Press release

28 February 2013

National Express Group PLC

Full Year Results for the year ended 31 December 2012

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

Trading for the Group remained robust in 2012, as we overcame a number of challenges by focusing on improving the quality of our services and continuing to deliver on our strategy. Recent significant contract wins have demonstrated the strength of our operating expertise and future prospects.

However, the Group was unable to overcome the decline of one million in the number of elderly and disabled passengers our UK coach business carried as a result of the UK Government's removal of its concessionary scheme. This significant drop in coach passengers has driven the year-on-year decline in Group profit.

Business highlights:

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

Financial summary

Year ended 31 December		2012	2011
Revenue (£m)	Non-rail	1,636.1	1,549.7
	Rail	195.1	688.3
	Group	1,831.2	2,238.0
Group operating profit (£m)	Non-rail	185.2	181.8
	Rail	26.7	43.4
	Group	211.9	225.2
Share of results from associates (£m)		1.4	1.4
Net finance costs (£m)		(49.2)	(46.4)
Profit before taxation (£m)		164.1	180.2
Statutory profit for the period (£m)		61.3	102.6
Group operating margin		11.6%	10.1%
Net debt (£m)		828.2	633.7
Basic EPS (pence)	Non-rail	21.6	20.7
	Rail	3.9	6.3
	Group	25.5	27.0
Total dividend per share (pence)		9.75	9.50

Comment

Dean Finch, National Express Group Chief Executive commented:

"I am very pleased with the progress that National Express Group as a whole has made, with four of our five divisions performing strongly. Our most significant challenge was the decline in National Express Coach's elderly and disabled passengers by one million after the UK Government's removal of its coach concession scheme. This made 2012 one of the most difficult years in National Express Coach's 40 year history and has driven the decline in National Express Group operating profit. However, our recent contract wins in Spain and North America and selection by German authorities to run two rail contracts are an indication of the international strength of our business, something we are determined to build on in 2013."

Outlook

We are optimistic about our future prospects. We expect to deliver organic growth in four of our divisions as our combination of value for money fares and operational excellence provides a compelling passenger offer in austere times. Strong cash generation and prudent management of our debt will provide flexibility in the future. And we are determined to build on our recent contract successes in Spain, North America and Germany as we leverage our strong international business portfolio to deliver growth.

Enquiries

National Express Group PLC

Jez Maiden, Group Finance Director	} 0121 460 8657
Stuart Morgan, Head of Investor Relations	}
Anthony Vigor, Director of Policy and External Affairs	07767 425822

Maitland

Neil Bennett/George Hudson	020 7379 5151

Definitions

- *Unless otherwise stated, all profit, margin and EPS data refer to normalised results, which can be found on the face of the Group Income Statement in the first column. The definition of normalised profit is as follows: Statutory result excluding profit or loss on the sale of business, exceptional profit or loss on sale of non-current assets and charges for goodwill impairment, intangible asset amortisation, exceptional items and tax relief thereon. The Board believes that the normalised result gives a better indication of the underlying performance of the Group.*
- *Operating margin is the ratio of normalised operating profit to revenue.*
- *Free cash flow is intended to be the cashflow equivalent of normalised profit after tax. A reconciliation is set out in the Finance section of the Report.*
- *Net debt is defined as cash and cash equivalents (cash overnight deposits and other short-term deposits), and other debt receivables, offset by borrowings (loan notes, bank loans and finance lease obligations) and other debt payable (excluding accrued interest).*
- *The EPS generated by the Rail business is calculated using the normalised operating profit of the Rail division, taxed at the UK tax rate.*

Notes to Editors

- **National Express Group** is a leading transport provider delivering services in the UK, North America and Spain. Every year more than 800 million journeys are made on our buses, trains, light rail services and coaches. The Group employs around 40,000 people and operates over 25,000 vehicles.
- **Spain** - Our Spanish business, ALSA, is the largest private provider of public transport operating 172 concessions covering long distance, regional and urban bus and coach services. ALSA also operates a rapidly growing bus network in Morocco.
- **North America** – we operate 20,000 school buses across 32 US states and four Canadian provinces, mostly through 3 to 5 year contracts with local school boards, which provide good medium term revenue visibility. In addition, we now operate transit contracts in four US states. The business is the second largest private student transport operator in North America. We also have transit operations in 6 US states.
- **UK Bus** - National Express is the market leader in the West Midlands, the UK's largest urban bus market outside of London. We operate more than 1,600 vehicles and cover over 70 million miles per year. We also run bus services in Coventry and Dundee and operate the Midland Metro light rail service between Birmingham and Wolverhampton.
- **UK Coach** - National Express is the largest operator of scheduled coach services in the UK. The business operates high frequency services linking hundreds of destinations across the country, including major cities and airports. We are the UK partner in Eurolines, the only Europewide scheduled coach operator serving over 600 destinations in 33 countries.
- **UK Rail** - National Express operates one rail franchise in the UK, Essex Thameside, known as c2c. It serves destinations between London (Fenchurch Street station) and South Essex and is an award-winning train operator, delivering the best performance in the UK rail industry with a record-breaking annual punctuality figure of 97% and 93% customer satisfaction according to the Autumn 2012 National Passenger Survey.

Chairman's Letter

Dear Shareholder,

I am pleased to report that National Express has delivered a good revenue and profit performance as part of another strong set of results for 2012. I am delighted to have joined the Group in January this year, taking over as Chairman from John Devaney who has led the company with clarity of purpose through a challenging but successful period. I look forward to building on the solid foundations that he has put in place.

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

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

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

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

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

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

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

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

Sir John Armitt
Chairman
28 February 2013

CEO

Introduction

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

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

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

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

Highlights

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

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

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

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

Strategy

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

1. Delivering operational excellence

Delivering operational excellence across National Express requires:

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

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

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

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

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

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

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

2. Driving organic growth
In 2012 we achieved commercial revenue growth in each of our divisions, as we:

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

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

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

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

3. Generating superior cash and returns
Through successful implementation of our strategy, National Express:

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

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

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

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

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

4. Delivering new opportunities from capital-light markets

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

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

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

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

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

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

Prospects for the future

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

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

Dean Finch
Group Chief Executive
28 February 2013

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

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

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

Operating cash flow is intended to be the cash flow equivalent of normalised operating profit. A reconciliation is set out in the table within the Finance section below. Free cash flow is intended to be the cashflow equivalent of normalised profit after tax.

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

Finance

Revenue

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

Normalised results

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

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

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

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

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

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

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

Statutory results

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

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

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

Cash management

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

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

Working capital movement improved year-on-year by £59.2 million, through improving receivables management in the contract businesses and including a €22 million reduction in receivables with Spanish municipalities. We continued to invest in the fleet, with replacement capital expenditure in line with depreciation. The Group is well invested in its fleet and the average age has remained unchanged at 6 years.

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

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

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

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

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

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

Capital returns

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

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

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

Treasury management

Funding sources

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

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

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

Covenant compliance

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

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

Interest rate and currency hedging

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

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

Fuel risk management

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

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

Pensions

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

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

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

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

Jez Maiden
Group Finance Director
28 February 2013

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

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

Spain

Results

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

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

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

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

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

Operational excellence

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

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

Major improvements have been made in safety during the year and lost time injuries in Spain improved by 40%. Significant progress has also been made in Morocco.

Growth

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

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

Cash generation

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

Future prospects

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

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

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

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

North America

Results

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

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

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

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

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

Operational excellence

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

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

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

We continue to focus on safety. Our enhanced safety programme saw vehicle collision frequency decrease by 10% during the year and a reduction in injuries by 28%. We are investing heavily in improving performance management, processes and support for our field managers at over 200 locations.

Growth

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

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

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

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

UK Bus

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

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

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

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

Our focus on service quality was recognised in an improvement in customer satisfaction of four percentage points, measured by the Passenger Focus Bus Passenger Survey. Across the network, investment in fleet cleaning and presentation, accompanied by an industry-leading anti-social behaviour reduction programme and enhanced revenue protection, helped customers feel safer and saw a reduction in recorded crime. We worked closely with Centro, our local Integrated Transport Authority, to manage a major rerouting of buses as part of tram extension works in Birmingham city centre, without material impact on passenger volumes.

Investment in our employees included a number of initiatives: a leadership programme for over 160 managers and supervisors in the business; an accredited Management training scheme; our industry-leading driver training team; and the launch of an in-house engineering training school. Safety training supported a 46% reduction in long term injuries and National Express employees won both Bus Driver of the Year and Best Newcomer in national industry awards.

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

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

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

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

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

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

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

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

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

UK Coach

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

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

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

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

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

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

Growth

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

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

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

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

Cash generation

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

Future prospects

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

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

Rail

Results

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

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

Operational excellence

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

A number of major achievements were accomplished during the year. c2c implemented a new quality system achieving four star 'EFQM' status in January, a key step forward in the Group's operational and bidding credentials. We have also invested to deliver an improved customer experience, carrying out major refurbishment at Shoeburyness and Thorpe Bay stations, where we have introduced smart technology.

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

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

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

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

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

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

** Public performance measure (moving annual average)*

Group Income Statement

For the year ended 31 December 2012

	Total before intangible amortisation and exceptional items 2012 £m	**Intangible amortisation and exceptional items 2012 £m**	**Total 2012 £m**	Total before intangible amortisation and exceptional items 2011 £m	Intangible amortisation and exceptional items 2011 £m	Total 2011 £m
Continuing operations						
Revenue	**1,831.2**	**–**	**1,831.2**	2,238.0	–	2,238.0
Operating costs before intangible amortisation and exceptional items	**(1,619.3)**	**–**	**(1,619.3)**	(2,012.8)	–	(2,012.8)
Intangible amortisation	**–**	**(51.7)**	**(51.7)**	–	(50.8)	(50.8)
Exceptional items	**–**	**(42.6)**	**(42.6)**	–	–	–
Total operating costs	**(1,619.3)**	**(94.3)**	**(1,713.6)**	(2,012.8)	(50.8)	(2,063.6)
Group operating profit	**211.9**	**(94.3)**	**117.6**	225.2	(50.8)	174.4
Share of post tax results from associates and joint ventures accounted for using the equity method	**1.4**	**–**	**1.4**	1.4	–	1.4
Finance income	**4.4**	**–**	**4.4**	6.7	–	6.7
Finance costs	**(53.6)**	**–**	**(53.6)**	(53.1)	–	(53.1)
Profit before tax	**164.1**	**(94.3)**	**69.8**	180.2	(50.8)	129.4
Tax charge	**(32.7)**	**24.2**	**(8.5)**	(41.5)	14.7	(26.8)
Profit for the year	**131.4**	**(70.1)**	**61.3**	138.7	(36.1)	102.6
Profit attributable to equity shareholders	**130.1**	**(70.1)**	**60.0**	137.3	(36.1)	101.2
Profit attributable to non-controlling interests	**1.3**	**–**	**1.3**	1.4	–	1.4
	131.4	**(70.1)**	**61.3**	138.7	(36.1)	102.6
Earnings per share:						
– basic earnings per share			**11.8p**			19.9p
– diluted earnings per share			**11.7p**			19.8p
Normalised earnings per share:						
– basic earnings per share	**25.5p**			27.0p		
– diluted earnings per share	**25.4p**			26.9p		

Group Statement of Comprehensive Income

For the year ended 31 December 2012

	2012 £m	2011 £m
Profit for the year	**61.3**	102.6
Other comprehensive income and expenditure:		
Exchange differences on retranslation of foreign operations (net of hedging)	**(44.2)**	(26.4)
Exchange differences on retranslation of non-controlling interests	**(0.2)**	(0.2)
Actuarial losses on defined benefit pension plans	**(31.1)**	(8.6)
Gain on cash flow hedges	**2.2**	24.2
Transfers to the income statement on cash flow hedges	**(20.2)**	(25.3)
Tax on exchange differences	**1.6**	2.9
Deferred tax on actuarial losses	**7.2**	0.4
Deferred tax on cash flow hedges	**4.9**	(0.6)
Other comprehensive income and expenditure for the year, net of tax	**(79.8)**	(33.6)
Total comprehensive (expenditure)/income for the year	**(18.5)**	69.0
Total comprehensive (expenditure)/income attributable to:		
Equity shareholders	**(19.6)**	67.9
Non-controlling interests	**1.1**	1.1
	(18.5)	69.0

Group Balance Sheet

At 31 December 2012

	2012 £m	2011 £m
Non-current assets		
Intangible assets	**1,262.9**	1,212.5
Property, plant and equipment	**787.4**	754.5
Available for sale investments	**7.1**	7.6
Derivative financial instruments	**31.1**	31.0
Investments accounted for using the equity method	**4.4**	6.6
Trade and other receivables	**5.6**	5.9
Defined benefit pension asset	**16.6**	18.6
	2,115.1	2,036.7
Current assets		
Inventories	**19.3**	18.8
Trade and other receivables	**194.8**	248.1
Derivative financial instruments	**4.7**	21.1
Deferred tax assets	**7.8**	–
Current tax assets	**0.8**	0.9
Cash and cash equivalents	**72.8**	92.5
	300.2	381.4
Total assets	**2,415.3**	2,418.1
Non-current liabilities		
Borrowings	**(786.8)**	(718.4)
Derivative financial instruments	**(2.2)**	(2.4)
Deferred tax liability	**(84.8)**	(95.2)
Other non-current liabilities	**(5.9)**	(4.9)
Non-current tax liabilities	**–**	(5.4)
Defined benefit pension liability	**(35.9)**	(20.4)
Provisions	**(28.3)**	(24.0)
	(943.9)	(870.7)
Current liabilities		
Trade and other payables	**(348.4)**	(466.4)
Borrowings	**(169.0)**	(54.8)
Derivative financial instruments	**(3.0)**	(0.2)
Current tax liabilities	**(19.9)**	(19.7)
Provisions	**(28.7)**	(40.9)
	(569.0)	(582.0)
Total liabilities	**(1,512.9)**	(1,452.7)
Net assets	**902.4**	965.4
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	**(0.5)**	(14.0)
Other reserves	**44.2**	99.9
Retained earnings	**290.7**	313.1
Total shareholders' equity	**892.9**	957.5
Non-controlling interest in equity	**9.5**	7.9
Total equity	**902.4**	965.4

Group Statement of Changes in Equity

For the year ended 31 December 2012

	Share capital £m	**Share premium account £m**	**Capital redemption reserve £m**	**Own shares £m**	**Other reserves £m**	**Retained earnings £m**	**Total £m**	**Non-controlling interests £m**	**Total equity £m**
At 1 January 2012	**25.6**	**532.7**	**0.2**	**(14.0)**	**99.9**	**313.1**	**957.5**	**7.9**	**965.4**
Shares purchased	**–**	**–**	**–**	**(4.8)**	**–**	**–**	**(4.8)**	**–**	**(4.8)**
Own shares released to satisfy employee share schemes	**–**	**–**	**–**	**4.5**	**–**	**(4.5)**	**–**	**–**	**–**
Disposal of own shares	**–**	**–**	**–**	**13.8**	**–**	**(9.8)**	**4.0**	**–**	**4.0**
Total comprehensive (expenditure)/ income	**–**	**–**	**–**	**–**	**(55.7)**	**36.1**	**(19.6)**	**1.1**	**(18.5)**
Share-based payments	**–**	**–**	**–**	**–**	**–**	**5.2**	**5.2**	**–**	**5.2**
Tax on share-based payments	**–**	**–**	**–**	**–**	**–**	**(0.1)**	**(0.1)**	**–**	**(0.1)**
Dividends	**–**	**–**	**–**	**–**	**–**	**(49.3)**	**(49.3)**	**–**	**(49.3)**
Adjustment from changes in non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**0.5**	**0.5**
At 31 December 2012	**25.6**	**532.7**	**0.2**	**(0.5)**	**44.2**	**290.7**	**892.9**	**9.5**	**902.4**

	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 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)
Adjustment from changes in 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

Group Statement of Cash Flows

For the year ended 31 December 2012

	2012 £m	2011 £m
Cash generated from operations	**169.6**	247.0
Tax paid	**(13.4)**	(8.4)
Net cash from operating activities	**156.2**	238.6
Cash flows from investing activities		
Payments to acquire businesses, net of cash acquired	**(156.9)**	(0.4)
Deferred consideration for businesses acquired and disposed	**(0.6)**	(5.7)
Purchase of property, plant and equipment	**(103.8)**	(104.5)
Proceeds from disposal of property, plant and equipment	**16.7**	6.3
Payments to acquire intangible assets	**(2.9)**	(3.9)
Payments to acquire associates	**(0.5)**	–
Proceeds from disposal of associates	**1.6**	–
Dividends received from associates	**0.9**	1.0
Interest received	**3.7**	5.6
Net cash used in investing activities	**(241.8)**	(101.6)
Cash flows from financing activities		
Proceeds from the sale of treasury shares	**4.0**	–
Purchase of treasury shares	**(4.8)**	(2.7)
Interest paid	**(48.8)**	(50.2)
Finance lease principal payments	**(18.0)**	(24.9)
Net loans drawn down/(repaid)	**174.5**	(35.6)
Receipts/(payments) for the maturity of foreign currency contracts	**8.9**	(12.8)
Dividends paid to non-controlling interests	**(0.1)**	(0.4)
Payments for equity in non-controlling interests	**–**	(0.5)
Dividends paid to shareholders of the Company	**(49.3)**	(45.8)
Net cash from/(used in) financing activities	**66.4**	(172.9)
Decrease in cash and cash equivalents	**(19.2)**	(35.9)
Opening cash and cash equivalents	**92.5**	128.8
Decrease in cash and cash equivalents	**(19.2)**	(35.9)
Foreign exchange	**(0.5)**	(0.4)
Closing cash and cash equivalents	**72.8**	92.5

Notes

For the year ended 31 December 2012

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 2012 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:

	2012 Closing rate	**2012 Average rate**	2011 Closing rate	2011 Average rate
US dollar	**1.63**	**1.59**	1.55	1.61
Canadian dollar	**1.61**	**1.59**	1.58	1.58
Euro	**1.23**	**1.23**	1.20	1.15

If the results for the year to 31 December 2011 had been retranslated at the average exchange rates for the year to 31 December 2012, North American Bus would have achieved normalised operating profit of £48.2m on revenue of £484.5m, compared to normalised operating profit of £47.9m on revenue of £481.0m as reported, and European Bus & Coach would have achieved a normalised operating profit of £84.4m on revenue of £515.8m, compared to normalised operating profit of £90.1m on revenue of £551.1m as reported.

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 Business Review.

Analysis by class and geography of business

	External revenue 2012 £m	**Inter-segment sales 2012 £m**	**Segment revenue 2012 £m**	External revenue 2011 £m	Inter-segment sales 2011 £m	Segment revenue 2011 £m
UK Bus	**268.8**	**0.2**	**269.0**	263.1	0.4	263.5
UK Coach	**254.0**	**1.1**	**255.1**	254.5	4.6	259.1
Rail	**195.1**	**–**	**195.1**	688.3	–	688.3
North American Bus	**578.3**	**–**	**578.3**	481.0	–	481.0
European Coach & Bus	**535.0**	**–**	**535.0**	551.1	–	551.1
Inter-segment sales elimination	**–**	**(1.3)**	**(1.3)**	–	(5.0)	(5.0)
Total revenue	**1,831.2**	**–**	**1,831.2**	2,238.0	–	2,238.0

Inter-segment sales represent rail replacement services provided to Rail by UK Bus and UK Coach. Inter-segment trading is undertaken on standard arm's length commercial terms. Due to the nature of the Group's businesses, the origin and destination of revenue is the same. No single external customer amounts to 10% or more of the total revenue.

	Normalised operating profit 2012 £m	**Intangible amortisation and exceptional items 2012 £m**	**Segment result 2012 £m**	Normalised operating profit 2011 £m	Intangible amortisation and exceptional items 2011 £m	Segment result 2011 £m
UK Bus	**34.1**	**(3.7)**	**30.4**	32.7	–	32.7
UK Coach	**20.6**	**(2.5)**	**18.1**	34.9	–	34.9
Rail	**26.7**	**(17.7)**	**9.0**	43.4	(1.7)	41.7
North American Bus	**59.1**	**(25.9)**	**33.2**	47.9	(3.3)	44.6
European Coach & Bus	**83.8**	**(41.8)**	**42.0**	90.1	(45.8)	44.3
Central functions	**(12.4)**	**(2.7)**	**(15.1)**	(14.6)	–	(14.6)
Project costs	**–**	**–**	**–**	(9.2)	–	(9.2)
Operating profit from continuing operations	**211.9**	**(94.3)**	**117.6**	225.2	(50.8)	174.4
Share of post tax results from associates and joint ventures			**1.4**			1.4
Net finance costs			**(49.2)**			(46.4)
Profit before tax			**69.8**			129.4
Tax charge			**(8.5)**			(26.8)
Profit for the year			**61.3**			102.6

During 2011, one off project related costs of £9.2m were charged within operating costs. £5.2m related to the settlement and associated legal expenses of a working time claim in North America; the remainder related to external fees in response to the Competition Commission enquiry into the UK bus industry, costs associated with the acquisition of Petermann and professional fees relating to the strategic and Board debate ahead of the 2011 Annual General Meeting.

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 2012 £m	**Operating exceptional items 2012 £m**	**Total 2012 £m**
UK Bus	**–**	**3.7**	**3.7**
UK Coach	**–**	**2.5**	**2.5**
Rail	**0.1**	**17.6**	**17.7**
North American Bus	**11.1**	**14.8**	**25.9**
European Coach & Bus	**40.4**	**1.4**	**41.8**
Central functions	**0.1**	**2.6**	**2.7**
Total	**51.7**	**42.6**	**94.3**

	Intangible asset amortisation 2011 £m	Operating exceptional items 2011 £m	Total 2011 £m
UK Bus	–	–	–
UK Coach	–	–	–
Rail	1.7	–	1.7
North American Bus	3.3	–	3.3
European Coach & Bus	45.8	–	45.8
Central functions	–	–	–
Total continued operations	50.8	–	50.8
Discontinued operations	–	–	–
Total	50.8	–	50.8

In the year to 31 December 2012, exceptional costs of £16.3m were incurred in relation to UK rail bids. This includes the costs of bidding for the Great Western and Essex Thameside rail franchises. In addition, £1.3m was incurred in bidding for a number of regional rail opportunities in Germany.

Exceptional costs of £13.4m were incurred in relation to the acquisition and integration of school bus and transit businesses in North America. This includes the acquisitions of Petermann Partners Inc, the Thompson Transit joint venture and Forsythe Transportation Inc. In addition, £3.0m of business development costs have been incurred across the Group as part of a major investment to create other new contract and passenger business pipelines.

Exceptional restructuring and rationalisation costs of £8.6m have been incurred, primarily within UK Bus, UK Coach and Spain.

There were no exceptional costs incurred during 2011.

4 Net finance costs

	2012 £m	2011 £m
Bond and bank interest payable	**(47.4)**	(46.2)
Finance lease interest payable	**(4.7)**	(5.0)
Other interest payable	**(0.2)**	(0.2)
Unwind of provision discounting	**(1.3)**	(1.7)
Finance costs	**(53.6)**	(53.1)
Other financial income	**4.4**	6.7
Net finance costs	**(49.2)**	(46.4)
Of which, from financial instruments:		
Cash and cash equivalents	**(1.6)**	(0.1)
Financial liabilities measured at amortised cost	**(46.9)**	(40.2)
Derivatives used for hedging	**4.0**	3.8
Loan fee amortisation	**(2.4)**	(2.2)

5 Taxation

Analysis of taxation charge in the year

	2012 £m	2011 £m
Current taxation:		
UK corporation tax	**1.6**	13.2
Overseas taxation	**7.0**	7.9
Current income tax charge	**8.6**	21.1
Adjustments with respect to prior years – UK and overseas	**(0.5)**	(1.1)
Total current income tax charge	**8.1**	20.0
Deferred taxation		
Origination and reversal of temporary differences – continuing operations	**(0.3)**	6.8
Adjustments with respect to prior years – UK and overseas	**0.7**	–
Deferred tax (credit)/charge	**0.4**	6.8
Total tax charge	**8.5**	26.8

The tax charge is disclosed as follows:		
Tax charge on profit before intangible asset amortisation and exceptional items	**32.7**	41.5
Tax credit on intangible asset amortisation and exceptional items	**(24.2)**	(14.7)
	8.5	26.8

Tax credit on intangible asset amortisation and exceptional items is analysed as follows:		
Tax credit on intangible asset amortisation	**(15.1)**	(14.7)
Tax credit on exceptional items	**(9.1)**	–
	(24.2)	(14.7)

6 Dividends paid and proposed

	2012 £m	2011 £m
Declared and paid during the year		
Ordinary final dividend for 2011 paid of 6.5p per share	**33.2**	30.5
Ordinary interim dividend for 2012 of 3.15p per share	**16.1**	15.3
	49.3	45.8
Proposed for approval (not recognised as a liability at 31 December)		
Ordinary final dividend for 2012 6.6p per share (2011: 6.5p per share)	**33.7**	33.3

7 Earnings per share

	2012	2011
Basic earnings per share	**11.8p**	19.9p
Normalised basic earnings per share	**25.5p**	27.0p
Diluted earnings per share	**11.7p**	19.8p
Normalised diluted earnings per share	**25.4p**	26.9p

Basic earnings per share is calculated by dividing the earnings attributable to equity shareholders of £60.0m (2011: £101.2m) by the weighted average number of ordinary shares in issue during the year, excluding those held by employee share ownership trusts and those held as treasury shares which are both treated as cancelled.

For diluted earnings per share, the weighted average number of ordinary shares in issue during the year is adjusted to include the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The reconciliation of basic and diluted weighted average number of ordinary shares is as follows:

	2012	2011
Basic weighted average shares	**510,552,927**	509,388,824
Adjustment for dilutive potential ordinary shares	**1,626,921**	1,556,324
Diluted weighted average shares	**512,179,848**	510,945,148

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

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

	2012			2011		
		Basic EPS	**Diluted EPS**		Basic EPS	Diluted EPS
	£m	**p**	**p**	£m	p	p
Profit attributable to equity shareholders	**60.0**	**11.8**	**11.7**	101.2	19.9	19.8
Intangible asset amortisation	**51.7**	**10.1**	**10.1**	50.8	10.0	10.0
Exceptional items	**42.6**	**8.3**	**8.3**	–	–	–
Tax relief on goodwill and exceptional items	**(24.2)**	**(4.7)**	**(4.7)**	(14.7)	(2.9)	(2.9)
Normalised profit from continuing operations and attributable to equity shareholders	**130.1**	**25.5**	**25.4**	137.3	27.0	26.9

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 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.

During the period, certain liabilities of the Travel West Midlands Pension Fund relating to current and deferred pensioners valued at £238m, were insured at a cost of £272m at the transaction date. This insurance policy is a qualifying insurance policy, and therefore the value of the policy and the value of the liabilities have been recognised within actuarial losses in the Group statement of comprehensive income. This buy-in has reduced risk and volatility, and brought greater stability to the Group's pension contribution commitments. As a result of this transaction, further assets due to the Travel West Midlands Pension Fund were identified and recovered which substantially offset these losses.

The total pension cost for the year was £6.9m (2011: £11.7m), of which £3.5m (2011: £3.5m) relates to the defined contribution schemes.

The UK Coach plan is now closed to all future accrual. A funding plan aimed at bringing the plan to self sufficiency over a six year period was agreed in 2010; National Express contributes £4.2m annually to this scheme. In 2011 UK Bus agreed a £5.5m annual deficit repayment plan with the trustees of the West Midlands Passenger Transport Authority Pension Fund to fund a £71m scheme funding deficit over 12 years. The plan remains open to accrual for existing members only.

The defined benefit pension (liability)/asset included in the balance sheet is as follows:

	2012 £m	2011 £m
UK Bus	**(32.9)**	(16.8)
UK Coach	**16.6**	18.6
Rail	**(1.8)**	(2.2)
Other	**(1.2)**	(1.4)
Total	**(19.3)**	(1.8)

9 Net debt

Net debt at 31 December 2012 includes cash and cash equivalents of £72.8m (2011: £92.5m), other debt receivable of £1.0m (2011: £0.7m), current interest-bearing loans and borrowings of £169.0m (2011: £54.8m) and non-current interest bearing loans and borrowings of £786.8m (2011: £718.4m)

	At 1 January 2012 £m	Cash flow £m	Acquisitions/ disposals £m	Exchange differences £m	Other movements £m	At 31 December 2012 £m
Cash	**64.8**	**(31.6)**	**9.0**	**(0.5)**	**–**	**41.7**
Overnight deposits	**25.0**	**3.6**	**–**	**–**	**–**	**28.6**
Other short-term deposits	**2.7**	**(0.2)**	**–**	**–**	**–**	**2.5**
Cash and cash equivalents	**92.5**	**(28.2)**	**9.0**	**(0.5)**	**–**	**72.8**
Other debt receivables	**0.7**	**0.3**	**–**	**–**	**–**	**1.0**
Borrowings:						
Bank and other loans	**(7.9)**	**(109.6)**	**(0.3)**	**2.9**	**0.3**	**(114.6)**
Bonds	**(583.4)**	**–**	**–**	**–**	**(6.6)**	**(590.0)**
Fair value of hedging derivatives	**16.4**		**–**	**–**	**7.0**	**23.4**
Finance lease obligations	**(151.3)**	**18.1**	**(1.1)**	**5.8**	**(26.2)**	**(154.7)**
Other debt payable	**(0.7)**	**(65.4)**	**–**	**–**	**–**	**(66.1)**
Total borrowings	**(726.9)**	**(156.9)**	**(1.4)**	**8.7**	**(25.5)**	**(902.0)**
Net debt *	**(633.7)**	**(184.8)**	**7.6**	**8.2**	**(25.5)**	**(828.2)**

* Excludes accrued interest on borrowings.

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

Borrowings include non-current interest bearing borrowings of £786.8m (2011: £718.4m).

Other non-cash movements in net debt represent finance lease additions of £26.2m (2011: £43.7m) and a £0.7m net positive movement in loan and bond arrangement fees (2011: £2.2m net negative movement). The £7.0m increase to the fair value of the hedging derivative is offset by equal and opposite movements in the fair value of the related hedged borrowings. This comprises a £5.4m fair value movement in bonds and a £1.6m fair value movement in other loans.

10 Cash flow statement

Reconciliation of Group profit before tax to cash generated from operations

Total operations	2012 £m	2011 £m
Net cash inflow from operating activities		
Profit before tax from continuing operations	**69.8**	129.4
Net finance costs	**49.2**	46.4
Share of post tax results under the equity method	**(1.4)**	(1.4)
Depreciation of property, plant and equipment	**109.8**	105.5
Intangible asset amortisation	**51.7**	50.8
Amortisation of fixed asset grants	**(1.2)**	(1.5)
Profit on disposal of property, plant and equipment	**(4.5)**	(1.1)
Share-based payments	**5.2**	5.0
Decrease/(increase) in inventories	**0.4**	(1.4)
Decrease/(increase) in receivables	**68.4**	(18.8)
Decrease in payables	**(145.5)**	(28.9)
Decrease in provisions – continuing operations	**(32.3)**	(37.0)
Cash generated from operations	**169.6**	247.0

11 Financial information

The financial information set out above does not constitute the company's statutory accounts for the years ended 31 December 2012 or 2011, but is derived from those accounts. Statutory accounts for 2011 have been delivered to the Registrar of Companies and those for 2012 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 shareholder on 28 March 2013 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.