national express

Press release

27 February 2014

National Express Group PLC

Full Year Results for the year ended 31 December 2013

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.

National Express has delivered a strong financial performance in 2013. Normalised Group profit before tax was ahead of target at £143.7 million, including a fourth consecutive year of record profit in our core non-rail businesses. Group revenue grew 3% and we generated over £180 million of free cash flow, again ahead of target.

Financial highlights

- Group revenue increased 3% to £1.89 billion (2012: £1.83bn), with 7% growth in total non-rail revenue
- Normalised operating profit from core non-rail businesses reached a record £185.5 million (2012: £185.2m)
- Group normalised profit before tax declined to £143.7 million (2012: £164.1m) reflecting the handover of the National Express East Anglia franchise during 2012
- Core non-rail ROCE increased to 11.1% (2012: 10.6%)
- Free cash flow of £182.8 million, over £30 million ahead of target (2012: £140.8m)
- Net debt reduced by over £80 million to £746.1 million (2012: £828.2m). On track to reduce net debt to around 2x EBITDA by the end of 2014
- Full year proposed dividend of 10.0 pence, up 3% year-on-year

Business highlights

- UK Coach express passenger revenue up 7%, with operating margin over 9%
- North America revenue over US$1 billion, up 10%, with almost US$200 million of operating cash generation and Return on Assets ('ROA') target exceeded
- New contracts secured in Spain and Morocco
- Bids submitted for Essex Thameside and Crossrail competitions
- Industry-leading partnership agreed in UK Bus with local transport authority
- c2c achieves industry-leading performance for 2 consecutive years
- £1.8 billion of revenue secured from new markets, including rail contracts and coach services in Germany
- New business pipeline of opportunities worth over £10 billion in revenue

Comment

Dean Finch, National Express Group Chief Executive, commented:

"National Express has made important progress in 2013. These results show how we have been able to address the headwinds facing the Group at the start of last year. We beat our targets, especially on free cash flow, and have raised the dividend to reflect our confidence. I am particularly pleased with the strong growth in UK Coach, following its difficult year in 2012, and our performance in North America.

"We also made important strides in business development during 2013. We entered new markets, most significantly Germany. We have won important new contracts and are shortlisted for a number of rail franchises in the UK and Germany. We entered 2014 actively working on a £10 billion pipeline of opportunities."

Outlook

We intend to grow profit across all of our non-rail businesses and develop our rail business by winning new franchises. We will continue to make progress against our three strategic goals. Focused on delivering operational excellence, our coach services in UK and Spain will benefit from continued development of yield management and greater retail distribution. Bus will benefit from our focus on service quality, network improvements and greater use of technology in the UK and further new contract opportunities in Spain and Morocco. North America School Bus will continue to improve its contract portfolio, driving capital returns and selectively adding bolt-on acquisitions and conversion opportunities. All businesses will deliver a minimum 1% real reduction in costs, supported by unchanged hedged fuel prices, driving margin progress across the Group.

With our focus on superior cash generation, we have a robust financial platform which has underpinned an increased dividend to shareholders. In 2014 we are targeting further free cash flow of £150 million. Our strong cash generation and targeted capital deployment will further reduce net debt, improve returns to shareholders and fund our new business development programme. In the last three months alone, we have submitted two rail tenders, successfully bid for two bolt-on acquisitions, begun bus operations in Tangiers and submitted contract tenders in Spain and North America Transit. We expect good progress from our £10 billion pipeline of capital-light bid opportunities, securing new contracts, concessions and business opportunities to enhance shareholder value.

Financial summary

Year ended 31 December		2013 £m	2012 £m
Revenue	Non-rail	**1,748.3**	1,636.1
	Rail	**143.0**	195.1
	Group	**1,891.3**	1,831.2
Normalised operating profit	Core non-rail	**185.5**	185.2
	German coach	**(2.4)**	-
	Rail	**9.8**	26.7
	Group	**192.9**	211.9
Share of results from associates		**0.6**	1.4
Net finance costs		**(49.8)**	(49.2)
Normalised profit before taxation		**143.7**	164.1
IFRS profit for the year		**58.3**	61.3
Operating margin		**10.2%**	11.6%
Normalised basic EPS (pence)	Non-rail	**20.1**	21.6
	Rail	**1.4**	3.9
	Group	**21.5**	25.5
Net debt		**746.1**	828.2
Total proposed dividend per share (pence)		**10.0**	9.75

Enquiries

National Express Group PLC

Jez Maiden, Group Finance Director	0121 460 8657
Stuart Morgan, Head of Investor Relations	07770 701797
Anthony Vigor, Director of Policy and External Affairs	07767 425822

Maitland

Rebecca Mitchell	07951 057351

Definitions

Definitions:

Unless otherwise stated, all operating 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: IFRS result found in the third column, excluding intangible asset amortisation, loss on disposal of business, exceptional items and tax relief thereon. The Board believes that the normalised result gives a better indication of the underlying performance of the Group.

Underlying revenue compares the current year with prior year on a consistent basis, after adjusting for the impact of currency, acquisitions, disposals and rail franchises no longer operated.

Like-for-like revenue measures underlying revenue after adjusting for increases or decreases in miles operated, typically used as a metric in urban bus operations.

'Core non-rail' businesses are UK Bus, UK Coach, Spain (including Morocco) and North America (including Transit). It excludes the German Coach start-up.

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

'Return on capital employed' ('ROCE') is normalised operating profit divided by tangible and intangible assets for the core non-rail businesses.

'Return on assets' ('ROA') is normalised operating profit divided by tangible assets.

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

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

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).

EPS generated by the Rail business is the normalised operating profit of the Rail division, taxed at the UK tax rate, divided by the basic number of shares in issue.

The annual punctuality measure for c2c is the moving annual average (MAA) public performance measure (PPM) to 4 January 2014.

Safety Incidents measure those for which the Group is responsible and is based on the Fatalities and Weighted Injuries Index used in the UK Rail industry. EPS generated by the Rail business is the normalised operating profit of the Rail division, taxed at the UK tax rate, divided by the basic number of shares in issue.

CEO

Overview of 2013

National Express has delivered a strong financial performance in 2013. Normalised Group profit before tax was £143.7 million, ahead of our target, with a fourth consecutive record year for operating profit in our core non-rail business. Total Group revenue grew 3% and we secured £1.8 billion of future revenue from markets where we didn't operate just two years ago. We generated over £180 million of free cash flow and reduced our net debt by over £80 million.

This reflects the good progress we have made in 2013 against each of our three strategic goals. First, in our core markets we grew both revenue and non-rail profit. This is part of our 'Operational Excellence' programme, with each division committed to delivering better customer service and lower costs. Second, we have delivered excellent cash flow, which we have used to reinvest in the business, pay an increased dividend to shareholders and pay down debt. Third, we have generated growth in new markets, which offer future revenue and profit potential to supplement our existing businesses.

We have exceeded our profit and cash generation expectations. At the start of 2013, we recognised the challenging headwinds we faced – a total of £39 million of fuel price inflation, ongoing impacts from government austerity cuts in the UK, North America and Spain, pension accounting changes, and the loss of contribution from the National Express East Anglia (NXEA) rail franchise which ended during 2012. We have delivered £21 million in profit from revenue growth and £30 million in cost savings and synergy. Whilst the reduction in rail profits led to 2013 Group profit before tax declining to £143.7 million (2012: £164.1m), normalised operating profit from our core non-rail businesses reached a record level of £185.5 million (2012: £185.2m).

Our core businesses, in diversified international bus and coach markets, are providing a strong platform for growth. Group revenue increased by 3% to £1.89 billion (2012: £1.83bn), with revenue growth in every division except rail. UK Coach was the stand out success, as it bounced back from the impact of the previous withdrawal of senior citizen concession funding. Excluding one-off Olympics profits in 2012, UK Coach profit increased by 30% year-on-year. The key was to give customers what they wanted – easy access to lower fares, more frequent and punctual services, and investment in our third party operated fleet of modern coaches.

Excellent customer service also drove success in the North America business. 97% contract retention in school bus led to a record operating profit in 2013, supported by the second year of a programme to improve operating margin and return on capital by contract. Conditions were challenging for our other divisions - UK Bus increased profit contribution through cost efficiency and fleet investment, but overall profit fell due to pension accounting changes and the reduction in government fuel duty rebate from 2012. Spain suffered a 7% reduction in operating profit, reflecting a challenging trading environment in the face of economic recession and the Eurozone crisis. Improved customer service, reduced costs and winning new contracts, such as Guadalajara and Tangiers, were key to offsetting these headwinds.

For our investors, we are backing our revenue and profit performance with strong cash generation and an improving return on capital employed. At the beginning of 2013, we set ourselves the targets of delivering £125 to £150 million of free cash flow and increasing our pre-tax return on capital from our core non-rail business ('ROCE'). We achieved over £180 million of free cash flow in 2013 and increased ROCE to 11.1% (2012: 10.6%). Net debt reduced to £746.1 million (2012: £828.2m). We continue to invest in our fleet but are using capital more efficiently, reflecting economic conditions in Spain and our margin improvement programme in North America.

Our reputation, operational expertise and contracting know-how in the UK, Spain and North America is being leveraged to create new business opportunities in selected markets and geographies. Over the last two years we have invested to build business development teams with the skills and experience to deliver success in target contract and concession markets and are currently working on a pipeline of opportunities worth over £10 billion revenue. In 2013, this produced sizeable contract wins and new business opportunities, securing £1.8 billion of future revenue from new markets. In Germany we won our first two rail contracts and launched coach services in the newly liberalised

domestic market. In US Transit we have won five new contracts, taking annual revenue to $80 million in just 18 months. Building on our operational excellence in c2c, the UK's best performing and customer rated rail franchise, we have submitted strong bids for the Essex Thameside and Crossrail contracts and successfully pre-qualified for the ScotRail bid. In total, we invested £25.7 million in exceptional costs to drive new business development, cost efficiency and acquisition integration.

Highlights

Highlights of 2013 included:

- The Group delivered 7% growth in total non-rail revenue, increasing core non-rail business operating profit for the fourth year in succession and delivering non-rail normalised earnings per share ('EPS') of 20.1 pence. With a robust policy to cover regular dividends approximately two times from non-rail earnings, the full year proposed dividend has increased 3% to 10.0 pence. Free cash flow beat the enhanced target set in July 2013 by over £30 million.
- UK Coach grew total revenue 3%, with express passenger revenue 7% higher and volume growth in all core segments. Driven by better pricing, improved punctuality and new distribution agreements, operating margin exceeded 9% for this capital-light business which generated over £30 million in operating cash.
- North America grew total revenue by 10%, successfully completing the integration of the Petermann school bus acquisition from 2012 and winning new transit contracts. 97% contract retention, conversion bid success and a focus on investing only in contracts generating adequate returns led to a five percentage point improvement in pre-tax return on assets ('ROA') to 22%, and operating cash generation of almost US$200 million in 2013.
- UK Bus grew commercial revenue by 2%, launched commercial smartcards in the West Midlands and signed a ground-breaking agreement with Centro, the West Midlands Integrated Transport Executive, to jointly develop new bus opportunities. Cost efficiency and new fleet increased profit contribution before pension accounting and BSOG fuel duty impacts.
- Spain saw profit fall due to the impact of recession and rail competition on intercity coach patronage, but nevertheless delivered a normalised operating profit of €96 million, with its flexible operating model resulting in reduced kilometres operated and Urban growth in Spain and Morocco. Alsa's third contract in Morocco – Tangiers - started in November.
- In Rail, c2c continued its excellent performance, remaining the best UK franchise for punctuality throughout 2013. It received 5-star quality accreditation and in May secured a franchise extension to September 2014.

Strategy

In 2011 I set out our strategy for National Express. We have delivered a step change in our non-rail businesses, improving margins, generating cash and driving returns. Our portfolio today comprises well established businesses, operating in stable markets, effectively run by experienced management teams and which give access to attractive growth opportunities. Our three part strategy is successfully building shareholder value by delivering consistent progress in our core divisions, generating superior cash and returns, and creating profits from new, capital-light markets.

1. Delivering operational excellence

Our objective is to provide safe, punctual and frequent public transport services at excellent prices. To achieve this, our businesses each focus on delivering operational excellence, comprising:

- Consistent service performance for our customers, leading to revenue growth
- Continuous cost efficiency improvement, leading to better margins and returns
- Living our core values every day, leading to a sustainable business.

Revenue growth

We have seen revenue growth in every business in 2013, after adjusting for the end of the NXEA franchise. Total revenue in the core bus and coach operations has grown by 7% through service improvement, contract wins and selective acquisitions. In Spain we grew total revenue by 1% as new contracts and growth in urban bus concessions offset lower passenger demand in the recession-hit intercity coach sector. Total revenue in North America grew by 10%. We retained all the customers transferred through the Petermann acquisition, achieved 97% contract retention in our existing school

bus business and increased the price we achieved on contract renewal, as we focused on more sustainable, relationship-based contracts generating better capital returns, where service quality is valued by the customer.

In the UK, lower fares on our express coach network resulted in 7% revenue growth through increased passenger volume; this created a better load factor per coach, which, with improved yield management, significantly increased profit for the division. Bus grew like-for-like commercial revenue by 2% - we carried almost a million more commercial passenger journeys and more customers bought travelcards, which lower travel costs whilst encouraging loyalty to National Express services. Rail revenue at c2c rose by 4% as we carried more passengers.

Delivering revenue growth through better customer service requires us to understand our customers' needs better; build partnerships with our stakeholders; tackle the root causes of poor service delivery; and be agile on pricing.

We work hard to understand and meet our customers' needs. Customer surveys, panels and focus groups inform our actions and customer satisfaction is strong across the Group:

- Alsa was rated the best transport company in Spain for customer excellence. It successfully retained its urban contract in Palencia on renewal and was awarded new contracts in Tangiers and Guadalajara. Against the backdrop of a tough economic environment, our customer recommendation rate increased by five percentage points to 87%.
- North America School Bus achieved 92% customer satisfaction, up from 82% in 2012, reaping the benefits of our local focus on service delivery and improved key account management.
- Both UK Bus and UK Coach deployed customer technology in response to changing customer expectations. Over 100,000 people have now downloaded the National Express West Midlands app, whilst coach travellers can follow their services real time. Coach customers can now buy tickets through a host of new distribution channels, including Ryanair and the Post Office.
- c2c has now been the best performing operator in the UK rail industry for a record-breaking two years continuously, with an annual punctuality measure of 96.9%.
- We invested over £80 million in net capital expenditure in 2013, adding over nearly 900 new vehicles across our operations in UK Bus, Spain and North America.

We have built constructive partnerships with our key stakeholders. UK Bus has a partnership with Centro to 'Transform Bus Travel' in the West Midlands. This embraces a good relationship with our principal local authority, committing both sides to investment in fleet and road prioritisation, fair pricing, provision of customer real-time information and roll out of smartcards. Our town centre turnaround vehicle cleaning programme has driven customer satisfaction well above the network average.

Where our performance fails to meet customer expectations, we have embedded structured solutions. UK Bus implemented automatic vehicle location to improve the consistency of services. Punctuality improved by 7% and our high frequency services in the Black Country are amongst the most punctual in the UK. Bus customer complaints are down a fifth. UK Coach created a programme to empower customer service staff at coach stations to resolve customer issues there and then, ensuring the customer gets safely to their destination in the event of service problems. In Morocco, we analysed the Agadir network which we started up in 2010 and identified significant improvements which have better met customer needs and driven a 32% increase in total ridership.

We deliver great value for money in our fares for passengers. UK Coach cut prices in 2012 and drove a 6% increase in volume. In 2013 we cut prices again, delivering a further 9% growth in passengers. In Spain, high speed rail, a competitor on 20% of our intercity coach routes, introduced substantial discounts in 2013. We have responded by discounting coach fares and in 2014 we will invest further in yield management to improve the value we deliver. In UK Bus, our roll out of smartcard products allows customers to get even better value services.

Cost efficiency

We have grown core non-rail operating profit to £185.5 million in 2013 through revenue growth and cost efficiency. We have delivered £30 million of cost efficiency and synergy, a 2% reduction in our cost base, which was delivered through a structured review of all controllable costs. In future we will target to reduce annual costs by 1% in real terms; drive down costs through synergy, productivity and

use of technology; reconfigure networks to deliver efficiency; and secure procurement savings. In 2013, achievements included:

- In North America we completed the successful integration of Petermann, securing annualised saving of $10 million through procurement, insurance and overhead savings. Our GPS-based 'Compass' system has matched driving time to payroll and customer invoicing, delivering $3 million of efficiencies. We are standardising processes at each customer service centre (CSC) to improve quality and efficiency and have centralised 'back office' processes.
- Alsa reduced network kilometres in Spain by 3% in 2013, showing the flexibility of the intercity coach model to reduce capacity to match lower passenger demand. In our Bilbao acquisition, completed in 2012, improvements in scheduling, employee management and stakeholder relations have delivered a significant turnaround in performance.
- UK Bus delivered £9 million of efficiency savings to help mitigate headwinds from fuel prices, lower fuel duty rebates and the impact of pension accounting changes. This included reducing lost mileage by managing congestion using real time location information, together with savings in engineering, procurement and overhead costs.
- Alongside strong revenue growth, UK Coach delivered £7 million of cost savings, with an overhaul of the route network, consolidating routes and reducing some frequencies, whilst expanding new services such as at Luton Airport. Productivity in owned operations improved with the closure of the Crawley depot, whilst streamlining of third party operations produced efficiency gains for both ourselves and our partners.

To strengthen operational excellence, we are implementing structured processes in each business using a recognised quality management framework. These frameworks also help us replicate our success in our existing businesses in new market opportunities. In 2013, c2c was awarded the maximum five star rating by the European Foundation for Quality Management (EFQM). This has been a key component of our success in delivering the UK's best performing franchise, whilst also being recognised in our German and UK rail bids.

Our values

We continue to support operational excellence through our focus on our core values – safety, customers, people and community. Employee engagement is strong across the Group, supported by formal training programmes such as 'Master Driver', which accredits drivers to key standards and provides non-monetary rewards for exceptional performance. North America reported a record level of 86% employee satisfaction, up for the third year in a row. I would personally like to acknowledge the efforts and commitment of our employees in helping to achieve our customer service and safety improvements. I am also delighted with the progress of our Community programmes, including 2,400 young people helped by our UK initiative to support the further education of disadvantaged students and a US$4 million commitment to community support in North America. We are proud to be the first company to sign the UK Government's Corporate Covenant that supports Armed Forces personnel, including helping their return to private sector employment.

Safety remains the first priority in all our operations. Three years ago we introduced our 'Driving Out Harm' programme and we have made good progress in improving the Group's safety culture and incident rate. Over two years we have reduced safety incidents for which we are responsible by 50%. As we strive to improve our performance further, 2013 success has included:

- Recognition by the American National Standards Institute for safety in our school bus business, the first industry operator to achieve this;
- Record breaking low levels of employee lost time injuries (LTIs) for the Group, including a 38% reduction in UK Bus;
- A 34% reduction in Signals Passed at Danger (SPAD) at c2c;
- A major reduction in passenger incident claims, down 40% year-on-year in Coach and 9% in Spain;
- Over £1 million in insurance premium savings during the year.

2. Superior cash and returns

National Express is focused on cash generation. Our free cash flow pays dividends to shareholders, funds future growth and reduces debt. A strong cash flow and improving return on the capital we

invest in the business will drive better returns for our shareholders. Maintaining a strong and flexible balance sheet gives us choices for the future.

At the start of 2013 we set out our goals to drive superior cash and returns:

- To generate £125-150 million of free cash flow in 2013
- To maintain our gearing ratio at between 2 and 2.5 times net debt to EBITDA over the medium term, but to reduce our gearing to around 2 times at the end of 2014
- To improve our core non-rail ROCE from 10.6% that we achieved in 2012
- To achieve a 20% pre-tax return on assets ('ROA') in North America.

We have been successful in 2013 in delivering against these goals. Our free cash flow was over £180 million. The Group has now generated almost £600 million of free cash flow in the last four years. Working capital reduced by £31 million in 2013, as we further reduced contract receivables in Spain and North America. Group operating cash conversion was 129% of operating profit with the stand out performer North America, generating almost $200 million of operating cash flow, equivalent to repaying the cash cost of the Petermann acquisition in just a year.

We reduced net debt in 2013 by £82 million to £746 million, a gearing ratio of 2.5 times EBITDA, with lower debt offsetting the loss of NXEA earnings in 2012. We continue to target a gearing ratio of around two times at the end of 2014.

We increased the Group's core non-rail ROCE to 11.1% in 2013. We invested over £80 million in net capital expenditure, mostly in new fleet. We are targeting where we invest carefully – we are renewing the UK Bus fleet, investing over one and a half times depreciation in 2013 to introduce over 130 buses, leading to more passengers travelling with us. By contrast, our North American school bus business is implementing a programme to use capital more efficiently, targeting lower capital 'conversion' contracts, not renewing existing contracts which don't cover their cost of capital and reducing the number of spare vehicles required through more effective preventative maintenance, which saw the spare ratio fall to 11% (2012: 12%). As a result of this, this division now has a 22% ROA (2012: 17%).

In Spain we invested £44 million in net capital expenditure, broadly in line with depreciation. We are benefitting from negotiating extensions to fleet lives in urban bus contracts to help our austerity-impacted city council customers. Growth in our capital-light businesses - UK Coach, Germany, UK Rail and US Transit – are an integral part of driving higher Group returns.

3. Creating new business opportunities

Our unique portfolio of international bus, coach and rail businesses gives National Express a significant opportunity to grow in selected new markets. In particular we have identified markets that are capital-light in nature, allowing us to drive future profitable growth, offering the prospect of exciting additional returns to shareholders.

In addition to organic growth in our existing UK, Spain and North America businesses, in 2013 we secured £1.8 billion of revenue from future market opportunities. We are currently working on a pipeline of opportunities worth over £10 billion revenue, including UK rail, German rail and US transit, as well as exploring interesting international markets and developing regular coach services in Germany.

During 2013 we developed the following new opportunities:

- **Germany:** we are now well established in the German rail bidding market, with an experienced local team in place. We are targeting capital-light regional 'revenue risk' and 'gross cost' contracts with pro-competition regional authorities. In 2013 we won two 15-year contracts to run the Rhine Munsterland Express, expected to generate €70 million of annual revenue from the end of 2015. Mobilisation is now well underway. Using this successful credential and building on our record of delivering high quality service in c2c, we have prequalified for the prestigious Berlin Ringbahn tender later in 2014, as part of a bid pipeline of 18 contracts with annual revenue of €1 billion. Our rail operations are being supplemented by our launch of 'city2city', a coach operation in Germany. We are using the UK Coach model of working with local coach partners to serve Munich, Stuttgart,

Cologne, Frankfurt and Hamburg. Our start-up in 2013 saw a normalised operating loss of £2.4 million as we invest in marketing and promotion to develop this newly liberalised market.

- **US Transit:** Within 18 months, we have built US$80 million of annual revenue and are currently working on a revenue pipeline of over US$200 million. Focused on the Paratransit, Shuttle and Fixed Route segments, we have won five contracts targeted in smaller, lower risk markets. The industry is typically capital-light, with publicly funded fleet investment.
- **UK Rail:** having secured the extension of c2c to September 2014, we are bidding selectively within a programme of significant rail refranchising in the UK. As the UK's best performing franchise operator, we are pleased that quality is a factor in bid evaluation. Having prequalified for three tenders during the year, we have now submitted the Essex Thameside and Crossrail bids and expect to submit our ScotRail bid in April 2014.
- **International opportunities:** we expect public transport to grow significantly in the medium term, through liberalisation and the development of infrastructure in emerging economies. Building on Alsa's success developing the Moroccan market, we have invested in a bid team to explore selected opportunities which leverage National Express' strengths in international bus, coach and rail markets, where the risk is appropriate and capital requirements generally light.

Outlook

We intend to grow profit across all of our non-rail businesses and develop our rail business by winning new franchises. We will continue to make progress against our three strategic goals. Focused on delivering operational excellence, our coach services in UK and Spain will benefit from continued development of yield management and greater retail distribution. Bus will benefit from our focus on service quality, network improvements and greater use of technology in the UK and further new contract opportunities in Spain and Morocco. North America School Bus will continue to improve its contract portfolio, driving capital returns and selectively adding bolt-on acquisitions and conversion opportunities. All businesses will deliver a minimum 1% real reduction in costs, supported by unchanged hedged fuel prices, driving margin progress across the Group.

With our focus on superior cash generation, we have a robust financial platform which has underpinned an increased dividend to shareholders. In 2014 we are targeting further free cash flow of £150 million. Our strong cash generation and targeted capital deployment will further reduce net debt, improve returns to shareholders and fund our new business development programme. In the last three months alone, we have submitted two rail tenders, successfully bid for two bolt-on acquisitions, begun bus operations in Tangiers and submitted contract tenders in Spain and North America Transit. We expect good progress from our £10 billion pipeline of capital-light bid opportunities, securing new contracts, concessions and business opportunities to enhance shareholder value.

Dean Finch

Group Chief Executive

27 February 2014

Finance

Presentation

We present our financial data on two bases. Normalised results show the performance of the business before exceptional items, loss on disposal of a business and intangible amortisation, since the Board believes this gives the reader a clearer understanding of existing business performance. IFRS results include these items to give the statutory results.

Revenue

Group revenue in 2013 was £1,891.3 million (2012: £1,831.2m), increasing by 3% overall as underlying revenue growth and new contracts offset the handover during 2012 of the NXEA rail franchise. On a constant currency basis and adjusted for the rail handover, revenue grew by over 4%, as shown in the table below:

	£m
2012 revenue	1,831
NXEA handover	(57)
2012 revenue adjusted for NXEA handover	**1,774**
Acquisitions and disposals	51
Organic growth	31
2013 revenue at constant currency	**1,856**
Impact of currency translation	35
2013 reported revenue	**1,891**

We have delivered growth in four out of our five divisions, through pricing, volume and new business.

Normalised profit

Group normalised operating profit decreased to £192.9 million (2012: £211.9m), reflecting the loss of rail earnings from NXEA. Normalised operating profit performance has been robust in our core non-rail business, increasing to a record level of £185.5 million (2012: £185.2m).

Normalised operating profit increased by 19% in UK Coach and 6% in Sterling terms in North America (4% in local currency). In Spain profit reduced by 3% in Sterling terms (7% in local currency), a resilient performance in challenging economic conditions. In UK Bus profit was 9% lower due to a reduction in fuel duty rebate (BSOG, £1.2 million) and pension accounting changes (£2.5 million). Rail profit reduced by 63% following the end of the NXEA franchise in February 2012.

Operating profit (£m)	**2013**	2012
Spain	**81.5**	83.8
North America	**62.6**	59.1
UK Bus	**31.2**	34.1
UK Coach	**24.5**	20.6
Central functions	**(14.3)**	(12.4)
Core non-rail profit	**185.5**	185.2
German coach start-up	**(2.4)**	-
Rail	**9.8**	26.7
Group	**192.9**	211.9

We have successfully offset both economic and regulatory changes in 2013. Organic revenue growth added £21 million of profit growth, with volume growth in North America, UK Bus, UK Coach and Rail, supported by pricing in Spain, UK Bus, North America and Rail. Synergies from the Petermann acquisition, together with cost efficiency benefits from our operational excellence programmes across the Group added £30 million, helping offset underlying cost inflation pressures of £34 million and fuel prices £12 million higher than 2012. Fuel prices peaked in 2013 with hedged prices for 2014 unchanged and lower into 2015 and 2016.

	£m
2012 normalised operating profit	212
NXEA handover	(17)
Government subsidy change	(2)
Pension accounting	(4)
Cost inflation	(34)
Fuel price inflation	(12)
Reduction in discretionary US routes	(4)
Acquisitions and disposals	3
New business start up	(2)
Olympics	(2)
Organic growth	21
Synergy & cost savings	30
Impact of currency translation	5
Other	(1)
2013 normalised operating profit	**193**

Group operating margin of 10.2% (2012: 11.6%) reflected lower rail profits, as well as economic and regulatory headwinds in Spain and the UK. Four of the five divisions continued to achieve industry leading margins.

Net finance costs remained broadly flat at £49.8 million (2012: £49.2m), reflecting higher year-on-year debt in the first four months due to the Petermann acquisition, partly offset by the progressive benefit during the year of lower debt from our cash generation programme and lower interest margin payable on our bank facility renewed in July 2013. Normalised profit before tax was £143.7 million (2012: £164.1m).

The normalised tax charge was £32.5 million (2012: £32.7m), an effective normalised tax rate of 22.6% (2012: 19.9%). This marks a return to our expected normalised tax rate range of 22 to 25%, following a one-off benefit in 2012. Normalised profit for the year was £111.2 million (2012: £131.4m), giving a basic EPS of 21.5 pence (2012: 25.5p), of which non-rail EPS was 20.1 pence (2012: 21.6p).

IFRS results

Exceptional costs for the year reduced to £25.7 million (2012: £42.6m). Firstly, we are investing to develop our pipeline of new business opportunities. Business development costs totalled £15.7 million - our rail bidding activity cost £9.3 million, including work on prequalification and full bid submissions for the Essex Thameside, Crossrail and ScotRail franchises in the UK, together with German rail. Our other business development activity cost £6.4 million, including pre-start up costs to develop German Coach and investment in a bid team to explore selected opportunities in new international bus, coach and rail markets to drive future revenue and profit.

The Group's accounting policy for business development costs is to charge development costs for new businesses in new markets to exceptional items until such time as a revenue stream has been created, from which time the business bears its own development costs as part of normalised profit. Hence business development costs in North America School Bus and Transit, UK Bus and Coach, Spain and Morocco are all charged to normalised profit. UK Rail bidding costs are charged to exceptional items as the scale of the bidding costs is material relative to the profit generated by the Group's only rail franchise, c2c.

Exceptional costs also included North America acquisition and integration costs of £4.6 million, primarily relating to completing the integration of the 2012 Petermann acquisition, and restructuring and rationalisation costs of £5.4 million to deliver cost efficiency improvements as part of our operational excellence programme. Activities in the latter included closing the Crawley depot and relocating the customer contact centre in UK Coach, closing the UK Bus call centre and significant headcount efficiencies delivered across the Group. Restructuring costs are not expected to continue, once the Group's operational excellence initiative is fully embedded.

A loss of £4.3 million (2012: nil) was incurred on disposal of a business as part of the North America programme to improve contract returns. Intangible asset amortisation decreased to £49.3 million (2012: £51.7m) and relates principally to the Group's concessions in Spain and contracts in North America. Group IFRS profit for the year was £58.3 million (2012: £61.3m). IFRS basic earnings per share were 11.1 pence (2012: 11.8p).

Cash management

Operating cash flow

Cash generation is core to our strategy, representing a key driver of shareholder value. Firstly, we focus on converting operating profit into operating cash flow in each division, except where capital investment in excess of the rate of depreciation is required to expand our fleet. In 2013, National Express converted 129% (2012: 99%) of its normalised operating profit into operating cash flow (the cash equivalent of operating profit). Overall, operating cash flow grew by £38.4 million to £248.0 million (2012: £209.6m).

	2013 **£m**	2012 £m
Normalised operating profit	**192.9**	211.9
Depreciation	**107.3**	109.8
Grant amortisation, profit on disposal & share-based payment	**0.9**	(0.5)
EBITDA	**301.1**	321.2
Net maintenance capital expenditure	**(74.9)**	(108.6)
Working capital movement	**30.5**	6.7
Pension contributions above normal charge	**(8.7)**	(9.7)
Operating cash flow	**248.0**	209.6

As outlined in our strategy, we have brought increased focus to improving our return on capital. During this year maintenance capital expenditure reduced by £34 million to 70% of depreciation (2012: 99%). Capital deployed into fleet in North America was limited as part of the contract improvement programme. Capital efficiency in Spain will also improve, reflecting the agreement to longer fleet ages in urban bus. We continue to invest in improving the fleet and driving patronage in UK Bus. We remain well invested in each area with an average vehicle age of 7.2 years (2012: 7.0yrs). We anticipate that our lower investment programme will be sustained in 2014, before returning to more typical levels, around 1.1 to 1.2 times depreciation from 2015.

Working capital again improved, by £30.5 million in 2013, as we sustained our tight control over receivables in the North American and Spanish contract businesses. Outstanding net receivables from public bodies in Spain reduced by a further €16 million in 2013 and remain in excellent control.

	2013 **£m**	2012 £m
Operating cash flow	**248.0**	209.6
Payments to associates and minorities	**(0.5)**	(8.2)
Net interest	**(48.4)**	(47.3)
Taxation paid	**(16.3)**	(13.3)
Free cash flow	**182.8**	140.8
UK rail franchise exit outflow	**(3.6)**	(87.0)
Cash flow after rail handover	**179.2**	53.8

With little year-on-year change in interest and tax, the improvement in operating cash flow was carried through to free cash flow. Free cash flow increased in 2013 by £42.0 million and reached £182.8 million (2012: £140.8m). This was an excellent cash performance, nearly £60 million ahead of our initial target set in February 2013. The prior year rail cash outflow related primarily to the handover of the NXEA franchise.

	2013 **£m**	2012 £m
Cash flow after rail handover	**179.2**	53.8
Net growth capital expenditure	**(7.7)**	(16.8)
Financial investments and shares	**(2.8)**	(0.8)
Exceptional cash flow	**(22.9)**	(40.7)
Acquisitions and disposals	**(9.5)**	(157.8)
Cash flow on the maturity of foreign exchange contracts	**(1.1)**	8.9
Foreign exchange and other non-cash movements	**(2.8)**	8.2
Dividends paid	**(50.3)**	(49.3)
Net funds flow	**82.1**	(194.5)

Growth capital investment was limited, reflecting our focus on capital discipline and driving growth in capital-light opportunities. For example, in our new contract in Tangiers, we have initially redeployed fleet previously used in Spain. Exceptional cash flow reflected our investment in developing growth opportunities. Acquisitions and disposals related primarily to the purchase of two ‘bolt-on’ school bus businesses in North America, giving us local scale and greater access to higher return business. The dividend grew by 2%. As a result of this strong cash performance, Group net debt reduced by £82.1 million to £746.1 million at 31 December 2013 (2012: £828.2m).

Capital returns

The Group’s objective is to maximise long term shareholder returns through the disciplined deployment of its funds. Our portfolio of assets has a mix of attributes that reflect stable profitability, organic growth and exciting strategic opportunities. In 2013 we strengthened our focus on capital deployment to target improved pre-tax return on capital employed by only investing where returns are significantly in excess of our cost of capital, by improving the redeployment of surplus fleet and through our capital-light business development opportunities. We have set a minimum hurdle of 12% pre-tax ROCE for investments, based on our estimated post-tax weighted average cost of capital of 7.5%. As a consequence of this focus, the Group’s core non-rail ROCE increased by 50 basis points in 2013 to 11.1% (2012: 10.6%).

Treasury management

Funding sources

The Group has a strong funding platform that underpins the delivery of its strategy. Core funding is provided from non-bank sources, to provide improved certainty and maturity of funding. At the end of 2013, the Group had committed funding of £768 million (2012: £787m) from non-bank sources. This included two public bonds - a 2017-dated £350 million bond at 6.25% and a 2020-dated £225 million bond at 6.625% - which are investment grade rated, at BBB- with Fitch (Stable outlook) and Baa3 from Moodys (Positive outlook). The Board is committed to maintaining an investment grade rating. The Group also has in place a private placement note purchase agreement for €78 million at 4.55%, due in 2021, and finance leases of £133 million that provide a low cost means to purchase vehicles, primarily in North America.

Additional committed bank funding of £410 million, to meet seasonal working capital needs and to provide sufficient funding headroom, is provided under the Group's unsecured Revolving Credit Facility ('RCF') which was renewed in July 2013 and matures in 2018. Following strong demand from our banking group, the margin on the new RCF was reduced to 1.1% over LIBOR (the previous facility was priced at an average margin of 1.45%). At 31 December 2013 the Group had drawn €20 million on the RCF and had cash and committed undrawn facilities of £434 million.

Financial ratios

The Board 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 2013 its financial ratios were as follows:

- Debt gearing ratio (net debt to EBITDA): 2.5 times (2012: 2.5 times), covenant not to exceed 3.5 times
- Interest cover (EBITDA to net interest): 6.1 times (2012: 6.7 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 2013, the proportion of Group net debt at floating rates was 33% (2012: 37%).

The Group's 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 financial ratios, the Group held, at 31 December 2013, Euro debt of €269 million and US dollar debt of $308 million. These correspond to 2.0 times Euro-generated EBITDA and 2.2 times US dollar-generated EBITDA in 2013.

Fuel risk management

The Group consumes approximately 245 million litres of diesel and gasoline each year for which it is at risk (i.e. there is no direct fuel escalator in the contract or concession price). This relates to the non-rail divisions and represented a total cost (including delivery and taxes) to the Group in 2013 of £172 million (10% of related revenue), at an average fuel component cost of 49 pence per litre. The Group has adopted a forward fuel buying policy in order to secure a degree of certainty in its planning. This policy is to hedge fully a minimum of 15 months addressable consumption against movements in price of the underlying commodity, together with at least 50% of the next nine months' consumption in the contract businesses. Currently, the Group is 100% fixed for 2014 at an average price of 49 pence/litre (excluding delivery and tax), 90% fixed for 2015 at an average price of 47p and 50% fixed for 2016 at 44p.

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 trade date.

Pensions

The Group's principal defined benefit pension schemes are all in the UK. At 31 December 2013 these schemes had a combined deficit under IAS19 of £30.1 million, an increase from the deficit position of £19.3 million at 31 December 2012, primarily due to lower asset returns and higher inflation. 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 was agreed with the trustees 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'). The WM plan remains open to accrual for existing active members only. This scheme was further de-risked during 2012 by securing future payments for existing pensioners in a £272 million insurance buy-in to the scheme. The Group expects to contribute around £10 million per annum in total deficit contributions to its defined benefit schemes until 2017.

The IAS19 valuations at 31 December 2013 were as follows:

- UK Bus (under the WM plan and the Tayside Transport Superannuation Fund): £40.8 million deficit (2012: £32.9m deficit);
- UK Coach plan: £12.6 million surplus (2012: £16.6 million surplus)
- UK Rail/other: £1.9 million deficit (2012: £3.2m 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.

During the year the Group adopted the revised IAS19 pension accounting standard. This replaced the interest cost and expected return on plan assets with a net interest charge on the net defined benefit liability. The full year impact on Group profit was a reduction of £4.1 million, which mainly affected the UK Bus business. No adjustment has been made to the prior year on the grounds of materiality. There was no cash impact from this change.

Jez Maiden

Group Finance Director

27 February 2014

Spain

Year ended 31 December	**2013 m**	2012 m
Revenue	**£564.6**	£535.0
Normalised operating profit	**£81.5**	£83.8
Revenue	**€665.0**	€659.1
Normalised operating profit	**€96.0**	€103.3
Operating margin	**14.4%**	15.7%

Overview of 2013

ALSA saw normalised operating profit fall in 2013 by 7% in local currency due to the impact of recession and rail competition on intercity coach patronage, coupled with higher fuel costs. Despite the challenging economic conditions, overall revenue grew, with contract wins in the urban business in Spain and growth in Morocco, while the intercity business partly mitigated lower revenue by reducing its mileage through its flexible operating model. As economic signs improve in Spain, better revenue management, continued efficiency and contract wins should allow ALSA to respond to pressure from austerity, rail and concession renewal, whilst providing a valuable platform from which to develop new growth opportunities across the Group.

Total revenue for the year in local currency grew by 1% to €665.0 million (2012: €659.1m) and by 6% in Sterling terms to £564.6 million (2012: £535.0m). Underlying revenue in intercity coach decreased by 1%, reflecting reduced consumer discretionary spend, but showed an improving trend through the year, delivering positive growth at the end of 2013. Urban bus revenue in Spain increased by 10% in total, benefitting from new concessions in Bilbao and Guadalajara. Like-for-like growth from existing concessions was unchanged on 2012 – the urban business operates under contract to city councils and does not generally take passenger revenue risk. It is also a platform for growth in Morocco, which saw underlying revenue increase by 14% and a new concession secured.

	Underlying growth %
Intercity – passenger revenue	(1)
Urban (Spain) – like-for-like growth	0
Urban (Morocco) – like for like growth	5

Normalised operating profit in local currency was €96.0 million (2012: €103.3m) and £81.5 million in Sterling terms (2012: £83.8m). Intercity profit fell due to lower passenger volume, particularly impacting services from Madrid with discounting by high speed rail exacerbating weakness in the domestic economy, partly offset by lower mileage, fleet and overhead cost efficiencies. Urban profit grew, with the benefit of volume growth in Morocco. The operating margin of 14.4% (2012: 15.7%) remains best in class for a Spanish bus and coach operator.

Operational excellence

ALSA is recognised as an excellent operator in public transport. In 2013 it was voted best transport company in Spain for customer excellence, ahead of coach, airline and rail competition. Our customer recommendation rate increased by five percentage points to 87%, despite the background of more demanding times. This success was also reflected in concession renewal and wins. ALSA renewed its urban bus contract in Palencia and was awarded new contracts in Guadalajara, Palma, San Sebastian, Tarrega and Tangiers; the latter is the third concession to be awarded to ALSA in Morocco, building on the success of Marrakech and Agadir. We were able to meet our local stakeholder's need to start the concession early, by deploying fleet from Spain.

Through our operational excellence programme, we are responding better to customer needs. In intercity coach operations, we saw substantial discounts introduced by the state-owned high speed rail operator, which significantly impacted our volume on the 20% of competed intercity services. We responded through selective discounting and will invest further in yield management, utilising our experience in the UK. In Agadir a major network improvement programme has boosted passengers by 33% and we see additional ridership opportunities in 2014.

Cost efficiency of €6 million was achieved and has been key to protecting profit from the impact of lower revenue and higher fuel prices. Network mileage was reduced by 3% to match lower demand. Procurement and overhead savings were delivered to help offset a fuel impact of €5 million and a reduction of €3 million in quality bonus payments available in urban bus. ALSA's 2012 Bilbao acquisition has seen improved scheduling, better employee management and stronger stakeholder relations which have seen a significant turnaround in performance from this previously loss-making acquisition.

	€m
2012 normalised operating profit	103
Net impact of changes in fares & services	–
Fuel cost	(5)
Cost inflation	(6)
Cost efficiencies	6
Other	(2)
2013 normalised operating profit	96

Our focus on safety through the 'Driving Out Harm' programme has benefitted customers, financial performance and our bidding credentials. Passenger injuries decreased in Morocco by 60% and by 10% in Spain, passenger claims in Spain were down 9% and in Morocco employee lost time injuries decreased 12%, with good progress in a challenging operating environment.

Cash and returns

In 2013 ALSA converted 110% of operating profit into operating cash. Working capital continued to improve – strong management of receivables saw the balance owing from public bodies (primarily city councils) fall to an exceptionally low €19 million (2012: €35m).

Our capital investment approach is disciplined. In 2013 we spent £44 million, including over 250 new buses and coaches, broadly in line with depreciation. In the urban bus business, we have agreed to reduce mileage operated in return for extending asset lives, lowering future investment. The cascading of spare fleet from Spain to Tangiers has also deferred capital expenditure to 2015. More targeted capital deployment will help ALSA offset profit pressure and retain its strong ROA.

Creating new opportunities

ALSA's diversified bus and coach portfolio, operating within a regulated concessionary framework, provides a platform for the growth of the Group in liberalising international markets. We have utilised ALSA's skills and systems to start-up coach operations in Germany and 2014 is likely to bring opportunities through liberalisation of the bus market in Portugal. Our success in Morocco has led to discussions with potential partners and customers internationally. We also remain interested in future prospects for private sector development in the domestic rail market.

We expect to see further opportunities in Morocco, where we have, over the past 13 years, established a reputation for innovation and excellence in operations. We commenced our second contract in Agadir in 2010, where revenue grew 25% in 2013 to over €13 million, and are already carrying 50,000 passengers a day on 65 buses in the Tangiers operation we started in November 2013, which we expect to grow during 2014. We expect to see further urban contract opportunities and potential intercity coach services benefitting from good road infrastructure.

In 2014, we expect a slowly improving consumer economy in Spain to continue the improving outlook for intercity coach. Investment in yield management will help mitigate sustained competition from rail and selected low-cost airline activity, with coach travel continuing to deliver excellent value to cash-constrained customers. The national coach concession renewal programme has been delayed into 2014 and the removal of the incumbent advantage is expected to be confirmed on publication of the first tenders. However, we do not expect a material impact on performance in 2014 and, as the best in class operator, we expect our high quality bids to maximise retention and present new concession opportunities in a highly competitive market.

We will seek to protect urban services during the current period of council spending austerity and support our capital return through greater fleet efficiency. Cost efficiency will underpin profitability, supported by unchanged hedged fuel costs in 2014 and reduced cost in 2015.

North America

Year ended 31 December	2013 m	2012 m
Revenue	**£645.0**	£578.3
Operating profit	**£62.6**	£59.1
Revenue	**US$1,009.4**	US$919.4
Operating profit	**US$97.9**	US$94.0
Operating margin	**9.7%**	10.2%

Overview of 2013

Our North America business had a successful 2013, exceeding US$1 billion of revenue for the first time, growing profit by 4% in local currency, generating nearly US$200 million of operating cash flow and improving ROA to 22%. This reflects our strategy to reshape the School Bus business, by driving incremental return on capital, and to grow the Transit business established in 2012. This performance was achieved despite a significant fuel cost increase and a reduction in discretionary school routes. We have created a strong position from which to increase School Bus returns and expand the Transit operation.

Total revenue in local currency grew by 10% to US$1,009.4 million (2012: US$919.4m) as we completed integration of the Petermann school bus business acquired in May 2012. Underlying revenue grew by 3%, with improved pricing on school bus contract renewal, an increase in the number of school buses operated from the previous bid season and US$20 million of new contract revenue secured in Transit. Charter and field trip revenue increased by 9% and is a key focus for added value development in 2014. We have a current order book of US$1.5 billion.

Normalised operating profit increased to US$97.9 million (2012: US$94.0m). Revenue growth and further synergy benefits from the integration of Petermann helped offset a US$7 million increase in the price of fuel and investment in bid development resource in Transit. Operating margin decreased by 50 basis points to 9.7%. As we grow the Transit business, this will generally be at lower margin than School Bus, reflecting the former's capital-light nature.

Operational excellence

Our North America School Bus operation already delivers best in class margin, following successful completion of our margin improvement programme between 2010 and 2012. Traditionally, the school bus industry is a capital intensive, low cash generation business. In 2013 our focus has been to increase the return on capital across our portfolio of 500 contracts and generate a strong cash flow. By focusing on contracts which generate adequate capital returns, we have more defensible, relationship-based contracts where our service quality is valued by the customer. Where we are not able to obtain financial returns above our minimum criteria, we have exited the contract – in the 2013/14 school year bid season we relinquished 16 contracts, leading to a reduction, net of bid wins, of 200 buses operated.

Our superior service delivery was reflected in our high contract retention rate, achieving 97% during the last School Bus bidding season, and 100% for acquired Petermann customers. 94% of school customers would recommend us. We have invested in a new 'Master Driver' programme to enhance driver skills and achieved 86% employee satisfaction, a record performance. A new key account management programme is helping our focus on contract retention, whilst we continue to target school board outsourcing, or 'conversion', contracts, which require lower capital and give better returns. We secured 13 new conversion contracts in 2013.

The market remains highly competitive and delivering cost efficiencies is crucial. In 2013 we achieved US$13 million of efficiency and synergy. Our approach focuses on simplification and standardisation across our 230 field locations, utilising technology and continuously improving safety performance. Following a successful pilot in 2013, we are now rolling out standardised processes and management systems to bring cost savings and a greater degree of control. This will support our GPS-based 'Compass' system which was fully implemented during 2013 – it integrates driver hours to payroll and

customer invoicing, and has generated savings of $3 million through scheduling and fuel improvements. Compass also supports our safety programme, 'Driving Out Harm', by recording details of the inspection before and after every journey. We have also achieved further reductions in accident rates – preventable street accidents fell by 5% and total accidents by 3% in 2013 – and reduced insurance premiums.

	$m
2012 normalised operating profit	94
Annualisation of Petermann acquisition	5
Net impact of changes in pricing & contracts	7
Reduction in discretionary routes in School Bus	(7)
Fuel cost	(7)
Cost inflation	(10)
Synergies & cost efficiencies	13
Other	3
2013 normalised operating profit	98

Cash and returns

Operating cash flow represented a conversion of 200% of operating profit, the equivalent of paying for the Petermann acquisition in one year. Working capital collection at the traditional times of school and calendar year-ends was very strong. In addition, the programme to improve contract capital returns has led to lower capital investment requirements. This has been supported by negotiated extension to vehicle lives, redeploying vehicles that were surplus fleet (the spare vehicle ratio has been reduced to 11% from 18% three years ago) and cascading fleet from exited contracts. In addition, conversion contracts tend to require less initial capital expenditure. We expect capital requirements in 2014 to remain suppressed as the contract return improvement programme continues, before returning to a constant fleet replacement rate in 2015 and 2016. The fleet remains well invested with an average age of 7.1 years (2012: 6.9 years).

Improved profitability and more efficient capital deployment have combined to increase ROA to 21.7% from 17.2% in 2012. During the year, we also acquired two small 'bolt on' School Bus operations in Canada, adding scale and capabilities to existing local operations at attractive values, and sold a low return business in Boston.

Creating new opportunities

The North America Transit business provides an exciting capital-light business development opportunity in a growing market. Within 18 months we have built US$80 million of annual revenue in the disabled transport ('Paratransit'), Shuttle and Fixed Route (bus) segments. Building on our three seed acquisitions in 2012, we have now won five contracts targeted in smaller, lower risk markets. Using our operational expertise and track record of service delivery, we are bidding an active current pipeline of $200m in annual revenue. In most bids, vehicles are funded by the Federal government or the customer. Margins therefore tend to be lower than school bus but return on capital is high.

In School Bus, we expect to maintain capital returns above 20% as we improve the contract portfolio. A continued focus on cost efficiency and the benefit of hedged fuel costs at or below 2013 levels through to 2016 should also support margin growth and offset rising welfare and medical taxes. Market pricing is likely to remain highly competitive; we will be selective in targeting new contracts, focusing on conversion and high service contracts, such as special education.

UK Bus

Year ended 31 December	**2013 £m**	2012 £m
Revenue	**273.4**	269.0
Operating profit	**31.2**	34.1
Operating margin	**11.4%**	12.7%

Overview of 2013

After a strong turnaround in profits between 2010 and 2012, UK Bus experienced a decline in 2013 due to a change in pension accounting standard and reduced government fuel duty rebate ('BSOG'). Like-for-like commercial revenue growth, up 3% in the second half of the year, together with cost efficiency, more than offset other headwinds which included higher fuel costs. Passenger growth reflected our investment in fleet, service and technology.

Total revenue grew by 2% to £273.4 million (2012: £269.0m). Like-for-like commercial revenue increased by 2% for the full year and 4% in the second half, following a weather-impacted first quarter. Commercial passenger journeys rose 1% in the year and concession income increased by 2% during the second half of the year.

	Growth %
Like-for-like commercial revenue	2
Mileage (increase)/reduction	–
Underlying commercial revenue	2
Concession revenue	–
Total revenue	2

Normalised operating profit for the year reduced by £2.9 million to £31.2 million (2012: £34.1m), an operating margin of 11.4% (2012: 12.7%). Pension accounting and BSOG changes cost £3.7 million, more than accounting for the lower profit. Revenue growth and £9 million of cost efficiencies mitigated the impact of cost inflation and a £3 million increase in fuel prices.

Operational excellence

Customer service delivery is vital to achieving profitable growth. In 2013 we improved our offering, introduced technology and increased punctuality, resulting in better customer satisfaction and improved efficiency. We improved punctuality 7% and reduced customer complaints by 12%. Customer satisfaction rose to 83%. Our network improvements have driven patronage growth – by over 10% in North Birmingham, supported by new buses, high profile marketing and strong branding on key corridors. Passenger volumes rose by up to 5% in each of Wolverhampton and Coventry following network reviews. Overall we increased our network mileage, for example working closely with Jaguar Land Rover and the Merry Hill shopping centre to meet new demand. Over 130 new buses were added to the network and new programmes, such as city centre vehicle turnaround cleaning, have been well received. New services have been introduced and 2013 saw our best ever Boxing Day revenue performance, reflecting changes to traditional demand patterns.

Operational performance improvement was driven through technology. Our central control centre uses automatic vehicle location (‘AVL’) to manage frequencies and to adapt timetables to traffic patterns, driving better punctuality. In turn, this information is fed to the network’s bus stops as real time information for passengers. Over 100,000 mobile users also downloaded our West Midlands bus app.

We also expanded the ways in which customers can buy tickets to travel. Travelcards have been increasingly popular - these reduce cost to the passenger and increase loyalty to National Express services. We also introduced smartcards to the West Midlands, with 100,000 journeys already taken in Coventry, Dundee and the West Midlands.

We are seeking to drive margins nearer best in class through cost efficiency. In 2014 we will be seeking to improve structural cost efficiency in driving and engineering. Changes in maintenance practice have produced improved fleet reliability. Safety improvements are also driving cost savings, with annual claims costs down £2.5 million since 2011. Employee lost time injuries have improved by 38% and passenger injuries were 23% better.

	£m
2012 normalised operating profit	34
Fuel cost	(3)
Fuel duty (BSOG) reduction	(1)
Changes to pension accounting	(3)
Cost inflation	(8)
Net impact from revenue growth	4
Cost efficiencies	9
Other	(1)
2013 normalised operating profit	31

Cash and returns

The UK Bus business generates an excellent return on capital, delivering good asset utilisation and profitable returns on investment. We believe that investing in new fleet and technology to drive passenger growth is vital. Capital expenditure during the year was £27 million, representing 1.7 times depreciation. We are well invested in the fleet and vehicle age continues to reduce, now at 8.5 years (2012: 8.8yrs). As a result of the investment programme, operating cash flow was 61% of profit. ROA for the division remains strong.

Creating new opportunities

UK Bus is a stable, strong return on capital business, with opportunity for revenue growth and margin improvement within its existing footprint. Through investment in fleet, technology and structural cost reduction, we are seeking to improve passenger volume growth. Stable hedged fuel prices and no further planned austerity measures will help in 2014. However, the regional economies in which we operate remain fragile and longer term funding pressures on concession arrangements remain.

Our ground-breaking 'Transforming Bus Travel' partnership with Centro is important for the medium term. We have jointly committed to a range of initiatives and investments to enhance bus services in the West Midlands. These include sustainable fares, reliable and punctual services, investment in 300 new, environmentally friendly vehicles, promoting bus ridership through real-time information, 350 new bus shelters, refurbished bus stations and bus road priority schemes. We will also be introducing new, longer trams in 2014. We believe the partnership leads the UK industry in stakeholder relations. As the largest single commercial network in the UK, together with Spain and Morocco, this is also a powerful credential as we explore international opportunities.

UK Coach

Year ended 31 December	**2013 £m**	2012 £m
Revenue	**263.5**	255.1
Operating profit	**24.5**	20.6
Operating margin	**9.3%**	8.1%

Overview of 2013

UK Coach has delivered a strong turnaround performance, recovering from the previous withdrawal of senior citizen concession funding. The business has re-established a solid financial and operational foundation from which to drive continued revenue growth and margin improvement, generating momentum for the future.

Total revenue increased by 3% to £263.5 million (2012: £255.1m). Core express revenue increased by 7%, with dynamic pricing, network improvements and new distribution agreements achieving passenger volume growth of 9%. This was supported by good performances in Eurolines, Airlinks and The Kings Ferry, with only Rail Replacement significantly lower following the handback of the NXEA rail franchise in 2012.

	Growth %
Passenger yield	(2)
Passenger volume	9
Change in Core Express revenue	7
Other revenues (primarily Rail Replacement)	(6)
Total revenue	3

Normalised operating profit increased by £3.9 million to £24.5 million (2012: £20.6m) and operating margin was 9.3% (2012: 8.1%). Excluding the one-off profit in 2012 from Olympics contracts, the underlying profit improvement was over £6 million, an increase of 30% year-on-year. Giving passengers easy access to lower fares, more frequent and punctual services, investment in new coaches and greater cost efficiency all contributed to this progress.

	£m
2012 normalised operating profit	21
Cost inflation	(11)
Impact of government rebate changes	(1)
Net impact of growth and new contracts	13
Olympic contracts	(2)
Cost efficiencies & network changes	7
Other	(2)
2013 normalised operating profit	25

Operational excellence

Our customer service strategy has focused on providing frequent coach services at low prices. Firstly, network changes have shortened journey times – for example, along the M4 corridor between the West Country and Heathrow and London. Supported by technology through real time coach monitoring, punctuality improved by over one percentage point. Secondly, lower prices, which were reduced during 2012, have been sustained, whilst better yield management has allowed us to encourage travellers by flexing pricing in line with market conditions. This has been supported by enhanced products, such as the senior citizen coach card.

Ease of access to fares has been improved by broadening retail distribution with particular focus on target customer segments. This has resulted in distribution agreements with the Post Office, where we access customers through 11,000 branches, and Ryanair, via their website during the inbound passenger booking process. We have also focused on building on our contract capabilities, commencing operations to serve Luton Airport from London 70 times a day, extending airport work at Gatwick and carrying a record number of passengers to the Glastonbury Festival. Distribution through Wizz Air, a key Luton Airport carrier, was added at the end of 2013. The Kings Ferry expanded its popular commuter operation with a new service serving North Somerset and Bristol. We operated express coach services linking 10 cities with London, Heathrow and Gatwick on Christmas Day for the first time; all but one service was sold out.

As a result of this strategy, all express segments have seen increased patronage, with airport routes particularly popular. This has driven efficiency through better load factors per coach. Coupled with streamlining of our third party network and cost efficiency in our owned operations with the closure of the Crawley depot, in total saving over £7 million, this has driven significant margin improvement. Safety improvements saw customer injury frequency down 40% and vehicle collisions 8% lower.

Cash and returns

The UK Coach business model has particularly strong return on capital and cash generation, outsourcing the majority of fleet provision and services to its partner operators in a capital-light model. Operating cash conversion was 140% of profit in 2013. Capital expenditure is primarily focused on technology and retail systems.

Creating new opportunities

Attractive pricing, alongside improved yield management, will allow the division to continue to grow volume, improving load factors and profitability. Distribution channels to customers will be expanded, alongside a continued focus on operational efficiency. Remaining competitive against our key competitor, rail, will be a key focus.

The unique UK Coach model with its low price, modern, frequent services is well placed to continue to grow both revenue and margin. The concept is also applicable to developing international markets as a template for capital-light growth - for example, we have adopted the partner model to develop our German coach operation, mitigating significant investment cost in new markets. Coach services were launched in Germany in April 2013 with three initial services, expanded to five in July, linking Munich, Stuttgart, Frankfurt, Cologne, Dusseldorf and Hamburg. During this start-up period revenue has been €2.4 million and normalised operating loss €2.8 million, the latter reflecting significant marketing investment. We expect the loss to be similar in 2014 as market development continues.

Rail

Data for Annual Report

Year ended 31 December	**2013 £m**	2012 £m
Revenue	**143.0**	195.1
Operating profit	**9.8**	26.7
Operating margin	**6.9%**	13.7%

Overview of 2013

2013 saw National Express secure new long-term contracts in Rail. Building on the performance of c2c as the UK's top performing franchise, we secured two new contracts in Germany to run until 2030. With the c2c franchise extended until September 2014, our focus is on the significant bid pipeline of opportunities in the UK, where we are shortlisted for three contracts, and in Germany.

Total revenue in 2013 was £143.0 million (2012: £195.1m), the year-on-year reduction reflecting the end of the NXEA franchise during 2012. The c2c franchise increased underlying revenue by 4%. Normalised operating profit was £9.8 million (2012: £26.7m) leading to an operating margin of 6.9% (2012: 13.7%). The c2c franchise was extended by the Department for Transport ('DfT') in May 2013 and was in 100% profit share to the DfT at the end of 2013 (this is reset for 2014 until the expiry of the franchise in September).

Operational excellence

The Rail division is at the forefront of the Group's drive for operational excellence. In December, c2c was awarded a 5-star rating by the European Foundation for Quality Management, the highest level attainable. This is an important credential for bidding in rail. c2c's customer service is evident – it has been the top rated performer of all UK rail franchises throughout 2012 and 2013, with an annual average punctuality of 96.9%. Customer satisfaction and National Passenger Survey results are also industry leading, with the latter recording a 92% score, making c2c the best DfT franchise.

Our offering to customers continues to expand. In August we were selected by the DfT to trial a flagship paperless flexible ticketing system using smartcards. This follows the addition of 14,000 extra seats per week in the new May timetable. Safety performance also improved with its lowest ever rate of employee accidents.

Cash and returns

Rail offers a capital-light model with lower margins but high returns. In 2013 c2c converted 150% of normalised operating profit into operating cash. In the event that National Express did not retain the c2c franchise in September 2014, the cash outflow associated with the franchise handover would be around £22 million.

Creating new opportunities

Leveraging our UK rail experience and the operational performance credentials of c2c, our strategy in Rail is to secure a number of smaller, lower risk UK and German rail franchises where the franchise risk is acceptable. Other markets may liberalise and be attractive in due course (for example, Spain).

In 2013 we won two rail contracts to provide services to the Nord Rhine Westphalia regional government in Germany. These contracts, operating as the 'Rhine Munsterland Express', will generate €70 million of revenue per year and will run for 15 years from December 2015, securing our participation in rail until 2030. The mobilisation is underway, with the first of 35 trains procured on behalf of the regional authority from Bombardier due to be delivered in June 2014. We have also pre-qualified for the Berlin Ringbahn contract, due to be bid later this year and are looking at other suitable contracts in Germany, as well as in the neighbouring Czech Republic. We are currently working on 18 opportunities with annual revenue of £1 billion.

In the UK, we have a skilled and experienced bid team and have submitted bids to the DfT for Essex Thameside, where we are the current operator as c2c, and to Transport for London for Crossrail. We have also been selected by Transport Scotland to bid for the ScotRail franchise in April.

Group Income Statement
For the year ended 31 December 2013

	Total before intangible amortisation and exceptional items 2013 £m	**Intangible amortisation and exceptional items 2013 £m**	**Total 2013 £m**	Total before intangible amortisation and exceptional items 2012 £m	Intangible amortisation and exceptional items 2012 £m	Total 2012 £m
Continuing operations						
Revenue	**1,891.3**	**–**	**1,891.3**	1,831.2	–	1,831.2
Operating costs before intangible amortisation and exceptional items	**(1,698.4)**	**–**	**(1,698.4)**	(1,619.3)	–	(1,619.3)
Intangible amortisation	**–**	**(49.3)**	**(49.3)**	–	(51.7)	(51.7)
Exceptional items	**–**	**(25.7)**	**(25.7)**	–	(42.6)	(42.6)
Total operating costs	**(1,698.4)**	**(75.0)**	**(1,773.4)**	(1,619.3)	(94.3)	(1,713.6)
Group operating profit	**192.9**	**(75.0)**	**117.9**	211.9	(94.3)	117.6
Loss on disposal of business	**–**	**(4.3)**	**(4.3)**	–	–	–
Share of results of associates	**0.6**	**–**	**0.6**	1.4	–	1.4
Finance income	**6.8**	**–**	**6.8**	4.4	–	4.4
Finance costs	**(56.6)**	**–**	**(56.6)**	(53.6)	–	(53.6)
Profit before tax	**143.7**	**(79.3)**	**64.4**	164.1	(94.3)	69.8
Tax charge	**(32.5)**	**26.4**	**(6.1)**	(32.7)	24.2	(8.5)
Profit for the year	**111.2**	**(52.9)**	**58.3**	131.4	(70.1)	61.3
Profit attributable to equity shareholders	**109.7**	**(52.9)**	**56.8**	130.1	(70.1)	60.0
Profit attributable to non-controlling interests	**1.5**	**–**	**1.5**	1.3	–	1.3
	111.2	**(52.9)**	**58.3**	131.4	(70.1)	61.3
Earnings per share:						
– basic earnings per share			**11.1p**			11.8p
– diluted earnings per share			**11.1p**			11.7p
Normalised earnings per share:						
– basic earnings per share	**21.5p**			25.5p		
– diluted earnings per share	**21.4p**			25.4p		

Group Statement of Comprehensive Income
For the year ended 31 December 2013

	2013 £m	2012 £m
Profit for the year	**58.3**	61.3
Items that will not be reclassified subsequently to profit or loss:		
Actuarial losses on defined benefit pension plans	**(19.0)**	(31.1)
Deferred tax on actuarial losses	**3.7**	7.2
	(15.3)	(23.9)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on retranslation of foreign operations (net of hedging)	**1.0**	(44.2)
Exchange differences on retranslation of non-controlling interests	**0.2**	(0.2)
Gain on cash flow hedges	**2.5**	2.2
Less: reclassification adjustments for gains or losses included in profit	**(3.5)**	(20.2)
Tax on exchange differences	**2.0**	1.6
Deferred tax on cash flow hedges	**0.3**	4.9
	2.5	(55.9)
Total comprehensive income/(expenditure) for the year	**45.5**	(18.5)
Total comprehensive income/(expenditure) attributable to:		
Equity shareholders	**43.8**	(19.6)
Non-controlling interests	**1.7**	1.1
	45.5	(18.5)

Group Balance Sheet
At 31 December 2013

	2013 £m	2012 £m
Non-current assets		
Intangible assets	**1,223.5**	1,262.9
Property, plant and equipment	**751.4**	787.4
Available for sale investments	**7.4**	7.1
Derivative financial instruments	**18.5**	31.1
Investments accounted for using the equity method	**5.1**	4.4
Trade and other receivables	**4.6**	5.6
Defined benefit pension asset	**12.6**	16.6
	2,023.1	2,115.1
Current assets		
Inventories	**21.2**	19.3
Trade and other receivables	**169.9**	194.8
Derivative financial instruments	**3.1**	4.7
Deferred tax assets	**16.7**	7.8
Current tax assets	**1.6**	0.8
Cash and cash equivalents	**40.9**	72.8
	253.4	300.2
Total assets	**2,276.5**	2,415.3
Non-current liabilities		
Borrowings	**(750.7)**	(786.8)
Derivative financial instruments	**(1.6)**	(2.2)
Deferred tax liability	**(75.1)**	(84.8)
Other non-current liabilities	**(6.5)**	(5.9)
Defined benefit pension liability	**(42.7)**	(35.9)
Provisions	**(21.4)**	(28.3)
	(898.0)	(943.9)
Current liabilities		
Trade and other payables	**(351.6)**	(348.4)
Borrowings	**(76.8)**	(169.0)
Derivative financial instruments	**(1.9)**	(3.0)
Current tax liabilities	**(22.9)**	(19.9)
Provisions	**(28.0)**	(28.7)
	(481.2)	(569.0)
Total liabilities	**(1,379.2)**	(1,512.9)
Net assets	**897.3**	902.4
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	**(0.8)**	(0.5)
Other reserves	**46.5**	44.2
Retained earnings	**282.4**	290.7
Total shareholders' equity	**886.6**	892.9
Non-controlling interests in equity	**10.7**	9.5
Total equity	**897.3**	902.4

Group Statement of Changes in Equity
For the year ended 31 December 2013

	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 2013	**25.6**	**532.7**	**0.2**	**(0.5)**	**44.2**	**290.7**	**892.9**	**9.5**	**902.4**
Shares purchased	**–**	**–**	**–**	**(2.8)**	**–**	**–**	**(2.8)**	**–**	**(2.8)**
Own shares released to satisfy employee share schemes	**–**	**–**	**–**	**2.5**	**–**	**(2.5)**	**–**	**–**	**–**
Total comprehensive income and expenditure	**–**	**–**	**–**	**–**	**2.3**	**41.5**	**43.8**	**1.7**	**45.5**
Share-based payments	**–**	**–**	**–**	**–**	**–**	**3.1**	**3.1**	**–**	**3.1**
Tax on share-based payments	**–**	**–**	**–**	**–**	**–**	**(0.1)**	**(0.1)**	**–**	**(0.1)**
Dividends	**–**	**–**	**–**	**–**	**–**	**(50.3)**	**(50.3)**	**–**	**(50.3)**
Dividends paid to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(0.5)**	**(0.5)**
At 31 December 2013	**25.6**	**532.7**	**0.2**	**(0.8)**	**46.5**	**282.4**	**886.6**	**10.7**	**897.3**

	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 income and expenditure	–	–	–	–	(55.7)	36.1	(19.6)	1.1	(18.5)
Share-based payments	–	–	–	–	–	5.2	5.2	–	5.2
Tax on share-based payments	–	–	–	–	–	(0.1)	(0.1)	–	(0.1)
Dividends	–	–	–	–	–	(49.3)	(49.3)	–	(49.3)
Adjustment from changes in non-controlling interests	–	–	–	–	–	–	–	0.5	0.5
At 31 December 2012	25.6	532.7	0.2	(0.5)	44.2	290.7	892.9	9.5	902.4

Group Statement of Cash Flows
For the year ended 31 December 2013

	2013 £m	2012 £m
Cash generated from operations	**296.4**	169.6
Tax paid	**(16.3)**	(13.4)
Net cash from operating activities	**280.1**	156.2
Cash flows from investing activities		
Payments to acquire businesses, net of cash acquired	**(7.2)**	(156.9)
Deferred consideration for businesses acquired and disposed	**(3.7)**	(0.6)
Proceeds from the disposal of business	**1.4**	–
Purchase of property, plant and equipment	**(90.7)**	(103.8)
Proceeds from disposal of property, plant and equipment	**12.1**	16.7
Payments to acquire intangible assets	**(3.2)**	(2.9)
Payments to acquire associates	**–**	(0.5)
Proceeds from disposal of associates	**–**	1.6
Dividends received from associates	**–**	0.9
Interest received	**5.2**	3.7
Net cash used in investing activities	**(86.1)**	(241.8)
Cash flows from financing activities		
Proceeds from the sale of treasury shares	**–**	4.0
Purchase of own shares	**(2.8)**	(4.8)
Interest paid	**(51.0)**	(48.8)
Finance lease principal payments	**(21.3)**	(18.0)
Net loans (repaid)/drawn down	**(99.4)**	174.5
(Payments)/receipts for the maturity of foreign currency contracts	**(1.1)**	8.9
Dividends paid to non-controlling interests	**(0.5)**	(0.1)
Dividends paid to shareholders of the Company	**(50.3)**	(49.3)
Net cash (used in)/from financing activities	**(226.4)**	66.4
Decrease in cash and cash equivalents	**(32.4)**	(19.2)
Opening cash and cash equivalents	**72.8**	92.5
Decrease in cash and cash equivalents	**(32.4)**	(19.2)
Foreign exchange	**0.5**	(0.5)
Closing cash and cash equivalents	**40.9**	72.8

Notes
For the year ended 31 December 2013

1 Basis of preparation

The results are based on the Group financial statements, 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 2013 statutory financial statements.

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:

	2013 Closing rate	**2013 Average rate**	2012 Closing rate	2012 Average rate
US dollar	**1.66**	**1.56**	1.63	1.59
Canadian dollar	**1.76**	**1.61**	1.61	1.59
Euro	**1.20**	**1.18**	1.23	1.23

If the results for the year to 31 December 2012 had been retranslated at the average exchange rates for the year to 31 December 2013, North American Bus would have achieved normalised operating profit of £59.8m on revenue of £584.8m, compared to normalised operating profit of £59.1m on revenue of £578.3m as reported, and Spanish Coach & Bus would have achieved a normalised operating profit of £87.7m on revenue of £559.5m, compared to normalised operating profit of £83.8m on revenue of £535.0m 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.

Revenue is analysed by reportable segment and geographical location as follows:

	External revenue 2013 £m	**Inter-segment sales 2013 £m**	**Segment revenue 2013 £m**	External revenue 2012 £m	Inter-segment sales 2012 £m	Segment revenue 2012 £m
UK Bus	**273.3**	**0.1**	**273.4**	268.8	0.2	269.0
UK Coach	**263.3**	**0.2**	**263.5**	254.0	1.1	255.1
North American Bus	**645.0**	**–**	**645.0**	578.3	–	578.3
Spanish Coach & Bus	**564.6**	**–**	**564.6**	535.0	–	535.0
Core non-Rail businesses	**1,746.2**	**0.3**	**1,746.5**	1,636.1	1.3	1,637.4
German Coach	**2.1**	**–**	**2.1**	–	–	–
Non-Rail businesses	**1,748.3**	**0.3**	**1,748.6**	1,636.1	1.3	1,637.4
Rail	**143.0**	**–**	**143.0**	195.1	–	195.1
Inter-segment sales elimination	**–**	**(0.3)**	**(0.3)**	–	(1.3)	(1.3)
Total revenue	**1,891.3**	**–**	**1,891.3**	1,831.2	–	1,831.2

3 Segmental analysis *continued*

German Coach is not considered to be an operating or a reportable segment.

All revenue in the Rail segment is generated in the UK.

Inter-segment sales in UK Bus represent internal commission on ticket sales. Inter-segment sales in UK Coach represent rail replacement services provided to Rail. 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.

Operating profit is analysed by reportable segment as follows:

	Normalised operating profit 2013 £m	**Intangible amortisation and exceptional items 2013 £m**	**Segment result 2013 £m**	Normalised operating profit 2012 £m	Intangible amortisation and exceptional items 2012 £m	Segment result 2012 £m
UK Bus	**31.2**	**(1.4)**	**29.8**	34.1	(3.7)	30.4
UK Coach	**24.5**	**(1.9)**	**22.6**	20.6	(2.5)	18.1
North American Bus	**62.6**	**(18.1)**	**44.5**	59.1	(25.9)	33.2
Spanish Coach & Bus	**81.5**	**(37.2)**	**44.3**	83.8	(41.8)	42.0
Central functions	**(14.3)**	**(6.4)**	**(20.7)**	(12.4)	(2.7)	(15.1)
Core non-Rail businesses	**185.5**	**(65.0)**	**120.5**	185.2	(76.6)	108.6
German Coach	**(2.4)**	**(0.7)**	**(3.1)**	–	–	–
Non-Rail businesses	**183.1**	**(65.7)**	**117.4**	185.2	(76.6)	108.6
Rail	**9.8**	**(9.3)**	**0.5**	26.7	(17.7)	9.0
Operating profit from continuing operations	**192.9**	**(75.0)**	**117.9**	211.9	(94.3)	117.6
Loss on disposal of business			**(4.3)**			–
Share of post-tax results from associates and joint ventures			**0.6**			1.4
Net finance costs			**(49.8)**			(49.2)
Profit before tax			**64.4**			69.8
Tax charge			**(6.1)**			(8.5)
Profit for the year			**58.3**			61.3

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

3 Segmental analysis *continued*

	Intangible asset amortisation 2013 £m	Operating exceptional items 2013 £m	Total £m
UK Bus	**–**	**1.4**	**1.4**
UK Coach	**0.3**	**1.6**	**1.9**
Rail	**–**	**9.3**	**9.3**
North American Bus	**13.5**	**4.6**	**18.1**
Spanish Coach & Bus	**35.4**	**1.8**	**37.2**
Central functions	**0.1**	**6.3**	**6.4**
Other	**–**	**0.7**	**0.7**
Total	**49.3**	**25.7**	**75.0**

	Intangible asset amortisation 2012 £m	Operating exceptional items 2012 £m	Total £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
Spanish Coach & Bus	40.4	1.4	41.8
Central functions	0.1	2.6	2.7
Total	51.7	42.6	94.3

Exceptional items are further analysed by type as follows:

	2013 £m	2012 £m
UK rail bids	**7.4**	16.3
Other rail bids	**1.9**	1.3
Other business development	**6.4**	3.0
	15.7	20.6
North America acquisition and integration	**4.6**	13.4
Restructuring and rationalisation	**5.4**	8.6
	25.7	42.6

In the year to 31 December 2013, exceptional costs of £7.4m (2012: £16.3m) were incurred in relation to UK rail bids. This includes the costs of bidding for the Essex Thameside, Crossrail and Scotrail rail franchises. In addition, £1.9m (2012: £1.3m) was incurred in bidding for regional rail opportunities in Germany.

£6.4m (2012: £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 in new markets.

Exceptional costs of £4.6m (2012: £13.4m) were incurred in relation to the acquisition and integration of school bus and transit businesses in North America.

Exceptional restructuring and rationalisation costs of £5.4m (2012: £8.6m) have been incurred, primarily within UK Bus, UK Coach and Spanish Coach & Bus.

4 Net finance costs

	2013 £m	2012 £m
Bond and bank interest payable	**(50.2)**	(47.4)
Finance lease interest payable	**(4.4)**	(4.7)
Other interest payable	**(0.2)**	(0.2)
Unwind of provision discounting	**(1.3)**	(1.3)
Net interest cost on defined benefit pension obligations	**(0.5)**	–
Finance costs	**(56.6)**	(53.6)
Other financial income	**6.8**	4.4
Net finance costs	**(49.8)**	(49.2)
Of which, from financial instruments:		
Cash and cash equivalents	**(2.7)**	(1.6)
Financial liabilities measured at amortised cost	**(48.7)**	(46.9)
Derivatives used for hedging	**5.9**	4.0
Loan fee amortisation	**(2.4)**	(2.4)

5 Taxation

Analysis of taxation charge in the year

	2013 £m	2012 £m
Current taxation:		
UK corporation tax	**3.9**	1.6
Overseas taxation	**14.4**	7.0
Current income tax charge	**18.3**	8.6
Adjustments with respect to prior years – UK and overseas	**–**	(0.5)
Total current income tax charge	**18.3**	8.1
Deferred taxation:		
Origination and reversal of temporary differences – continuing operations	**(11.8)**	(0.3)
Adjustments with respect to prior years – UK and overseas	**(0.4)**	0.7
Deferred tax (credit)/charge	**(12.2)**	0.4
Total tax charge	**6.1**	8.5
The tax charge is disclosed as follows:		
Tax charge on profit before intangible asset amortisation and exceptional items	**32.5**	32.7
Tax credit on intangible asset amortisation and exceptional items	**(26.4)**	(24.2)
	6.1	8.5
Tax credit on intangible asset amortisation and exceptional items is analysed as follows:		
Tax credit on intangible asset amortisation	**(17.4)**	(15.1)
Tax credit on exceptional items	**(6.8)**	(9.1)
Tax credit on loss on disposal of business	**(2.2)**	–
	(26.4)	(24.2)

6 Dividends paid and proposed

	2013 £m	2012 £m
Declared and paid during the year		
Ordinary final dividend for 2012 paid of 6.6p per share	**33.7**	33.2
Ordinary interim dividend for 2013 of 3.25p per share	**16.6**	16.1
	50.3	49.3
Proposed for approval (not recognised as a liability at 31 December)		
Ordinary final dividend for 2013 of 6.75p per share (2012: 6.6p per share)	**34.5**	33.7

7 Earnings per share

	2013	2012
Basic earnings per share	**11.1p**	11.8p
Normalised basic earnings per share	**21.5p**	25.5p
Diluted earnings per share	**11.1p**	11.7p
Normalised diluted earnings per share	**21.4p**	25.4p

Basic earnings per share is calculated by dividing the earnings attributable to equity shareholders of £56.8m (2012: £60.0m) 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:

	2013	2012
Basic weighted average shares	**511,114,989**	510,552,927
Adjustment for dilutive potential ordinary shares	**1,425,106**	1,626,921
Diluted weighted average shares	**512,540,095**	512,179,848

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:

	2013			2012		
	£m	**Basic EPS p**	**Diluted EPS p**	£m	Basic EPS p	Diluted EPS p
Profit attributable to equity shareholders	**56.8**	**11.1**	**11.1**	60.0	11.8	11.7
Intangible amortisation	**49.3**	**9.7**	**9.6**	51.7	10.1	10.1
Exceptional items	**25.7**	**5.0**	**5.0**	42.6	8.3	8.3
Loss on disposal of business	**4.3**	**0.8**	**0.8**	–	–	–
Tax relief on the above items	**(26.4)**	**(5.1)**	**(5.1)**	(24.2)	(4.7)	(4.7)
Normalised profit from continuing operations and attributable to equity shareholders	**109.7**	**21.5**	**21.4**	130.1	25.5	25.4

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.

The defined benefit pension schemes typically expose the Group to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

During the prior period, certain liabilities of the Travel West Midlands Pension Fund relating to current and deferred pensioners valued at £238m on an accounting basis, were insured at a cost of £272m at the transaction date. 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. 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.

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 total pension cost charged to operating profit in the year was £9.5m (2012: £6.9m), of which £3.3m (2012: £3.5m) relates to the defined contribution schemes.

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

	2013 **£m**	2012 £m
UK Bus	**(40.8)**	(32.9)
UK Coach	**12.6**	16.6
Rail	**(0.4)**	(1.8)
Other	**(1.5)**	(1.2)
Total	**(30.1)**	(19.3)

9 Net debt

Net debt at 31 December 2013 comprises cash and cash equivalents of £40.9m (2012: £72.8m), other debt receivable of £1.0m (2012: £1.0m), current interest-bearing loans and borrowings of £76.8m (2012: £169.0m) and non-current interest-bearing loans and borrowings of £750.7m (2012: £786.8m).

	At 1 January 2013 £m	Cash flow £m	Exchange differences £m	Other movements £m	At 31 December 2013 £m
Cash	**41.7**	**(4.5)**	**0.5**	**–**	**37.7**
Overnight deposits	**28.6**	**(28.6)**	**–**	**–**	**–**
Other short term deposits	**2.5**	**0.7**	**–**	**–**	**3.2**
Cash and cash equivalents	**72.8**	**(32.4)**	**0.5**	**–**	**40.9**
Other debt receivables	**1.0**	**–**	**–**	**–**	**1.0**
Borrowings:					
Bank and other loans	**(114.6)**	**99.6**	**(3.2)**	**(1.1)**	**(19.3)**
Bonds	**(590.0)**	**–**	**–**	**10.5**	**(579.5)**
Fair value of hedging derivatives	**23.4**	**–**	**–**	**(14.2)**	**9.2**
Finance lease obligations	**(154.7)**	**21.3**	**1.3**	**(0.8)**	**(132.9)**
Other debt payable	**(66.1)**	**(0.2)**	**(1.4)**	**2.2**	**(65.5)**
Total borrowings	**(902.0)**	**120.7**	**(3.3)**	**(3.4)**	**(788.0)**
Net debt*	**(828.2)**	**88.3**	**(2.8)**	**(3.4)**	**(746.1)**

* **Excludes accrued interest on long term borrowings.**

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

Borrowings include non-current interest- bearing borrowings of £750.7m (2012: £786.8m).

Other non-cash movements in net debt represent finance lease additions of £0.8m (2012: £26.2m) and a £2.6m negative movement in loan and bond arrangement fees (2012: £0.7m net positive movement). The £14.2m decrease 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 £12.0m fair value movement in bonds and a £2.2m fair value movement in other debt payable.

Analysis of changes in net debt continued

	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 loans	(7.9)	(109.6)	(0.3)	2.9	0.3	(114.6)
Bonds	(583.4)	–	–	–	(6.6)	(590.0)
Fair value of bond 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 long term borrowings.**

10 Cash flow statement

Reconciliation of Group profit before tax to cash generated from operations

Total operations	**2013 £m**	2012 £m
Net cash inflow from operating activities		
Profit before tax	**64.4**	69.8
Net finance costs	**49.8**	49.2
Share of post-tax results under the equity method	**(0.6)**	(1.4)
Depreciation of property, plant and equipment	**107.3**	109.8
Intangible asset amortisation	**49.3**	51.7
Amortisation of fixed asset grants	**(1.1)**	(1.2)
Profit on disposal of property, plant and equipment	**(1.1)**	(4.5)
Loss on disposal of business	**4.3**	–
Share-based payments	**3.1**	5.2
(Increase)/decrease in inventories	**(2.2)**	0.4
Decrease in receivables	**21.9**	68.4
Increase/(decrease) in payables	**13.9**	(145.5)
Decrease in provisions	**(12.6)**	(32.3)
Cash generated from operations	**296.4**	169.6

11 Financial information

The financial information set out above does not constitute the Group's statutory financial statements for the years ended 31 December 2013 or 2012, but is derived from those financial statements. Statutory financial statements for 2012 have been delivered to the Registrar of Companies and those for 2013 will be delivered following the company's annual general meeting. The auditors have reported on those financial statements; their reports were unqualified, did not draw attention to any matters by way of emphasis without qualifying their report and did not contain statements under s498(2) or (3) Companies Act 2006.

The Annual Report will be posted to shareholders on 28 March 2014 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.