolt on acquisitions also contributed towards divisional growth. In September, Alsa started operating the Madrid City Tour sightseeing bus contract, replacing the Madrid Barajas airport contract. Other bolt-on additions included an extension of the Agadir concession, an investment that allows the business to reinforce its position in Navarre and the Basque country, and an additional concession in Southern Spain.

**Outlook for the future**
Future prospects for the Alsa coach and bus operations remain robust as the value and quality in the nature of the services we provide are well positioned for times of economic uncertainty. We are focused on revenue growth, contract retention and new opportunities, including in Morocco.

We are targeting growth in the intercity business, on existing routes and through new tourist services. Coach performance is expected to benefit from increased occupancy at current fares, arising from reduced capacity in low cost airlines on overlapping routes and ongoing reduction of public funding in rail. We will continue to work closely with our urban customers to adapt to changing bus needs whilst retaining the economic value of our contracts. Alsa has the proven capability to manage change and new opportunities.

Alsa is focused on securing its concession renewals. With a forward revenue order book of €3.1 billion, during 2012 currently operated intercity concessions representing 9% of annual revenue are due for tender, alongside other operators' concessions. The framework for national tenders was agreed by the Ministry of Transport in 2011, favouring operators who have delivered an excellent performance and compliance with concession conditions.

Additional opportunities for growth, utilising Alsa's expertise, scale and reputation, will be developed. Morocco will remain a focus, with potential for additional city contracts, and Alsa will seek to continue to build on recent success in tourist and new intercity services. In February 2012, Alsa and Iberia launched an integrated 'Bus & Fly' programme to create intermodal transport from five cities connecting through Madrid, a first for the international travel industry. Leveraging the Group's international experience, Alsa will also support the UK in expanding coach operations as markets open across Continental Europe, including building on the existing successful Eurolines operation.

**North America**
Revenue for North America was £481.0 million (2010: £459.8m) and normalised operating profit was £47.9 million (2010: £36.9m). In local currency, revenue was US$772.2 million (2012: US$712.1 million) and normalised operating profit was US$76.9 million (2010: US$57.1m).

In 2011, the North American operations delivered strong revenue growth and achieved a 10% operating margin. The Business Recovery programme was completed, with annualised savings of US$40 million delivered over the last two years. The division is now the industry leader in delivering profitability and growth in school bus, and is well placed to secure further revenue and margin growth. It is established as a platform for further consolidation in the school bus market – with its lower risk, highly contracted nature – and expansion into adjacent capital-light markets.

Revenue in local currency grew by 8% to US$772.2 million (2010: US$712.1m). This was driven by annualisation of bid wins in the successful 2010/11 season, supplemented by further success in the 2011/12 season, improved charter income and the bolt-on acquisition of Vogel in New Jersey, which was acquired at the end of 2010. The North American business secured both new conversion contracts, from school board customers outsourcing for the first time, and share shift wins of contracts in the already-outsourced market, which added over 700 buses for the 2010/2011 school year. Growth from new conversion contracts won in 2011 was approximately twice that of our biggest competitor.

Operating profit increased significantly, by 35%, to US$76.9 million (2010: US$57.1m). Operating margin has improved to 10.0%, an increase from 8.0% in 2010 and 5.7% in 2009. This rapid turnaround was executed by a new management team through growth, cost reduction and investment in customer-facing personnel to ensure that local delivery and relationships have been enhanced. This margin makes the operation best-in-class in the industry.

**Achieving margin improvement**
The margin improvement has resulted from decisive action to reduce overhead and back office cost. In 2011, an annualised saving of US$15 million was delivered, completing the target of $40 million over two years. Key savings in 2011 included streamlining of administration through greater efficiency in use of our Oracle systems investment, reduced maintenance costs through better planning and warranty work, and facility/procurement savings. Operator wage costs were maintained in line with the prior year improvement. Towards the end of the year, the initial benefits of equipping every bus in the fleet with GPS began to be realised; lower fuel consumption, optimised route scheduling and improved invoicing benefits are all targeted. This will help drive further improvements in margin.

Alongside the improved operating margin, we also made significant progress in improving the division's operating profit return on net tangible assets to 16.0% (2010: 13.1%) in what is a traditionally capital intensive business. This improvement was achieved by working with customers to cascade existing buses both to new contracts and to replace end-of-life vehicles, whilst evaluating possible fleet life extension. During 2011, over 900 buses were cascaded within the fleet. Additionally, the spare bus ratio continued to improve, to 12% (2010: 18.4%). Overall, this programme is estimated to have reduced capital investment in 2011 by US$66 million.

**Delivering organic growth**
Excellent revenue growth in 2011 was achieved through our 'ABC' plan:

- Acquisition included a 200 bus 'bolt-on' in New Jersey, leveraging existing depot scale and synergy (completed 31 December 2010);
- Bids secured over 400 new routes from competitors through better service and pricing; and
- Conversions saw over 600 new routes outsourced to us by 10 school boards for the first time. New conversion opportunities are a key target for us as we grow our school bus business.

Our expanded business development team has developed a compelling case based upon a superior service offering and successful mobilisation model which offers customers significant cost savings, often including the removal of the need for upfront capital investment.

Overall we added over 600 new buses to our routes for the 2011/2012 school year, whilst protecting margins and achieving an industry-leading 98% retention rate on existing contracts. In addition, our initiative to drive higher margin charter revenues was successful, delivering a 30% increase in this revenue in 2011, with scope for further increases in the future.

**Securing targeted expansion**
The North America mass transport market offers considerable scope for expansion. In September 2011 we announced the acquisition of Petermann Partners Inc., for US$200 million, consolidating our number two position in the school bus market. In its fiscal year ending 30 June 2011, Petermann generated revenue of US$149.9 million, EBITDA of US$29.3 million and operating profit of US$13.5 million. We are in advanced discussions with regulators regarding competition approval and we expect to be in a position to close this transaction in the first half of 2012. Petermann has an excellent portfolio of customers and an experienced management team, adding new geographic reach to National Express to deliver further growth from a quality earnings base. The acquisition is expected to be earnings enhancing in its first full year, with annual synergies of US$7 million by the second year.

The Petermann acquisition provides entry into the paratransit and transit markets in North America through an existing contract presence. This market provides free and subsidised transport to senior citizens and disabled people and is estimated to be worth US$5 billion per annum. Rapid growth in these eligible populations, coupled with low capital investment requirements and extensive previous experience of the market by our management, makes this an attractive opportunity to leverage our existing capabilities in North America.

**Outlook for the future**
With a forward revenue order book of US$1.3 billion and improved capital disciplines evident in the school bus market, we will continue selectively to target market share addition and a strong pipeline of conversion opportunities, whilst achieving high contract retention. We expect funding pressures on school boards to continue to drive the conversion market, reflected in the growing number of conversion contracts we have won in the last three years: one in 2009, three in 2010 and ten in 2011. The business will focus on improving contract management and operational efficiency, driving further improvements in margin and capital return. We also expect to expand our presence in the para-transit market over the coming years, building a second leg to our successful North America operation.

**UK Bus**
Revenue for UK Bus was £263.5 million (2010: £257.8m) and normalised operating profit was £32.7million (2010: £28.3m).

UK Bus delivered its second successful year of margin recovery, moving ahead of industry average margin performance. Revenue growth was robust, with a return to passenger growth in the final weeks of 2011. With its focus on operational control, improved marketing, new services and investment for customers, UK Bus delivered a 15% increase in profit year-on-year and is well placed to continue to grow returns as an efficient, effective bus operator.

Total revenue for the UK bus business grew by 2.2% to £263.5 million from £257.8 million in 2010. Like-for-like passenger revenue at constant mileage grew 6%, driven by a strong increase in passenger revenue of 4.3%, above the industry average. This was achieved despite the West Midlands economy remaining weak. Concession income for senior citizen travel was slightly lower year-on-year, as austerity measures impacted public funding.

| £m | Increase/ (decrease) |
|---|---|
| Commercial revenue | 4% |
| Mileage reduction | 2% |
| Like-for-like revenue | 6% |

Operating profit increased to £32.7 million (2010: £28.3m). Operating margin increased by 140 basis points to 12.4% for the division, with the core West Midlands Bus operations achieving over 13% operating margin. Our Dundee operation also increased its margin and there was further good progress at the Midland Metro tram service, which was profitable in the year, having broken even for the first time in 2010.

**Delivering organic growth**
Growth of over 4% in commercial revenue was driven by an 11% rise in passenger yield as fares were restructured. National Express continues to offer some of the most competitive fares of the major UK conurbations. Passenger volumes decreased by 7%, partly reflecting an overall mileage reduction of 2%. We have targeted reductions in some off-peak services, but increased services to meet additional demand elsewhere; for example, re-timetabling on the inner circle in Birmingham has driven 15% passenger growth year on year, along with a 50% reduction in waiting times. Revenue protection teams have successfully supported revenue uplift and we will be doubling the size of that team in 2012. Encouragingly, the last few weeks of 2011 showed overall passenger journey growth.

We increased our investment in promoting the benefits of bus travel in the West Midlands and Dundee. We are rolling out 250 new vehicles across a 12 month period, which is expected to boost ridership. 18 green hybrid buses were introduced onto core city centre routes in Birmingham in December, with early favourable customer feedback. Anti-social behaviour is being targeted through new cleaning, anti-window etching and revenue protection measures. An increase in targeted marketing campaigns included a ‘Love Your Bus’ promotion, partnerships with local schools and colleges to promote student travelcards, ‘grandkids for a quid’ and new short hop £1 fares in Birmingham and Coventry city centres. Smarter marketing is raising awareness and increased demand is being generated through online and telesales teams, including providing free tickets to home movers and discounted family tickets.

We are embedding operational excellence across the UK Bus business. The focus is to deliver an efficient, on-time bus operation at lowest cost to passengers. We have introduced improvements to our ongoing driver training programme, with industry-leading accreditation and partnerships based at our in-house college in Walsall. This is improving driving standards and customer service. Our engineering operations have adopted 'lean' principles, which have reduced off-road time and increased fleet reliability.

**Achieving margin improvement**
Supporting revenue growth initiatives, 2011 saw completion of our two-year turnaround programme, driving margin recovery to above current industry average levels.

Cost efficiencies were delivered across engineering, procurement and the overhead cost base. We are leveraging the Group's procurement scale, with £1.5 million of savings delivered in UK Bus in 2011. On-board telemetry monitors driving style and is improving fuel consumption. In addition, in 2011 our 'Driving Out Harm' safety programme combined with telemetry and CCTV video to reduce insurance claims by £1.9 million.

Following publication of the Competition Commission's final report into the bus industry in December 2011, we do not anticipate any significant impacts on our business but will look at bus contract opportunities to access further growth.

**Outlook for the future**
Whilst the turnaround of the Bus business is complete, improving operational excellence is an ongoing programme. In 2012 we will continue to focus on driving revenue growth and cost efficiency. This will partially mitigate the withdrawal by the UK government of £5 million of annual fuel duty rebate from April. Thereafter, we will seek to improve the margin towards industry leading levels.

Alongside new vehicles, we are also investing in on-bus technology. Smartcard readers have been installed across our entire fleet which will be used to make bus travel easier for all passengers and grow revenue through more targeted marketing. We aim to have 100% of our buses equipped with real time service information in 2012. We are investing in advanced driver accreditation alongside customer service development, to make National Express Bus the preferred operator for our passengers.

**UK Coach**
Revenue for UK Coach was £259.1 million (2010: £250.3m) and normalised operating profit was £34.9 million (2010: £32.0m).

In 2011 the UK Coach business reported a record profit, with its new management team re-establishing the National Express coach service as the pre-eminent value leader in long distance travel. These strong results were delivered through an overhaul of the core network and with a focus on delivering great customer service, implementing network investments in 160 new coaches, a 24/7 contact centre and the new Coachway station at Milton Keynes. The brand continues to see further opportunity in austerity, meeting the needs of cash-strapped consumers against a background of increasing rail fares.

Underlying revenue in the core National Express network grew by over 5%. Overall UK Coach revenue increased 3.5% to £259.1 million (2010: £250.3m). Core network yield rose 4% as pricing shifted away from heavily discounted promotional fares to offering simple, consistent, everyday value. Revenue in each of the four National Express coach segments (Long haul, Short haul, Regional and Airports) grew during the year.

Operating profit increased to £34.9 million, an increase of 9.1% (2010: £32.0m). Operating margin was 13.5%, a 70 basis point increase (2010: 12.8%). This reflected both revenue growth and the flexibility of the business model, where 80% of coach service operation is outsourced, providing the opportunity to adjust to changes in demand. We continue to see strong interest from private operators to partner in our service delivery.

**Achieving margin improvement**
The business maintained a rigorous focus on cost efficiency. Mileage operated increased by 1% in 2011, flexing supply to meet demand. Group-wide procurement initiatives added further savings, including leveraging our scale in fleet sourcing for partner operators which saw 160 new coaches introduced to the network. Use of technology continues to drive down cost; our fleet is equipped with both 'Traffilog' monitoring and real-time positioning systems. This is already being used to monitor driving style, route timings and scheduling: like-for-like fuel consumption was reduced by 3% in the year, passenger comfort was improved and trials are underway to deliver up-to-the-minute schedule updates to customers via station information and mobile applications.

**Delivering organic growth**
Our growth strategy is focused on improving customer service and simplifying fares; this has already delivered growth in each of the core coach segments. The move away from heavily discounted fare promotions has improved overall yield and attracted passengers who value a stable, competitive fare available even on the day of travel. Overall passenger journeys in the core business increased by 1% in 2011 with airports and regional routes showing the highest rates of growth.

We have also expanded our network, adding services and frequencies to reflect improved passenger demand data by segment and route. New routes from London and the South Coast direct to Gatwick Airport, and also Ipswich to Heathrow Airport, proved popular. Added frequencies from Norwich, Glasgow and Cardiff to London have seen market growth. Recent additions have included new Liverpool/ Manchester/ Leeds services and we continue to see a growth in daily commuter traffic diverting from high-priced rail services.

Building on our investment, customer satisfaction rose to 84% (2010: 76%). 90% of our passengers would recommend the brand. Our contact centre is now open 24 hours a day, selling tickets and supporting customers whenever they are travelling. An extensive programme of training and management tools will continue to improve the customer experience.

Both Eurolines and The Kings Ferry grew in 2011. Eurolines added nearly 60,000 passengers, with growth on the London/Paris and Amsterdam routes, and the introduction of a Brussels service. Contract business fell year-on-year, following one-off work in 2010 for Airlinks and reduced rail replacement activity.

**Securing targeted expansion**
We see the progressive liberalisation of Continental Europe as exciting for coach travel, which is generally under-penetrated. Eurolines highlights the opportunities offered by the value of international coach services in difficult economic times for consumers. Leveraging our position as Europe's largest scheduled coach operator, we will seek to develop new opportunities in Europe and are investing in business development to deliver future growth.

**Outlook for the future**
We will continue to make underlying progress in the UK Coach business during 2012 but we face a significant headwind from the withdrawal from November 2011 of the £15 million annual senior citizen concession. This will be partly mitigated through our new Senior Citizens Coach card. Continued network improvement, flexible pricing, leveraging of technology and improvements in our third party operator partnerships to drive better customer service will help grow revenue and drive cost efficiency. The London Olympics will also present specific opportunities; for example, The Kings Ferry has secured the contract to provide transportation for the Metropolitan Police during the Games.

The outlook for longer term growth remains encouraging. We expect the coach business to benefit from above-inflation increases in rail fares and higher costs of private motoring. The division's strong market position, iconic brand and value proposition make the business uniquely placed to grow in the medium term, in the UK and elsewhere.

## UK Rail

Revenue for UK Rail was £688.3 million (2010: £637.5m) and normalised operating profit was £43.4 million (2010: £33.8m).

In 2011 the UK Rail division reported strong revenue growth and a significant increase in profitability. As the leading rail operator in the sector, the divisional profit margin was 6.3% and operational performance exceptional – c2c is the UK's top performing rail franchise with a record-breaking annual punctuality figure of 96.9%. With the handover of the East Anglia franchise successfully completed in February 2012, we are focused on delivering further improvements at c2c and establishing the future potential value that rail may offer in the next franchising round.

Revenue in UK Rail rose to £688.3 million in 2011, an increase of 8.0% over the prior year (2010: £637.5m). National Express East Anglia (NXEA) successfully extended its franchise from the Department for Transport (DfT) from October 2011 to February 2012, whilst c2c secured a two year extension to May 2013 on a profit share basis. Strong revenue growth saw operating profit increase by 28% to £43.4 million (2010: £33.8m). Operating margin increased by 100 basis points to 6.3% (2010: 5.3%).

### Achieving margin improvement and delivering organic growth

With their exposure to the relatively robust economies of London and the South East, both franchises saw good passenger growth throughout the year of 5%. Extension of the London-based Oystercard system drove strong passenger growth, through ease-of-use, albeit at lower yield. Elsewhere, growth in suburban travel more than offset weak volumes on the Stansted Express service, which reflected reduced volume in low-cost air travel.

NXEA successfully completed implementation of its £185 million DfT-funded capacity upgrade programme. Adding 11,000 peak-time seats into Liverpool Street and delivering 30 new 379 Electrostar trains to the network on time and on budget, the business received all its project milestone payments, whilst significantly improving the customer experience. c2c successfully implemented a new timetable, providing additional stops at West Ham to provide greater transport connectivity. c2c has won or been shortlisted for eight awards in 2011, underlining its industry-leading position.

### Outlook for the future

Operation of the NXEA franchise came to an end on 5 February 2012, with the franchise successfully handed over to the new operator. As is usual for commuter-orientated franchises, a cash outflow of approximately £80 million will occur in 2012, primarily related to prepaid customer season ticket monies that are transferred to the new operator.

The business is focused on the continued successful operation of the c2c franchise and on securing future rail franchises if the terms of the new bidding process prove attractive for the Group over the long-term. c2c has recently announced an innovative alliance with Network Rail, which builds on its existing joint signalling and operating control partnership. The alliance will deliver cost savings to government and ultimately passengers through better planning and implementation of projects, better managed stations and further improvements in train punctuality.

The Group has also invested in additional resource to evaluate, bid and operate future UK rail franchises. Retaining a core team of experienced rail experts, National Express has submitted pre-qualification bids for the future Essex Thameside (c2c), Great Western and Thameslink services. This has been supported by c2c recently being awarded four stars in the British Quality Foundation's Recognised for Excellence (R4E) programme assessed against the European Foundation for Quality Management model. Whilst National Express has a successful platform for future value creation built on its four international bus and coach businesses, we believe that the potential earnings and cash generation from future rail franchises could be a valuable addition to our portfolio, whilst supporting access to other global rail opportunities. Participation will, however, depend on the potential returns and risks of the future franchises being acceptable.

**Explanatory notes**

Normalised profits are the statutory result excluding profit or loss on the sale of businesses, exceptional profit or loss on sale of non-current assets and charges for goodwill impairment, intangible asset amortisation, exceptional items and tax relief thereon, for continuing operations. The Board believes that the normalised result gives a better indication of the underlying performance of the Group.

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 to normalised operating profit. Operating cash flow is normalised operating profit plus depreciation, movements in working capital, pension contributions above the normal charge and proceeds from disposals of property, plant and equipment, less finance lease additions, purchase of property plant and equipment and purchase of intangible assets.

Net debt is defined as the Group’s total borrowings, including bank debt, bonds and finance lease obligations (excluding accrued interest), less cash, overnight deposits and short term deposits.

EBITDA 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.

Net interest is finance costs less finance income.

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.

Underlying revenue 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.

Return on capital employed is normalised operating profit divided by the sum of net assets and net debt.

# Group Income Statement
# For the year ended 31 December 2011

| | **Total before intangible amortisation and exceptional items 2011 £m** | **Intangible amortisation and exceptional items 2011 £m** | **Total 2011 £m** | Total before intangible amortisation and exceptional items 2010 £m | Intangible amortisation and exceptional items 2010 £m | Total 2010 £m |
|---|---|---|---|---|---|---|
| **Continuing operations** | | | | | | |
| Revenue | **2,238.0** | **–** | **2,238.0** | 2,125.9 | – | 2,125.9 |
| Operating costs before intangible amortisation and exceptional items | **(2,012.8)** | **–** | **(2,012.8)** | (1,921.7) | – | (1,921.7) |
| Intangible amortisation | **–** | **(50.8)** | **(50.8)** | – | (57.1) | (57.1) |
| Exceptional items | **–** | **–** | **–** | – | (61.2) | (61.2) |
| Total operating costs | **(2,012.8)** | **(50.8)** | **(2,063.6)** | (1,921.7) | (118.3) | (2,040.0) |
| **Group operating profit/(loss)** | **225.2** | **(50.8)** | **174.4** | 204.2 | (118.3) | 85.9 |
| Share of post tax results from associates and joint ventures accounted for using the equity method | **1.4** | **–** | **1.4** | 0.3 | – | 0.3 |
| Finance income | **6.7** | **–** | **6.7** | 4.8 | – | 4.8 |
| Finance costs | **(53.1)** | **–** | **(53.1)** | (48.8) | (2.0) | (50.8) |
| **Profit/(loss) before tax** | **180.2** | **(50.8)** | **129.4** | 160.5 | (120.3) | 40.2 |
| Tax (charge)/credit | **(41.5)** | **14.7** | **(26.8)** | (39.2) | 61.7 | 22.5 |
| Profit/(loss) after tax for the year from continuing operations | **138.7** | **(36.1)** | **102.6** | 121.3 | (58.6) | 62.7 |
| Loss for the year from discontinued operations | **–** | **–** | **–** | – | (0.4) | (0.4) |
| **Profit/(loss) for the year** | **138.7** | **(36.1)** | **102.6** | 121.3 | (59.0) | 62.3 |
| Profit/(loss) attributable to equity shareholders | **137.3** | **(36.1)** | **101.2** | 120.4 | (59.0) | 61.4 |
| Profit attributable to non-controlling interests | **1.4** | **–** | **1.4** | 0.9 | – | 0.9 |
| | **138.7** | **(36.1)** | **102.6** | 121.3 | (59.0) | 62.3 |
| Earnings per share: | | | | | | |
| – basic earnings per share | | | **19.9p** | | | 12.0p |
| – diluted earnings per share | | | **19.8p** | | | 12.0p |
| Normalised earnings per share: | | | | | | |
| – basic earnings per share | **27.0p** | | | 23.6p | | |
| – diluted earnings per share | **26.9p** | | | 23.5p | | |
| Earnings per share from continuing operations: | | | | | | |
| – basic earnings per share | | | **19.9p** | | | 12.1p |
| – diluted earnings per share | | | **19.8p** | | | 12.1p |

# Group Statement of Comprehensive Income For the year ended 31 December 2011

| | 2011 £m | 2010 £m |
|---|---|---|
| Profit for the year | **102.6** | 62.3 |
| | | |
| **Other comprehensive income:** | | |
| Exchange differences on retranslation of foreign operations (net of hedging) | **(26.4)** | (1.8) |
| Exchange differences on retranslation of non-controlling interests | **(0.2)** | (0.2) |
| Actuarial (losses)/gains on defined benefit pension plans | **(8.6)** | 34.3 |
| Gain on cash flow hedges | **24.2** | 21.1 |
| Transfers to the income statement on cash flow hedges | **(25.3)** | 2.3 |
| Tax on exchange differences | **2.9** | (6.0) |
| Deferred tax on actuarial (losses)/gains | **0.4** | (9.8) |
| Deferred tax on cash flow hedges | **(0.6)** | (6.6) |
| **Other comprehensive (expenditure)/income for the year net of tax** | **(33.6)** | 33.3 |
| | | |
| **Total comprehensive income for the year** | **69.0** | 95.6 |
| | | |
| **Total comprehensive income attributable to:** | | |
| Equity shareholders | **67.9** | 94.9 |
| Non-controlling interests | **1.1** | 0.7 |
| | **69.0** | 95.6 |

# Group Balance Sheet
# At 31 December 2011

| | 2011 £m | 2010 £m |
|---|---|---|
| **Non-current assets** | | |
| Intangible assets | **1,212.5** | 1,284.2 |
| Property, plant and equipment | **754.5** | 714.1 |
| Available for sale investments | **7.6** | 7.8 |
| Derivative financial instruments | **31.0** | 7.2 |
| Investments accounted for using the equity method | **6.6** | 6.6 |
| Trade and other receivables | **5.9** | 6.0 |
| Deferred tax asset | **–** | 2.8 |
| Defined benefit pension asset | **18.6** | – |
| | **2,036.7** | 2,028.7 |
| **Current assets** | | |
| Inventories | **18.8** | 17.6 |
| Trade and other receivables | **248.1** | 226.8 |
| Derivative financial instruments | **21.1** | 18.3 |
| Current tax assets | **0.9** | 3.4 |
| Cash and cash equivalents | **92.5** | 128.8 |
| | **381.4** | 394.9 |
| **Total assets** | **2,418.1** | 2,423.6 |
| **Non-current liabilities** | | |
| Borrowings | **(718.4)** | (674.4) |
| Derivative financial instruments | **(2.4)** | (5.1) |
| Deferred tax liability | **(95.2)** | (86.9) |
| Other non-current liabilities | **(4.9)** | (25.2) |
| Non-current tax liabilities | **(5.4)** | (12.3) |
| Defined benefit pension liability | **(20.4)** | (10.4) |
| Provisions | **(24.0)** | (35.7) |
| | **(870.7)** | (850.0) |
| **Current liabilities** | | |
| Trade and other payables | **(466.4)** | (470.6) |
| Borrowings | **(54.8)** | (94.8) |
| Derivative financial instruments | **(0.2)** | (12.4) |
| Current tax liabilities | **(19.7)** | (12.1) |
| Provisions | **(40.9)** | (43.9) |
| | **(582.0)** | (633.8) |
| **Total liabilities** | **(1,452.7)** | (1,483.8) |
| **Net assets** | **965.4** | 939.8 |
| **Shareholders' equity** | | |
| Called up share capital | **25.6** | 25.6 |
| Share premium account | **532.7** | 532.7 |
| Capital redemption reserve | **0.2** | 0.2 |
| Own shares | **(14.0)** | (14.1) |
| Other reserves | **99.9** | 125.1 |
| Retained earnings | **313.1** | 263.7 |
| Total shareholders' equity | **957.5** | 933.2 |
| Non-controlling interest in equity | **7.9** | 6.6 |
| **Total equity** | **965.4** | 939.8 |

# Group Statement of Changes in Equity
# For the year ended 31 December 2011

| | Share capital £m | Share premium account £m | Capital redemption reserve £m | Own shares £m | Other reserves £m | Retained earnings £m | Total £m | Non-controlling interests £m | Total equity £m |
|---|---|---|---|---|---|---|---|---|---|
| At 1 January 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 | **–** | **–** | **–** | **–** | **(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)** |
| Purchase of non-controlling interests | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **0.5** | **0.5** |
| **At 31 December 2011** | **25.6** | **532.7** | **0.2** | **(14.0)** | **99.9** | **313.1** | **957.5** | **7.9** | **965.4** |

| | Share capital £m | Share premium account £m | Capital redemption reserve £m | Own shares £m | Other reserves £m | Retained earnings £m | Total £m | Non-controlling interests £m | Total equity £m |
|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2010 | 25.6 | 533.2 | 0.2 | (14.6) | 116.1 | 175.8 | 836.3 | 6.0 | 842.3 |
| Costs of Rights Issue | – | (0.5) | – | – | – | – | (0.5) | – | (0.5) |
| Shares purchased | – | – | – | (1.7) | – | – | (1.7) | – | (1.7) |
| Own shares released to satisfy employee share schemes | – | – | – | 2.2 | – | (2.2) | – | – | – |
| Total comprehensive income | – | – | – | – | 9.0 | 85.9 | 94.9 | 0.7 | 95.6 |
| Share-based payments | – | – | – | – | – | 3.9 | 3.9 | – | 3.9 |
| Tax on share-based payments | – | – | – | – | – | 0.3 | 0.3 | – | 0.3 |
| Dividends paid to non-controlling interest | – | – | – | – | – | – | – | (0.1) | (0.1) |
| At 31 December 2010 | 25.6 | 532.7 | 0.2 | (14.1) | 125.1 | 263.7 | 933.2 | 6.6 | 939.8 |

# Group Statement of Cash Flows
# For the year ended 31 December 2011

| | 2011 £m | 2010 £m |
|---|---|---|
| **Cash generated from operations** | **247.0** | 222.1 |
| Tax paid | **(8.4)** | (8.6) |
| **Net cash from operating activities** | **238.6** | 213.5 |
| **Cash flows from investing activities** | | |
| Payments to acquire businesses, net of cash acquired | **(0.4)** | 0.1 |
| Deferred consideration for businesses acquired and disposed | **(5.7)** | (2.4) |
| Purchase of property, plant and equipment | **(104.5)** | (49.9) |
| Proceeds from disposal of property, plant and equipment | **6.3** | 7.4 |
| Payments to acquire intangible assets | **(3.9)** | (2.0) |
| Payments to acquire available for sale investments | **–** | (0.3) |
| Receipts in respect of discontinued operations | **–** | 0.3 |
| Dividends received from associates | **1.0** | 0.2 |
| Interest received | **5.6** | 1.1 |
| **Net cash used in investing activities** | **(101.6)** | (45.5) |
| **Cash flows from financing activities** | | |
| Payments incurred on the issue of ordinary shares | **–** | (3.8) |
| Purchase of treasury shares | **(2.7)** | (1.7) |
| Interest paid | **(50.2)** | (43.8) |
| Finance lease principal payments | **(24.9)** | (18.7) |
| Net loans repaid | **(35.6)** | (74.0) |
| Payments for the maturity of foreign currency contracts | **(12.8)** | (2.0) |
| Dividends paid to non-controlling interests | **(0.4)** | – |
| Payments for equity in non-controlling interests | **(0.5)** | – |
| Dividends paid to shareholders of the Company | **(45.8)** | – |
| **Net cash used in financing activities** | **(172.9)** | (144.0) |
| **(Decrease)/increase in cash and cash equivalents** | **(35.9)** | 24.0 |
| Opening cash and cash equivalents | **128.8** | 105.8 |
| (Decrease)/increase in cash and cash equivalents | **(35.9)** | 24.0 |
| Foreign exchange | **(0.4)** | (1.0) |
| **Closing cash and cash equivalents** | **92.5** | 128.8 |

# Notes

## 1 Basis of preparation

The results are based on the Group financial accounts, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") and the International Financial Reporting Interpretations Committee's interpretations as adopted by the European Union, and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

These results have been prepared on the going concern basis under the historical cost convention, except for the recognition of derivative financial instruments and available for sale investments and using the accounting policies set out in the Group's 2011 statutory accounts.

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, intangible asset amortisation, exceptional items and tax relief on qualifying exceptional items.

## 2 Exchange rates

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

| | **2011 Closing rate** | **2011 Average rate** | 2010 Closing rate | 2010 Average rate |
|---|---|---|---|---|
| US dollar | **1.55** | **1.61** | 1.56 | 1.55 |
| Canadian dollar | **1.58** | **1.58** | 1.56 | 1.61 |
| Euro | **1.20** | **1.15** | 1.17 | 1.17 |

If the results for the year to 31 December 2010 had been retranslated at the average exchange rates for the year to 31 December 2011, North American Bus would have achieved normalised operating profit of £35.8m on revenue of £447.9m, compared to normalised operating profit of £36.9m on revenue of £459.8m as reported, and European Bus & Coach would have achieved a normalised operating profit of £87.2m on revenue of £531.4m, compared to normalised operating profit of £86.2m on revenue of £525.6m as reported.

## 3 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 Operating Review.

Analysis by class and geography of business

| | **External revenue 2011 £m** | **Inter-segment sales 2011 £m** | **Segment revenue 2011 £m** | External revenue 2010 £m | Inter-segment sales 2010 £m | Segment revenue 2010 £m |
|---|---|---|---|---|---|---|
| UK Bus | **263.1** | **0.4** | **263.5** | 257.3 | 0.5 | 257.8 |
| UK Coach | **254.5** | **4.6** | **259.1** | 245.7 | 4.6 | 250.3 |
| UK Rail | **688.3** | **–** | **688.3** | 637.5 | – | 637.5 |
| Inter-segment sales elimination | **–** | **(5.0)** | **(5.0)** | – | (5.1) | (5.1) |
| UK operations | **1,205.9** | **–** | **1,205.9** | 1,140.5 | – | 1,140.5 |
| North American Bus | **481.0** | **–** | **481.0** | 459.8 | – | 459.8 |
| European Coach & Bus | **551.1** | **–** | **551.1** | 525.6 | – | 525.6 |
| **Total revenue** | **2,238.0** | **–** | **2,238.0** | 2,125.9 | – | 2,125.9 |

## 3 Segmental analysis continued

Inter-segment sales represent rail replacement services provided to UK 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.

| | **Continuing** | | | **Discontinued** | Continuing | | | Discontinued |
|---|---|---|---|---|---|---|---|---|
| | **Normalised operating profit 2011 £m** | **Intangible amortisation and exceptional items 2011 £m** | **Segment result 2011 £m** | **Segment result 2011 £m** | Normalised operating profit 2010 £m | Intangible amortisation and exceptional items 2010 £m | Segment result 2010 £m | Segment result 2010 £m |
| UK Bus | **32.7** | **–** | **32.7** | | 28.3 | (6.7) | 21.6 | |
| UK Coach | **34.9** | **–** | **34.9** | | 32.0 | (0.1) | 31.9 | |
| UK Rail | **43.4** | **(1.7)** | **41.7** | | 33.8 | (20.7) | 13.1 | |
| UK operations | **111.0** | **(1.7)** | **109.3** | | 94.1 | (27.5) | 66.6 | |
| North American Bus | **47.9** | **(3.3)** | **44.6** | | 36.9 | (34.3) | 2.6 | |
| European Coach & Bus | **90.1** | **(45.8)** | **44.3** | | 86.2 | (47.8) | 38.4 | |
| Central functions | **(14.6)** | **–** | **(14.6)** | | (13.0) | (8.7) | (21.7) | |
| Project costs | **(9.2)** | **–** | **(9.2)** | | – | – | – | |
| **Result from continuing operations** | **225.2** | **(50.8)** | **174.4** | | 204.2 | (118.3) | 85.9 | |
| Result from discontinued operations | | | **–** | **–** | | | – | (0.5) |
| Total result | | | **174.4** | **–** | | | 85.9 | (0.5) |
| Loss on disposal of non-current assets | | | **–** | **–** | | | – | – |
| Profit/(loss) from operations | | | **174.4** | **–** | | | 85.9 | (0.5) |
| Share of post tax results from associates and joint ventures | | | **1.4** | **–** | | | 0.3 | – |
| Net finance costs | | | **(46.4)** | **–** | | | (46.0) | – |
| Profit/(loss) before tax | | | **129.4** | **–** | | | 40.2 | (0.5) |
| Tax (charge)/credit | | | **(26.8)** | **–** | | | 22.5 | 0.1 |
| Profit/(loss) for the year | | | **102.6** | **–** | | | 62.7 | (0.4) |

One off project related costs of £9.2m have been charged within operating costs. £5.2m relates to the settlement and associated legal expenses of a working time claim in North America; the remainder relates 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.

## 3 Segmental analysis continued

Intangible asset amortisation and operating exceptional items can be analysed by class and location of business as follows:

| | **Intangible asset amortisation 2011 £m** | **Operating exceptional items 2011 £m** | **Total 2011 £m** |
|---|---|---|---|
| UK Bus | – | – | – |
| UK Coach | – | – | – |
| UK 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 | – | – | – |
| Total | **50.8** | – | **50.8** |

| | Intangible asset amortisation 2010 £m | Operating exceptional items 2010 £m | Total 2010 £m |
|---|---|---|---|
| UK Bus | – | 6.7 | 6.7 |
| UK Coach | 0.2 | (0.1) | 0.1 |
| UK Rail | 2.4 | 18.3 | 20.7 |
| North American Bus | 8.6 | 25.7 | 34.3 |
| European Coach & Bus | 45.9 | 1.9 | 47.8 |
| Central functions | – | 8.7 | 8.7 |
| Total continued operations | 57.1 | 61.2 | 118.3 |
| Discontinued operations (note 11) | – | 0.5 | 0.5 |
| Total | 57.1 | 61.7 | 118.8 |

There have been no exceptional costs incurred during 2011.

In the year to 31 December 2010, exceptional costs of £18.3m were incurred in UK Rail. This comprised additional costs following a full and final settlement with the Department for Transport in relation to the National Express East Coast franchise exit and costs associated with related contracts.

Exceptional restructuring and redundancy costs of £25.7m were incurred in North American Bus in delivering the Business Recovery programme.

Restructuring costs of £15.3m were incurred in the UK following changes in management in UK Coach and Central functions, the relocation of the head office from London to Birmingham and other operational and corporate projects. In addition, rationalisation costs of £1.9m were incurred in European Coach and Bus.

## 4 Net finance costs

| | Normalised 2011 £m | Exceptional 2011 £m | Total 2011 £m | Normalised 2010 £m | Exceptional 2010 £m | Total 2010 £m |
|---|---|---|---|---|---|---|
| Bond and bank interest payable | **(46.2)** | **–** | **(46.2)** | (43.7) | (2.0) | (45.7) |
| Finance lease interest payable | **(5.0)** | **–** | **(5.0)** | (3.8) | – | (3.8) |
| Other interest payable | **(0.2)** | **–** | **(0.2)** | (0.2) | – | (0.2) |
| Unwind of provision discounting | **(1.7)** | **–** | **(1.7)** | (1.1) | – | (1.1) |
| **Finance costs** | **(53.1)** | **–** | **(53.1)** | (48.8) | (2.0) | (50.8) |
| Other financial income | **6.7** | **–** | **6.7** | 4.8 | – | 4.8 |
| **Net finance costs** | **(46.4)** | **–** | **(46.4)** | (44.0) | (2.0) | (46.0) |
| Of which, from financial instruments: | | | | | | |
| Cash and cash equivalents | **(0.1)** | **–** | **(0.1)** | (0.4) | – | (0.4) |
| Financial liabilities measured at amortised cost | **(40.2)** | **–** | **(40.2)** | (38.8) | – | (38.8) |
| Financial liabilities at fair value through profit or loss | **–** | **–** | **–** | (0.2) | – | (0.2) |
| Derivatives used for hedging | **3.8** | **–** | **3.8** | 0.5 | – | 0.5 |
| Loan fee amortisation | **(2.2)** | **–** | **(2.2)** | (2.5) | (2.0) | (4.5) |

The 2010 exceptional charge of £2.0m relates to residual unamortised loan fees as a result of refinancing the Group’s syndicated credit facility. On 12 July 2010, the Group’s £800m multi-currency syndicated credit facility (maturity June 2011), was replaced with a new four year £500m facility. The remaining unamortised fees relating to the £800m facility were taken to the income statement as an exceptional cost.

## 5 Taxation

Analysis of taxation charge/(credit) in the year

| | 2011 £m | 2010 £m |
|---|---|---|
| Current taxation: | | |
| UK corporation tax | **13.2** | 4.4 |
| Overseas taxation | **7.9** | 3.6 |
| Current income tax charge | **21.1** | 8.0 |
| Adjustments with respect to prior years – UK and overseas | **(1.1)** | (36.2) |
| Total current income tax charge/(credit) | **20.0** | (28.2) |
| Deferred taxation: | | |
| Origination and reversal of temporary differences – continuing operations | **6.8** | (5.4) |
| Adjustments with respect to prior years – UK and overseas | **–** | 11.0 |
| Deferred tax charge | **6.8** | 5.6 |
| Total tax charge/(credit) | **26.8** | (22.6) |
| The tax charge/(credit) in the income statement is disclosed as follows: | | |
| Income tax charge/(credit) on continuing operations | **26.8** | (22.5) |
| Income tax credit on discontinued operations | **–** | (0.1) |
| | **26.8** | (22.6) |
| The tax charge/(credit) on continuing operations is disclosed as follows: | | |
| Tax charge on profit before intangible asset amortisation and exceptional items | **41.5** | 39.2 |
| Tax credit on intangible asset amortisation and exceptional items | **(14.7)** | (61.7) |
| | **26.8** | (22.5) |

| | | |
|---|---|---|
| Tax credit on intangible asset amortisation and exceptional items is analysed as follows: | | |
| UK tax settlement | **–** | (32.1) |
| Tax credit on intangible asset amortisation | **(14.7)** | (17.1) |
| Tax credit on exceptional item | **–** | (12.5) |
| | **(14.7)** | (61.7) |

## 6 Dividends paid and proposed

| | 2011 £m | 2010 £m |
|---|---|---|
| **Declared and paid during the year** | | |
| Ordinary final dividend for 2010 paid of 6.00p per share | **30.5** | – |
| Ordinary interim dividend for 2011 of 3.00p per share | **15.3** | – |
| | **45.8** | – |
| **Proposed for approval (not recognised as a liability at 31 December)** | | |
| Ordinary final dividend for 2011 6.5p per share (2010: 6.0p per share) | 33.3 | 30.6 |

### 7 Earnings per share

| | 2011 | 2010 |
|---|---|---|
| Basic earnings per share – continuing operations | **19.9p** | 12.1p |
| Basic loss per share – discontinued operations | **–** | (0.1p) |
| Basic earnings per share – total | **19.9p** | 12.0p |
| Normalised basic earnings per share | **27.0p** | 23.6p |
| Diluted earnings per share – continuing operations | **19.8p** | 12.1p |
| Diluted loss per share – discontinued operations | **–** | (0.1p) |
| Diluted earnings per share – total | **19.8p** | 12.0p |
| Normalised diluted earnings per share | **26.9p** | 23.5p |

Basic earnings per share is calculated by dividing the earnings attributable to equity shareholders of £101.2m (2010: £61.4m) 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.

**7 Earnings per share continued**

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:

| | **2011** | 2010 |
|---|---|---|
| Basic weighted average shares | 509,388,824 | 509,398,911 |
| Adjustment for dilutive potential ordinary shares | 1,556,324 | 2,546,167 |
| Diluted weighted average shares | 510,945,148 | 511,945,078 |

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

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

| | | | **2011** | | | 2010 |
|---|---|---|---|---|---|---|
| | **£m** | **Basic EPS p** | **Diluted EPS p** | £m | Basic EPS p | Diluted EPS p |
| Profit attributable to equity shareholders | **101.2** | **19.9** | **19.8** | 61.4 | 12.0 | 12.0 |
| Loss from discontinued operations | **–** | **–** | **–** | 0.4 | 0.1 | 0.1 |
| Profit from continuing operations | | | | | | |
| Attributable to equity shareholders | **101.2** | **19.9** | **19.8** | 61.8 | 12.1 | 12.1 |
| Intangible asset amortisation | **50.8** | **10.0** | **10.0** | 57.1 | 11.2 | 11.1 |
| Exceptional items | **–** | **–** | **–** | 61.2 | 12.0 | 12.0 |
| Exceptional finance costs | **–** | **–** | **–** | 2.0 | 0.4 | 0.4 |
| Tax relief on goodwill and exceptional items (including exceptional tax) | **(14.7)** | **(2.9)** | **(2.9)** | (61.7) | (12.1) | (12.1) |
| Normalised profit from continuing operations and attributable to equity shareholders | **137.3** | **27.0** | **26.9** | 120.4 | 23.6 | 23.5 |

## 8 Pensions and other post-employment benefits

### 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 UK 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.

The total pension cost for the year was £11.7m (2010: £15.3m), of which £3.5m (2010: £3.2m) 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:

| | **2011<br>£m** | 2010<br>£m |
|---|---|---|
| UK Bus | **(16.8)** | (5.3) |
| UK Coach | **18.6** | – |
| UK Rail | **(2.2)** | (3.7) |
| Other | **(1.4)** | (1.4) |
| Total | **(1.8)** | (10.4) |

## 9 Net debt

Net debt at 31 December 2011 comprises cash and cash equivalents of £92.5m (2010: £128.8m), other debt receivables of £0.7m (2010: £0.7m), current interest-bearing loans and borrowings of £54.8m (2010: £94.8m) and non-current interest bearing loans and borrowings of £718.4m (2010: £674.4m).

| | 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** |
| Borrowings: | | | | | | |
| 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 bonds.

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

Other non-cash movements in net debt represent finance lease additions of £43.7m (2010: £77.1m) and £2.2m (2010: £4.4m) amortisation of loan and bond arrangement fees.

## 10 Cash flow statement

Reconciliation of Group profit before tax to cash generated from operations.

| Total operations | 2011 £m | 2010 £m |
|---|---|---|
| **Net cash inflow from operating activities** | | |
| Profit before tax from continuing operations | **129.4** | 40.2 |
| Loss before tax from discontinued operations | **–** | (0.5) |
| Net finance costs | **46.4** | 46.0 |
| Share of post tax results under the equity method | **(1.4)** | (0.3) |
| Depreciation of property, plant and equipment | **105.5** | 99.8 |
| Intangible asset amortisation | **50.8** | 57.1 |
| Amortisation of fixed asset grants | **(1.5)** | (1.7) |
| Loss on disposal of property, plant and equipment | **(1.1)** | 6.6 |
| Share-based payments | **5.0** | 3.9 |
| Increase in inventories | **(1.4)** | (1.2) |
| Increase in receivables | **(18.8)** | (33.0) |
| (Decrease)/increase in payables | **(28.9)** | 20.9 |
| Decrease in provisions – continuing operations | **(37.0)** | (12.4) |
| Decrease in provisions – discontinued operations | **–** | (3.3) |
| Cash generated from operations | **247.0** | 222.1 |

## 11 Financial information

The financial information set out above does not constitute the company's statutory accounts for the years ended 31 December 2011 or 2010, but is derived from those accounts. Statutory accounts for 2010 have been delivered to the Registrar of Companies and those for 2011 will be delivered following the company's annual general meeting. The auditors have reported on those accounts; their reports were unqualified, did not draw attention to any matters by way of emphasis without qualifying their report and did not contain statements under s498(2) or (3) Companies Act 2006.

The Annual Report will be posted to shareholders on 28 March 2012 and will also be available from the Company Secretary at National Express House, Birmingham Coach Station, Mill Lane, Digbeth, Birmingham, B5 6DD. Copies are also available via www.nationalexpressgroup.com.