national express

Progress through partnership

Annual Report and Accounts 2014

Who we are

National Express Group is a leading public transport operator with bus, coach and rail services in the UK, Continental Europe, North Africa, North America and the Middle East.

Our vision

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

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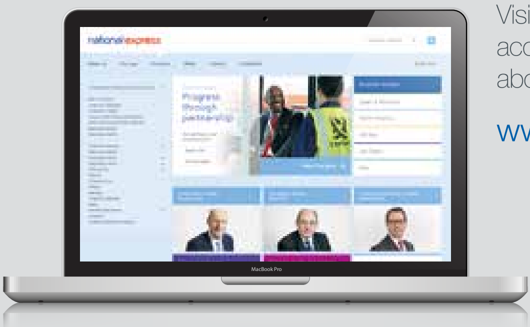
Find out more



Visit our Group website to read our latest news, access investor information and find out more about how we operate.

www.nationalexpressgroup.com

Unless otherwise stated, all operating profit, 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 businesses, 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.

Constant currency basis compares the current year's results with the prior year's results translated at the current year's exchange rate.

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

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.

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

Operating cash flow is the cash flow equivalent of normalised operating profit. Free cash flow is the cash flow equivalent of normalised profit after tax. A reconciliation is set out in the table within the Group 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.

Non-rail EPS is Group normalised EPS minus the EPS generated by the rail business.

The annual punctuality measure for c2c is the moving annual average ('MAA') public performance measure ('PPM') to 4 January 2015.

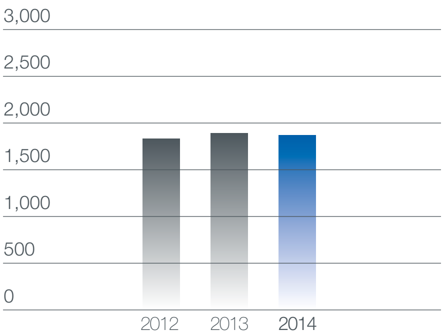
Safety Incidents measure those for which the Group is responsible and is based on the Fatalities and Weighted Injuries Index used in the UK Rail industry.

Financial highlights

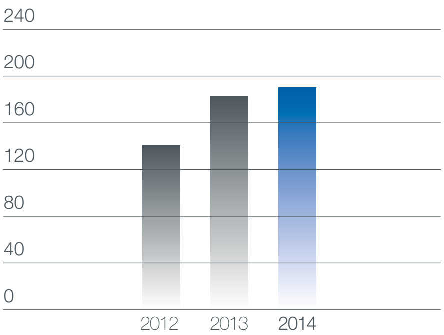
Strong financial performance

- Group revenue increased 2% to £1.87 billion on a constant currency basis; down 1% on a reported basis (2013: £1.89bn)
- Group normalised profit before tax rose 7% to £145.4 million on a constant currency basis; up 1% on a reported basis (2013: £143.7m)
- Statutory Group profit before tax grew by 3% to £66.5 million (2013: £64.4m); up 10% on a constant currency basis
- Group ROCE increased to 12.4% (2013: 11.7%)
- Year-on-year EPS growth of 6% to 22.7 pence (2013: 21.5 pence)
- Free cash flow of £190 million is £40 million ahead of target and higher than last year (2013: £182.8m). Since 2009, National Express has generated £1 billion of free cash
- Net debt reduced by over £80 million to £664.3 million (2013: £746.1m)
- Full year proposed dividend of 10.3 pence, up 3% year-on-year (2013: 10.0 pence)

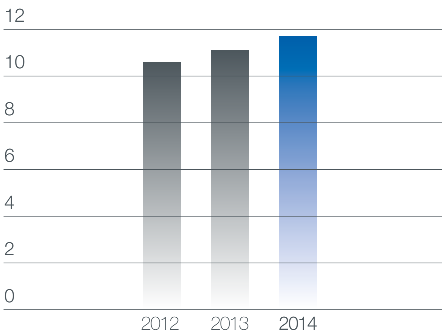
Group revenue
£1,867.4m



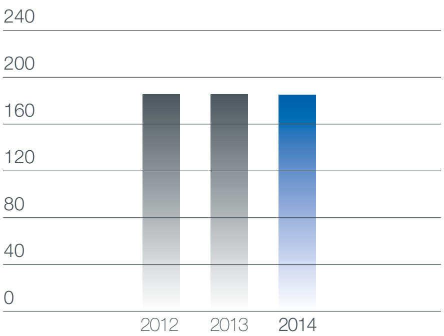
Free cash flow
£190.3m



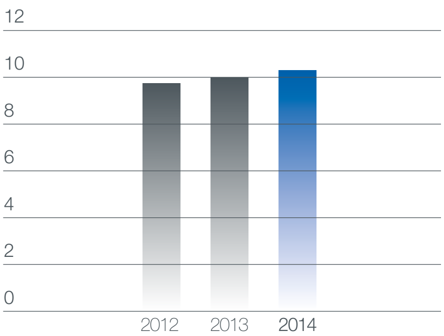
Core non-rail ROCE
11.7%



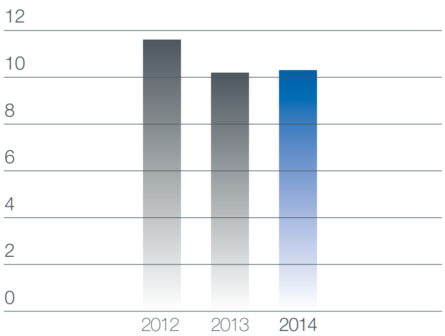
Core non-rail operating profit
£185.1m



Dividend per share
10.3p



Operating margin
10.3%



Summary of results 2014

	Normalised basis		IFRS basis	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Revenue	**1,867.4**	1,891.3	**1,867.4**	1,891.3
Operating profit	**193.1**	192.9	**114.2**	117.9
Profit before tax	**145.4**	143.7	**66.5**	64.4
Profit for the year	**117.7**	111.2	**60.6**	58.3
Basic earnings per share (pence)	**22.7**	21.5	**11.6**	11.1
Net debt	**664.3**	746.1	**n/a**	n/a

National Express Group at a glance

A leading transport provider with a well balanced portfolio

The Group operates in the UK, Continental Europe, North Africa, North America and the Middle East and at the end of the year we employed 42,000 people and operated over 26,000 vehicles. Passengers made more than 845 million journeys on our services in 2014. The National Express name first appeared on UK coaches in 1972, and the Company was listed on the London Stock Exchange in 1992.

Spain & Morocco: Bus & Coach

- **ALSA**

ALSA is the leading company in the Spanish road passenger transport sector, and was acquired by National Express in 2005.

With over 100 years' experience, it operates long distance, regional and urban bus and coach services across Spain and in Morocco.

Apart from its bus and coach services, the business also operates service areas and other transport-related businesses, such as fuel distribution.

Revenue
£538.1m
2013: £564.6m

Operating profit
£75.8m
2013: £81.5m

Read more p32

North America: Bus

- **Durham School Services**
- **Stock Transportation**
- **Petermann**
- **National Express Transit**

Our business in North America has two areas of activity; student transportation and transit services.

We operate in 32 US states and four Canadian provinces.

The student transportation business operates through medium-term contracts awarded by local school boards to provide safe and reliable transport for students, and is the second largest private operator in North America.

Revenue
£620.2m
2013: £645.0m

Operating profit
£59.5m
2013: £62.6m

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UK: Bus

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

National Express is the market leader in the UK's largest urban bus market outside of London. Services are operated from nine garages across the West Midlands. We also run bus services in the cities of Coventry and Dundee.

In addition, we operate the Midland Metro light rail service between Birmingham and Wolverhampton. An extension of the route is due to be completed in 2015.

Revenue
£281.0m
2013: £273.4m

Operating profit
£34.0m
2013: £31.2m

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New markets

German rail
During 2013 we were awarded two contracts to serve cities in Germany's most populous region, North Rhine-Westphalia, which will start operating in December 2015. In February 2015, we were named as the preferred bidder to run Nuremberg S-Bahn services for 12 years from December 2018.

Middle East
In February 2015, our joint venture, Bahrain Public Transport Company, began operating new bus services across Bahrain. The ten-year contract will initially see 141 new vehicles enter service.

The first of our new German trains rolls off the production line ready to enter service in December 2015

International opportunities
Our bid team continues to explore selected opportunities which leverage our skills in bus, coach and rail markets.

UK: Coach

- **National Express**
- **Eurolines**
- **The Kings Ferry**

National Express is the largest operator of scheduled coach services in the UK. The business operates high frequency services linking around 1,000 destinations across the country. We are the UK partner in the Eurolines network which serves over 500 destinations across Europe and North Africa.

The Kings Ferry is also part of the UK Coach business and is a long established provider of commuter coach travel services in London and the south of England.

Revenue
£275.2m
2013: £263.5m

Operating profit
£28.0m
2013: £24.5m

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Rail

- **c2c**

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

It is an important commuter route serving 25 stations on the line out of Fenchurch Street Station, London. The Group will start to operate contracted rail services in Germany from December 2015.

Revenue
£151.6m
2013: £143.0m

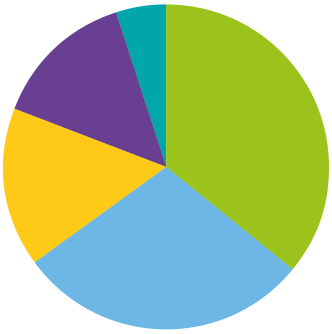
Operating profit
£9.7m
2013: £9.8m

Read more p40

Group revenue by end market

Spain and Morocco	29%
North America	33%
UK Bus	15%
UK Coach	15%
Rail	8%

Operating profit by end market



Spain and Morocco	36%
North America	29%
UK Bus	16%
UK Coach	14%
Rail	5%

Differentiated proposition to create superior shareholder value

Sir John Armitt
Chairman
26 February 2015

Dear shareholder,

I am pleased that National Express has continued to deliver a strong financial and operational performance in 2014. I believe this progress and success demonstrate our strategy is delivering the services our customers want and thereby creating value for our shareholders.

Important progress

2014 saw passenger growth in every division, key contracts retained and significant new markets entered. We have a diversified portfolio of businesses that are all market leaders. This not only provides a platform for financial progress – this is the fifth year of core non-rail profit growth and we have again beaten our free cash targets – but it also provides opportunities for new growth.

We begin our German rail services later this year. We have already started our bus operations in Bahrain. A key aspect of our success in both has been the strength of our reputation in our existing markets.

This is why I am particularly pleased with our customer satisfaction scores across the business and the strong partnerships we have in place. When we have met customers, in the UK and abroad, the Board has been impressed by the strength of our relationships and the level of service delivered. We believe this demonstrates that the company remains focused on delivering for our customers, obviously crucial in sustaining the progress we have made in recent years.

Dividend

Our financial performance in 2014 means we retain our clear and sustainable dividend policy: to pay a dividend that is covered approximately twice by non-rail earnings. The Board is recommending that the dividend is increased to 10.3 pence which represents a 3% increase for the year as a whole. Subject to approval by shareholders, the final dividend will be paid out on 22 May 2015 to shareholders on the register on 1 May 2015.

Governance highlights

- Corporate governance provides a framework within which the Board sets its values and delivers long-term success for the Company and its investors whilst recognising its duties towards the wider stakeholder community.
- Through challenge and the application of objectivity in considering proposals on strategy, the Board's role in its oversight continues to be fundamental in order to achieve the objectives required for driving our business forward.
- The 2014 external performance evaluation of the Board and its Committees concluded that the Board continues to operate effectively and that its structure, governance and processes are appropriate for our current and future business.
- Engagement with shareholders during 2014 has proven to be a valuable exercise in the Board's understanding of their views on issues which are pertinent to National Express. As a result of such open dialogue, a restructured remuneration policy for our Executive Directors is being proposed at this year's Annual General Meeting ('AGM').

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Board

As I said last year, optimising the skills, diversity and experience of the Board is a crucial consideration. I am grateful for the experience and expertise Jane Kingston has brought to the Board, especially on HR issues. For example, the Board now reviews a quarterly Human Capital Report prepared by the Group HR Director, covering important issues and trends in the business such as turnover, diversity and succession.

After ten years of invaluable service, Sir Andrew Foster announced last year that he will be standing down from the Board at the AGM. Jackie Hunt has also recently announced she is stepping down as a Non-Executive Director after three years with the Group and will not seek re-election at the AGM. I would personally like to thank Andrew and Jackie for their wise counsel and support during my time at National Express. On behalf of the Board, I would like to wish them both well for the future.

We are well underway with the recruitment of Sir Andrew's and Jackie's replacements. My aim is that they will bring new and complementary skills to strengthen the Board as we meet future opportunities and challenges. I expect to make an announcement soon. I am very pleased that Lee Sander has agreed to become Senior Independent Director, to replace Jackie.

Again, on behalf of the whole Board I would also like to thank Jez Maiden for his significant contribution to the Group and the Board as Group Finance Director. Jez left the company for Croda International at the end of 2014. Jez played a particularly crucial role in both stabilising the Company in 2009 and the progress since. Again, I wish him all the best for the future.

Finally, I am delighted to announce that Matthew Ashley was appointed as the new Group Finance Director at the end of January. Matthew was previously Finance Director for UK Bus and Group Financial Controller and therefore brings significant financial, corporate and operational experience to the role. I look forward to continuing to work with him.

A sound investment case

1. A best in class public transport operator*

	Margin %	Best in class %
Spain and Morocco	**14.1**	**NX**
North America	**9.6**	**NX**
UK Bus	**12.1**	**15**
UK Coach	**10.2**	**NX**
Rail	**6.4**	**NX**
Group	**10.3**	**NX**

*By margin

2. A sound strategy in place

Delivering operational excellence

- Best in class Group margin of 10.3%
- Revenue growth of 2.3%
- £8.7 billion of long term contracted or concessionary revenues
- Sustainable long term earnings: Core non-rail profit growth to £185.1 million

Generating superior cash and returns

- Free cash flow of £190 million
- Operating cash conversion of 128%
- Net debt reduced by over £80 million in 2014
- Group ROCE increased by 70bps to 12.4%
- Surplus cash to be invested in targeted bolt-on acquisitions in North America from 2015 onwards

Creating new business opportunities

- Over £4.2 billion of new contracts won during the year:
- Middle East – Won first urban bus contract in Bahrain; pursuing further opportunities in the region
- Transit – Retention and growth of largest US transit contract; annualised Transit revenue now circa $80 million
- Rail – Retained Essex Thameside; preferred bidder for Nuremberg S-Bahn in Germany

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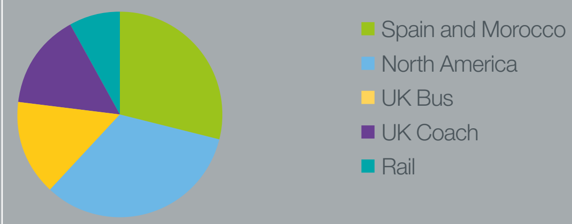
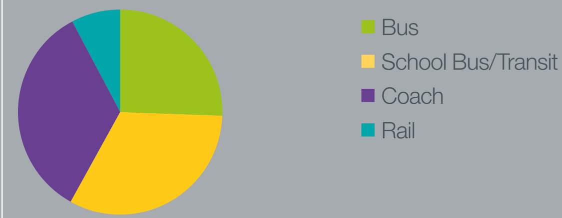
3. Well balanced portfolio

Divisional split by revenue



Modal split by revenue

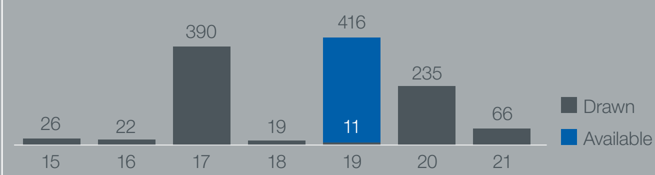


4. Stable long term finance in place and commitment to investment grade rating

Gearing ratios	2014	2013	Covenant
Net debt/EBITDA	**2.25x**	**2.5x**	**<3.5x**
Interest cover	**6.3x**	**6.1x**	**>3.5x**

Ratings	Grade	Outlook
Moodys	**Baa3**	**Stable**
Fitch	**BBB-**	**Stable**

Strong debt maturity profile



5. Dividend policy based on sustainable non-rail earnings basis

		2014 p	2013 p
Basic EPS	Non-rail	21.2	20.1
	Rail	1.5	1.4
	Group	**22.7**	**21.5**
Dividend		**10.3**	**10.0**

Drivers of market growth

Here we give an overview on how the megatrends are shaping business and society today and how they shape future performance

Economic environment

The propensity to travel is generally affected by levels of economic activity, as represented by GDP growth. Although levels of transportation and mobility remain relatively stable through the economic cycle, periods of GDP growth generate additional volume demand and pricing benefit.

Opportunity: The global economy is emerging from recession and demand for public transport is likely to improve as the economy grows and employment levels rise.

Deregulation, liberalisation and outsourcing

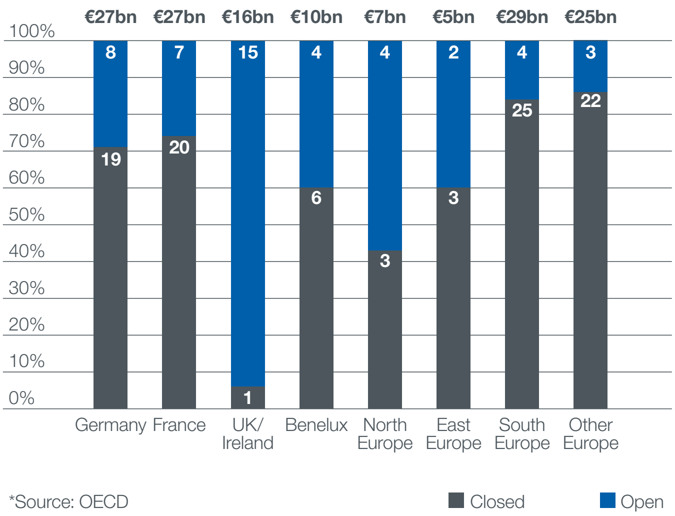
Our markets are created when state provision of public transport is transferred to the private sector. There are different models for this, with examples ranging from the deregulated markets of our UK Bus and UK Coach divisions, through the concessions and franchises of Spain, Morocco and Rail, to the school board and transit contracts of North America.

This is supported by a trend towards market liberalisation, such as European Union directives focused on opening up rail networks. Cost saving is increasingly a factor too, through recognition of the superior efficiency of privately operated services.

Opportunity: The current size of the European public transport market is estimated to be approximately €150 billion*, of which around €50 billion is at present outsourced. Liberalisation of the German and Spanish rail markets present opportunities for growth.

2010 Public transportation market

Total transport market: €150bn

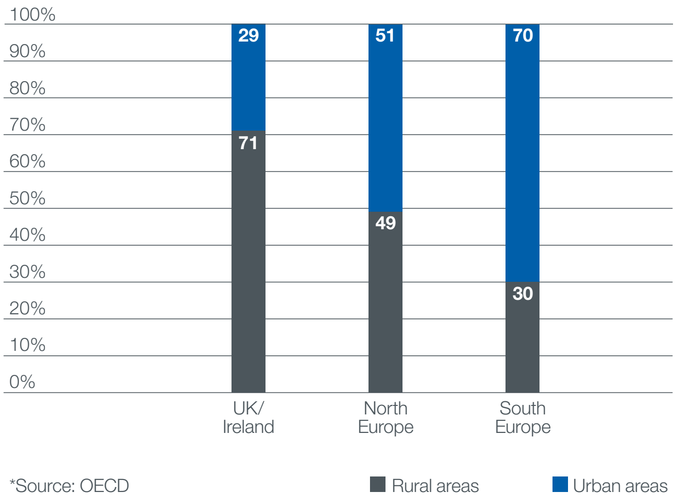


Urbanisation and demographic changes

Our services benefit from increasing urbanisation around the world, in particular driving demand for bus operations. Existing towns and cities are expanding, in addition to the creation of new centres of population. These trends are driving the requirement for additional transportation services, both within and between locations, so our bus, coach and rail operations are increasingly in demand. In addition population growth in the UK and North America will drive further demand for public transport services.

Opportunity: UK population growth is forecast to grow by 10% through to 2030 driving the need for further public transport services, whilst the combination of an ageing and increasingly social and ethnically diverse population will drive the need for new products and services to meet changing customer needs.

Share of global population living in cities



Modal shift

Modal shift is the move by individuals from one form of transport to another. For National Express, the relevant move is from the private car to bus, coach and rail travel. The biggest reason for this is an increase in the cost of motoring, such as insurance pricing, and the increasing use of mobile devices, such as tablets and smartphones, while travelling, although other factors such as environmental concerns and congestion can also be important. Geopolitical and demographic changes in the Middle East are increasing demand for affordable, safe public transport.

Opportunity: The proliferation of real-time travel information and mobile devices improves the customer experience making public transport increasingly more attractive compared with the car.

Environment and congestion

Environmental concerns continue to have an influence on customer behaviour. Bus, coach and rail services are significantly more environmentally friendly forms of transport than the private car or air travel, reducing both the level of carbon emissions per person travelling and travel congestion. Society as a whole and individuals are becoming increasingly concerned about the effect of emissions on the environment and are explicitly choosing public transport as an alternative.

Opportunity: Improved access to city centre locations, such as priority bus lanes, for environmentally friendly transport.

Here we put each of our markets into context and highlight the main drivers across all our divisions

Spain and Morocco

ALSA holds the market-leading position in the regulated and highly segmented bus and intercity coach market in Spain and also operates in three cities in Morocco. Three levels of government regulation apply in Spain: national (long distance coach), regional (regional coach) and city (urban bus). Each concession is exclusive to the operator, based on compliance with the public service obligation. Intercity competition comes from state-backed rail and low cost airlines. Bus and coach concessions are awarded through competitive public tender, typically every ten years.

Market size
€3.8bn

Concessions
160

- 160 concessions: 115 intercity coach concessions, 34 urban bus contracts, 11 others
- Concessional renewal and new urban contract wins in Spain and Morocco
- Continuing urbanisation of the Moroccan economy with rapid migration to the major cities

Read more p32

North America

National Express is the second largest player in the North American school market with a 12% share of the outsourced school bus market. 32% of the market is outsourced with recent increases in outsource conversion being driven by pressure on public funding. This trend is likely to continue as school district budgets remain constrained. Typically customers are local school boards where local relationships are key and service delivery is very important.

Market size
$24bn

Operates
21,700
school buses

- Bolt-on acquisition opportunities in school bus
- New business growth from winning contracts in school bidding season and through new Transit contracts

Read more p34

UK: Bus

The largest five operators represent around 70% of the UK deregulated bus market, with the remainder of the market made up of a large number of private operators. Active competition comes from national and local bus operators, as well as private car and rail. In the short term the market has been impacted by economic pressures from austerity and local unemployment, but longer term, economic regeneration and environmentally driven public transport present growth opportunities over the car.

Market size
£4.8bn
(UK excluding London) of which 97% is privatised

Operates
1,640
buses, focused in the West Midlands and Dundee markets

- Increase passenger volumes through investment in vehicles, technology and people and through delivering high quality services
- Low barriers to entry – flexibility and scale of operations is key

Read more p36

UK: Coach

National Express has the only nationwide network of services with other competitors tending to focus on specific regions or corridors. Selective competition comes from rail, particularly on discounted fares, and from large bus operators and localised services. Drivers for demand include the level of fare discount to rail, cost of private motoring and environmental friendliness. Customer satisfaction is also an important driver for longer term loyalty through consistent service and high customer safety standards.

Market size
£300m
of contested revenues in the scheduled coach market

Destinations
1,000
UK scheduled coach market leader

- Revenue growth through competitive pricing, better distribution channels and greater understanding of customers and their needs
- Longer term implementation of improved retailing systems

Read more p38

Rail

The UK rail market is a regulated market and is broadly dispersed between UK private train operators and overseas state market participants. In the past ten years, growth has been driven by passenger volumes with the levels of economic activity and employment also drivers. A new framework for future UK franchises is likely to see franchise durations settle between seven and 15 years with the introduction of a quality element alongside pricing. Meanwhile the German rail market is liberalising and offering growth opportunities.

Market size
£8.5bn
of UK franchise revenues per annum, with over £5 billion of franchise revenues up for renewal over the next four years (based on proposed Department for Transport pipeline)

€9bn
currently accessible German regional and urban market

- c2c rail franchise secured until 2029
- Our first two German rail franchises commence in December 2015 for 15 years with two more commencing in December 2018 for 12 years
- Growth through further bid wins in Germany and the UK
- Liberalisation of Spanish rail market a future opportunity

Read more p40

Group Chief Executive's review

We are making sound progress in our strategy

Dean Finch
Group Chief Executive
26 February 2015

Overview of 2014

National Express has delivered a good performance in 2014 with Group revenue up 2.3% on a constant currency basis and both statutory and normalised profit before tax also up on a constant currency basis by 10% and nearly 7% respectively. Our free cash generation remains very strong, again beating our target for the year, and during the course of the year we have reduced net debt by over £80 million. We renewed a number of key concessions in the year and also successfully expanded our business into new markets.

This performance demonstrates both the resilience and strength of our businesses. We have had to overcome significant challenges from the first half of the year, especially poor weather in the US, strike action in Spain and significant currency headwinds. Together these challenging events reduced profits by £5 million at the half year. To have recovered from this position and delivered such a strong second half of the year is a particularly pleasing result.

To achieve these results, we have again made good progress against our three strategic goals:

First, our operational excellence programme continues to be embedded across the business. We place customers at the heart of our strategy, causing us to focus on delivering continuously improving services whilst maintaining a relentless attention to efficiency to enable us to offer good value fares. This has helped every division deliver an increase in revenue and passenger numbers this year. The UK businesses have seen particularly good increases in revenues and passengers resulting in strong profit growth in UK Bus and UK Coach. UK Coach profits increased significantly to £28.0 million (2013: £24.5m), and have now grown 36% in two years. UK Bus has also performed very strongly, with profits increasing to £34.0 million (2013: £31.2m) and its pioneering partnership with Centro – Transforming Bus Travel – winning two industry best practice awards in the year.

Pleasingly, the benefits of our focus on operational excellence have also been seen in our customer satisfaction scores, with most of our operations leaders in their markets. North American School Bus, for example, has retained 97% of its contracts, significantly ahead of its peers. Over 93% of customers would also recommend us to other school boards, with quality of service, safety and value being the key considerations.

We are determined to maintain this progress. Building on c2c's success in achieving a five star rating in the European Foundation for Quality Management assessment, UK Coach was awarded a four star rating in its first assessment. UK Coach is determined to emulate c2c and secure a five star rating at its next assessment. The other divisions will soon be undertaking similar exercises as part of our programme to drive operational excellence across the Group.

Second, as well as these notable successes, our focus on operational excellence is also underpinning our success in our strategic goal of generating superior cash and returns, with another year of excellent cash flow. We have again exceeded our free cash flow target for the year by £40 million, with £190 million delivered in the period. This has enabled us to further reduce net debt by over £80 million to £664.3 million, representing a gearing ratio of 2.25 times EBITDA. Group ROCE has also increased to 12.4% (2013: 11.7%) reflecting our continuous focus on delivering strong returns on our capital. This has underpinned improving returns to shareholders, with a proposed full year dividend up 3% to 10.3 pence per share. Even before this dividend nearly £200 million has been returned to shareholders since 2011 and in the past two years net debt has been reduced by £164 million.

We have incurred over £40 million in rationalisation and restructuring costs this year. Our strategic rationalisation programme in the US saw us make significant progress on exiting commercially unattractive contracts, with all such contracts now provided for. Coupled with rising prices in North America, we are confident this programme will deliver rising returns in the future. Following the success of this 'up or out' strategy we conducted a similar review in Spain. We also restructured across the Group, to remove costs and enhance future earnings. Together, these rationalisation and restructuring programmes have made us more efficient and better able to meet the challenges and opportunities ahead and will help deliver improved returns in the coming years.

Third, we have generated growth in new markets. During the year we won a ten-year contract to operate buses in Bahrain. We believe this positions us well locally in Bahrain where there is scope for further growth, and also within the growing Middle Eastern market. We withdrew from the German coach market during the year due to its unrealistic pricing structure making it impossible to sustain a profitable, quality service. We were also disappointed to have come second in both the Crossrail and ScotRail competitions, with the ScotRail result particularly disappointing as we were within 0.24% of the winning bid.

More recently we have, however, secured our third and fourth contract wins in German rail, with our success in the Nuremberg S-Bahn contract. These 12 year contracts, generating €1.4 billion of revenue, will begin operation in December 2018 and represent further expansion for us in Europe's largest liberalising rail market. Deutsche Bahn has again chosen to challenge the award, as they did unsuccessfully with our previous two contracts in North Rhine-Westphalia. We therefore remain confident of the award being confirmed in due course.

This new market growth has also complemented the significant progress we have made in retaining existing contracts, including our largest US transit contract and our largest Spanish concession to have come up for renewal to date. Our success in winning the Essex Thameside franchise competition means that our industry-leading c2c services will continue, securing around £4 billion of revenue and our presence in UK rail until 2029. Coupled with our 15 and 12 year contracts in Germany – themselves worth around €3 billion in revenue – we enter 2015 with both strong credentials and a uniquely long-term future in the rail industry.

Highlights

Highlights of 2014 included:

- In constant currency terms the Group delivered a 2% increase in revenue and 7% increase in normalised profit before tax. This is a significant achievement, overcoming the headwinds in the first half of the year. Earnings per share increased to 22.7 pence (2013: 21.5p). Group ROCE increased to 12.4% and free cash flow of £190 million again exceeded our target. An increase in the proposed full year dividend to 10.3 pence per share is funded within our robust policy of two times non-rail earnings cover.
- UK Coach has grown revenue by 4%. UK Coach's profits have grown by 36% in two years, with operating margin increasing over the same period by over 25% to reach 10.2%. We believe there are good opportunities for further growth as a focus on journey time improvements is combined with a continued emphasis on the customer, including the increasing use of targeted marketing. These initiatives continue to make our offer ever more attractive to customers and drive improved returns.
- UK Bus has had another strong year, with revenue growth of 2.8% and West Midlands commercial patronage increasing 0.8%. Our industry-leading Transforming Bus Travel partnership won two awards during 2014 and provides a stability that allows us to deliver significant investment in improving services. 2014's Passenger Focus results saw our services secure the fastest growth in customer satisfaction of any urban operator. This progress is something we are looking to build on in 2015 with initiatives such as the extension of our smart-ticketing system to trams and Pay As You Go. This will be underpinned by record investment in new vehicles and continued close working with local authorities to improve journey times and reliability.
- In Rail, we successfully retained the c2c franchise during 2014, guaranteeing our future in UK rail until 2029. c2c has maintained its industry-leading performance for a third consecutive year and delivered 6% revenue growth and 2% passenger growth in year. A slight decline in 2014's profit and margin is explained by the more onerous contract terms during the franchise extension in place to September last year. We are encouraged by the passenger response so far to the new franchise's focus on customer service. Investment in Wi-Fi and new advance purchase off-peak tickets are already proving popular. With new flexible ticketing and pioneering automatic delay-repay compensation being introduced in due course, we are confident this enhanced customer service offer will continue to be popular.

Our partnership with Centro on Transforming Bus Travel in the West Midlands was recognised by two industry awards in 2014

- North America delivered a strong second half performance to overcome the $6.1 million impact of the extreme weather in the first half and ended the year with both revenue and profit growth in constant currency. In the last five years North American School Bus has more than doubled its profitability to £59.5 million (2009: £25.3m). We made good progress on improving the quality of the portfolio by exiting poorly performing contracts and targeting those with better returns. This was complemented by a significant bolt-on acquisition in Philadelphia and our largest ever conversion contract in Memphis. US Transit also secured its largest contract (MBTA) for a further eight years. Our return on assets increased again to 23.8%. Better pricing discipline in the market, combined with our ongoing focus on efficient capital deployment, means we are optimistic about our prospects in North America. As set out below, we believe we have significant opportunity for further growth in North America.
- Spain delivered an increase in revenue in local currency but a decline in operating profit to €94.1 million (2013: €96.0m) because of the impact of ongoing rail competition and a significant strike in April. The implementation of revenue management and an improved service offer on the affected rail competed routes led to an improved performance in the second half with passenger growth at 4% and revenue only 2% lower on the affected routes. Strong growth in Morocco continued, including the benefit of a full year of the Tangier operation. ALSA also successfully retained its Bizkaia contract, the largest to come up for renewal so far. As the number of concession renewals increases in the coming years, we believe the benefits of our focus on cost efficiency and revenue management mean we are well placed to achieve our aim of maintaining market share.

The first of our new German trains rolls off the production line

Strategy

These results demonstrate how our consistent strategy has been improving returns for shareholders and positions us well for future growth opportunities.

Delivering operational excellence

Our success in recent years has been rooted in operational excellence. It is also increasingly clear that our future success depends on it. It is what our customers demand. As our most recent successes in German rail and Bahrain demonstrate, a reputation for operational excellence has been crucial in winning contracts in new markets.

For National Express, excellence means delivering continuously improving services whilst ensuring a relentless focus on efficiency. Our aim is for National Express to be known for both excellence in the quality of our operations and price leadership.

For quality, safety is fundamental and remains our first priority. We have made important progress since launching Driving Out Harm in 2010. And I am pleased that our independent assessors, Arthur D Little, have reported a year on year improvement in our Fatalities and Weighted Injuries Index measure of safety of 17% and a reduction in total responsible harm of 54% in four years. However, safety requires a relentless focus, and our ambition remains to eradicate all harm from our business and achieve world class standards of safety.

Another crucial aspect of quality is the delivery of punctual, high performing services. At any one time in peak hours, we have over 23,000 vehicles on the road or rail. We are proud that c2c has now been the UK's most punctual operator for three years running as well as holding the annual and four-week records. Our UK Coach business has recently signed a ground-breaking agreement with the Highways Agency to help improve our punctuality and reliability.

We remain focused on operating as efficiently as possible, to help maintain our prices as competitively as we can. The £31 million of cost savings delivered during 2014 is higher than in 2013. Across the Group many of the businesses have delivered year on year improvements in value for money scores in their customer surveys and all carried more passengers in 2014 compared with 2013. A particular highlight is our UK Coach business being named the country's 'most trusted ground transportation company' by the Institute of Customer Service.

An important part of our strategy is delivering price leadership and value for money for our customers. We are particularly pleased that all of our divisions have grown patronage as it demonstrates that our excellent prices and deals are effective. Within the UK, for example, this year we are investing over £23 million in great value fares such as our coach FunFares, rewards for frequent bus users and new advanced off-peak fares in rail.

Getting the combination of price and quality right means we go some way to delivering on our vision of earning customers' lifetime loyalty. Passengers are more likely to continue to use our services above other choices because they are receiving a good service at a good price. Equally, contracting authorities or businesses are less likely to retender services or are more likely to award us new contracts if we consistently deliver excellence.

This is why I am particularly pleased with our retention of major contracts in 2014: the 15 year c2c rail franchise; ten year Bizkaia contract in Bilbao; and, the five-year MBTA para-transit contract in Boston.

Results such as our North American School Bus business retaining over 97% of its contracts and UK Bus demonstrating the fastest growth in passenger satisfaction of any urban operator in the 2014 Passenger Focus survey are further evidence of our continued progress.

Superior cash and returns

Cash generation has been a particular focus of National Express. We have made this a priority because free cash flow pays dividends for shareholders, funds future growth and reduces debt.

In 2014 we have again made significant progress in delivering on our targets. We have delivered £190 million of free cash, £40 million ahead of target. National Express has now delivered £1 billion of free cash since 2009.

Over the year, net debt has been reduced by over £80 million to £664.3 million, a gearing ratio of 2.25 times EBITDA.

We increased the Group's ROCE in 2014 to 12.4%, a 6% increase year-on-year. We invested £51 million of net capital during 2014 and have continued to deploy capital where it will deliver the best returns. We have further improved our Group operating margin in 2014, to 10.3%. And we continue to target both margin and ROCE improvement in the coming years.

We set out our plan to reduce our gearing ratio by the end of 2014 to help mitigate the key risks the business faced: the loss of the c2c franchise and Spanish concession renewals. These risks have either not materialised (with the c2c franchise success) or been delayed (Spanish concessions). We also identified new opportunities for increased investment during 2014, to generate shareholder value in the coming years. We believe there are further opportunities in the coming years and are therefore pausing our deleveraging (while staying within our published target) to use our continued strong cash generation to invest in specific new growth opportunities that meet our strict financial and strategic criteria.

Creating new business opportunities

We believe the principal opportunity for increased investment to deliver strong growth over the medium term is in our North American business. We have already demonstrated our ability to grow this business significantly in recent years: over the last five years North American School Bus has more than doubled its profits. Additionally, over the same period, through a disciplined approach to capital allocation and contract selection, we have nearly doubled margins in North America to 9.6% from 5.7% and have improved our RoA by 118% to 23.8%.

There are excellent opportunities for growth given this market's highly fragmented nature and the continuing trend for conversions. There are over 10,000 private school bus businesses in the United States. Indeed, in the last year we successfully bolted-on a new school bus business in Philadelphia that operates 318 routes. Through improved operational standards, Group purchasing power and management synergies from integration with our existing nearby locations, we will have paid for the acquisition within three years. We also won our largest ever conversion contract, in Shelby County, Tennessee. This delivered 440 new buses to the 285 we already operated, as we integrated the operations previously run by the local school board. Our success in integrating our major Petermann acquisition three years ago is further evidence of our strong credentials here.

With greater consolidation and increased outsourcing in the market, our reputation for excellence, strong capital discipline and cash generation and industry-leading team provides the Group with a strong opportunity for further growth in North American School Bus.

US Transit also continues to provide opportunities for further growth. 2014 was the second consecutive year where we have retained 100% of our contracted revenue up for renewal, including the largest contract – MBTA. We also secured a fixed-route transit services contract in Yuma, Arizona, the first contract in this heavily contracted state and a strategic target of the division. Building on this we are currently working on a pipeline of over $300 million of annualised revenues and believe this remains an attractive market.

In addition, our unique portfolio of diversified bus, coach and rail businesses means National Express is well placed to grow in selected other markets, to complement this opportunity for expansion in North America. We believe Morocco, for example, provides good opportunities for further growth, building on our significant progress there in recent years.

We have also made significant progress during 2014 in growing in other markets. Our success in securing a ten-year contract in Bahrain opens both that country and the wider Middle East to further growth. Our recent award of the Nuremberg S-Bahn network is a clear demonstration of the opportunity for further growth in the exciting German rail market. We will begin operating services on our North Rhine-Westphalia contracts in December this year and have an active bidding pipeline. We are currently shortlisted for three German contracts and there are up to 30 new tenders coming up in the next two years. We are also monitoring rail liberalisation in Spain.

As the operator of the UK's best performing franchise, we will continue to monitor opportunities in the UK rail market. We will maintain our selective and disciplined approach and only bid where we feel our expertise will significantly improve the service for passengers and deliver acceptable returns to shareholders. However, through our successes in Germany and c2c we have now secured more than £6 billion of future revenue in rail.

Outlook

During 2015 we expect our UK rail, bus and coach businesses to build on their good progress during 2014 and to continue to perform well with strong cash generation. In Spain the main contract renewal process starts this year but any impact from new terms for our larger concessions is unlikely to be felt until 2017. Whilst we expect some margin pressure on renewal as is normal, we believe ALSA can mitigate this risk through a combination of significant revenue and cost management actions, as well as securing new growth opportunities. We are determined to retain a significant market share in Spain and as market leaders have demonstrated our ability to compete effectively. We also expect the Group to continue to successfully exploit a

The Bahraini Minister of Transport marks the launch of our new bus service in Bahrain

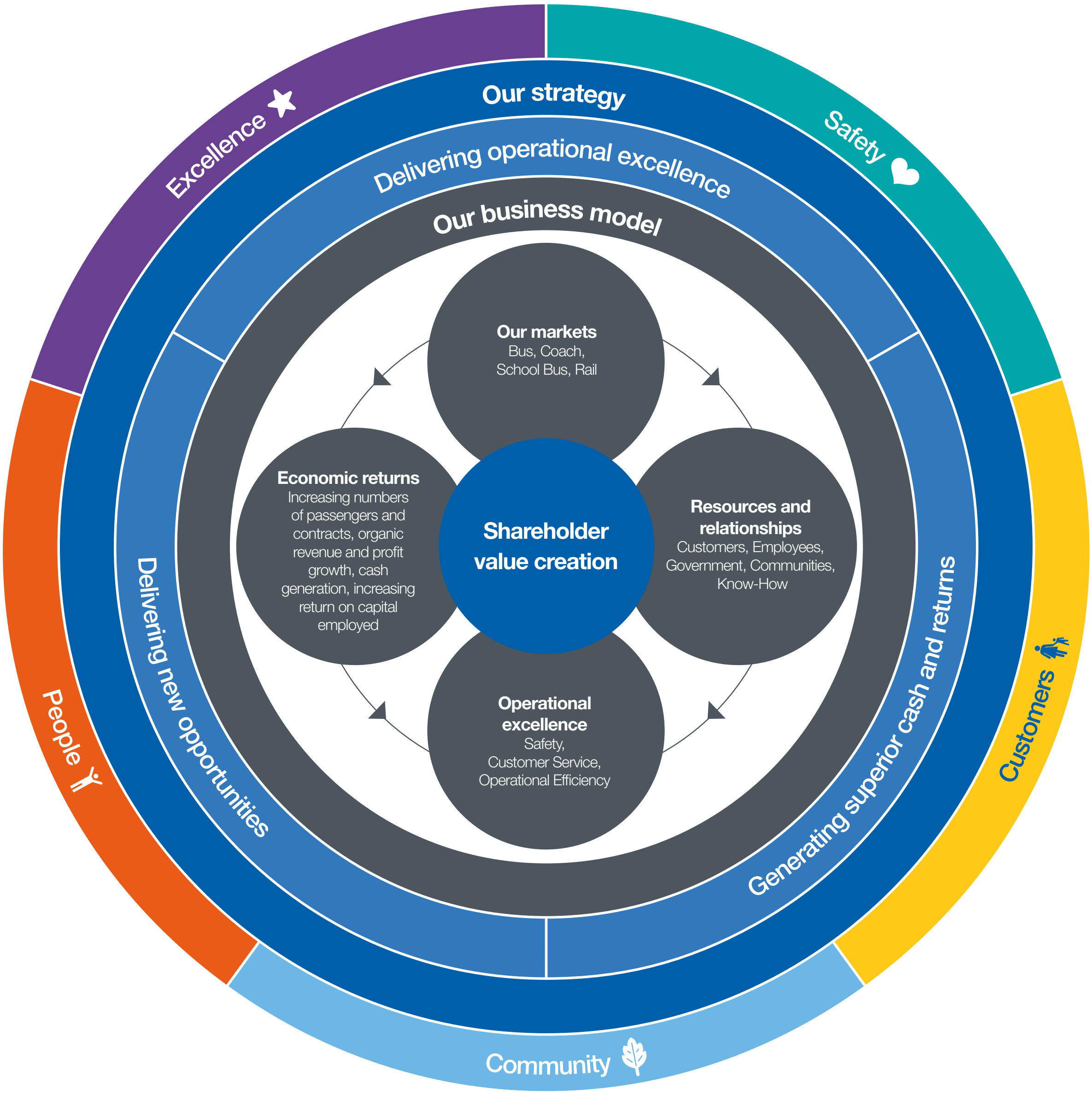
number of important opportunities in the Middle East, North Africa and Germany. We are currently working on an active pipeline worth £8 billion of annualised revenues.

The benefits from these new opportunities as well as our existing businesses will continue to be reflected in the strong cash generation, with a target of £100 million this year. We will continue to focus on margin and ROCE improvement and we are not anticipating there to be any exceptional costs from reorganisation or restructuring in 2015. As previously stated, we are changing the accounting treatment of bid costs to be included in normal operating costs.

The recent focus of our cash flow has been on debt reduction and growing our dividend. We increased investment in new business opportunities during 2014 and believe we are now in a strong position to exploit other new growth opportunities with a focus in the North American school bus market, where we have more than doubled profitability in the past five years. While we will remain within our published target, we believe we have the opportunity to use our continued strong cash generation to invest in new growth opportunities that meet our strict financial and strategic criteria. There are excellent opportunities in the North American market given its highly fragmented nature and the continuing trend in conversions. The success of last year's bolt-on acquisition in Philadelphia and the largest ever conversion contract in Memphis demonstrates the opportunity here and we will continue to apply our proven model of excellence to deliver the services our customers value as well as generating good returns for our shareholders.

Dean Finch
Group Chief Executive
26 February 2015

Delivering long term shareholder value



Resources and relationships

Four years on from their launch, our Vision and Values continue to provide the foundation for our business. Our Vision, to earn the lifetime loyalty of our customers by consistently delivering frequent, high performing public transport services which offer excellent value, provides a clear focus both in running our core operations and in developing new opportunities. Our five Values continue to underpin the Vision and help us to prioritise what we focus on. The addition of Excellence as a fifth value in 2013 reflected a desire to be excellent in everything we do. During 2014 Excellence has become embedded in all our businesses.

Read more p16

Risk management

The Group has a well established governance structure with internal control and risk management systems. The risk management process provides a framework to identify, assess and manage risks to the Group's overall strategy and the contribution of its divisions. It also gives business unit management formal tools to identify and manage risk and allows Group management to identify and manage the risks that are likely to have a more significant impact on the financial results and strategy. In addition, it allows the Board to fulfil its governance responsibilities by making a balanced and understandable assessment of the risk management process and outputs.

Read more p24

Corporate governance

Governance provides a framework within which the Board sets its values and delivers long term success for the Company and its investors whilst recognising its duties towards the wider stakeholder community. The National Express Board is committed to ensuring that high standards of good corporate governance, values and behaviours are consistently applied throughout the Group. The Corporate Governance section of the Annual Report and Accounts sets out our approach with regard to the various aspects of the governance of the Company and includes reports from each of the Board Committees on their activities in 2014.

Read more p42

Our business model

The Group uses its operational expertise, experience and accumulated know-how to provide best in class transport services. Our customers value our safe, punctual and frequent services that are available at affordable prices.

Private transport operators can provide a higher standard of service and better value for money than public or state management. National Express is able to leverage this expertise across different modes of transport and different geographies. Our focus on operational excellence allows us to deliver long-term sustainable growth:

- Through the constant improvement of high standards in customer service we will grow revenue by increasing passenger and contract volumes as well as providing the credentials for growth in new markets.
- We are driving cost efficiencies across the Group to protect and grow margins.
- Most of all, we will ensure that our customers and employees are safe at all times.

The Group has a relatively decentralised management structure, with a strong degree of autonomy for each division's leadership, working within our framework of operational and financial strategic objectives. There are some economies of scale in procurement, insurance, overhead costs and financing.

The structurally cash-generative nature of the business enables us to combine sustainable investment in both existing operations and new markets with the opportunity to build value through high-return growth and capital returns to shareholders.

Spain and Morocco

How we build long-term value

ALSA is the largest private operator of buses and coaches in Spain. Its portfolio provides a balance between long distance coach operations, which receive no subsidy and take revenue risk in return for flexibility over the number of services operated and a regulated maximum fare; and regional coach operations, which may be partly subsidised by the autonomous Governments.

We carry out urban bus operations in a number of smaller regional Spanish cities and on suburban routes in Madrid, where we are paid to fulfil defined service obligations. In Morocco we operate in three cities, taking revenue risk that is supported by high passenger demand. ALSA has won a number of new contracts in both countries in recent years.

Key risks to manage

- Intercity concession renewal
- Margin on renewals
- Rail competition

Read more p32

North America

How we build long-term value

We are the second largest private school bus operator in North America. We achieve high contract retention through our relentless focus on customer service and safety. Management of capital is key as asset utilisation is low, due to the part time usage of these specialised vehicles. Scale is beneficial but not overarching – economies can be achieved through procurement, centralisation of administration and locally tailored standard operating procedures.

The Group acquired its initial Paratransit contracts as part of the Petermann school bus purchase in 2012. Since then the transit business has won a further five contracts using its credentials as an excellent operator of relevant transport services. We continue to bid on a substantial pipeline of opportunities and have renewed and grown our largest transit contract in 2014. Going forward, we are looking to augment our school bus business with targeted bolt-on acquisitions.

Key risks to manage

- Further healthcare and social security taxes
- External labour pressure
- Severe weather
- Transit contract churn

Read more p34

UK Bus

How we build long-term value

Revenue and profitability are driven by the scale of operations delivering frequent, reliable and affordable services across a broad network. Passenger growth is supported by sustainable investment in a high quality fleet, ticketing and operational technology. We have a market-leading initiative to improve bus travel in the West Midlands in partnership with Centro, our local Passenger Transport Executive.

Key risks to manage

- Regional economic recovery remains fragile
- Local authority funding risk to concessions
- Student and college funding

Read more p36

UK Coach

How we build long-term value

National Express has a flexible, outsourced business model, where third party providers supply 80% of the coaches and responsibility for sales lies with the Company. With 90% brand recognition, the National Express coach business benefits from its integrated network and scale, offering breadth and interconnectivity, where competitors offer only point-to-point services with limited infrastructure.

Key risks to manage

- Competition – rail

Read more p38

Rail

How we build long-term value

c2c is the UK's best performing franchise for both punctuality and passenger approval, which is an excellent credential to drive value in the UK and overseas. The Group is now starting to exploit its rail expertise in deregulating markets outside the UK, particularly in Germany where it has been selected to run its first two contracts which commence operation in December 2015. National Express has successfully retained Essex Thameside through to 2029 and is preferred bidder for the Nuremberg S-Bahn franchise in Germany commencing in December 2018, with the intention to make bids for further German rail franchises in the coming year.

Key risks to manage

- Successful mobilisation in UK and Germany

Read more p40

Our strategy at a glance

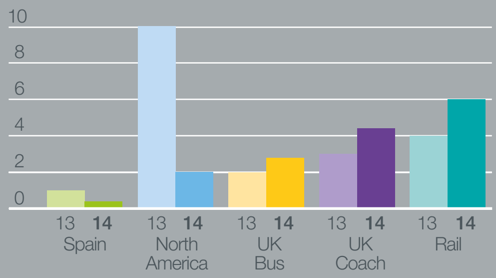
We are making sound progress in our strategy

Our strategy	Performance	Future outlook
Delivering operational excellence Driving revenue growth and margin progression in our core divisions by delivering excellent customer service	• ALSA is the top rated transport company in Spain: best in sector customer satisfaction score: passenger growth of 23% in Morocco • North America – 93% of customers would recommend us and 97% retention rate in school bus • Core passenger growth of 4% in UK Coach: ranked as top ground transport provider in UK Customer Satisfaction Index: EFQM* four star rating • UK Rail – EFQM* five star rating; top quartile for customer satisfaction (89%) • UK Bus Passenger Focus score up 8%	• UK Bus – improve quality through the introduction of *Platinum* bus services • ALSA – Further implementation of revenue management • Targeting further passenger growth in UK Coach • North America: leveraging customer reputation to win new business • Leveraging c2c rail credentials to win further franchises
Generating superior cash and returns A strong cash flow and improving return on the capital we invest will drive better returns for our shareholders	• Operating cash flow of £248 million • 128% of Group operating profit converted into cash • Free cash flow of £190 million • Group return on capital improved by 70bps to 12.4%	• Targeting £100 million free cash flow pa • Free cash to be deployed in investing in growth opportunities in existing and new markets • Leveraging our expertise to take advantage of capital light opportunities
Creating new opportunities Our unique portfolio of international bus, coach and rail businesses gives National Express a significant opportunity to grow in selected new markets	• Won our first bus contract in the Middle East with bus service contract in Bahrain • Preferred bidder for Nuremberg S-Bahn in Germany • Built around $80 million of annual revenue in US Transit • Successful delivery of our largest ever conversion in Memphis	• Further bid wins in UK and German rail • Further bid wins in bus in the Middle East • New opportunities in Portugal and Morocco • Building of North American school bus business through bolt-on acquisitions

*European Foundation for Quality Management – recognises operational excellence and awards ratings to businesses based on a number of criteria including quality of leadership and strategic direction together with development and improvement of people, partnerships and processes in order to deliver value-adding products and services to their customers.

Measuring our progress

Metric: Revenue growth %



KPI definition
Revenue growth year on year on a constant currency basis.

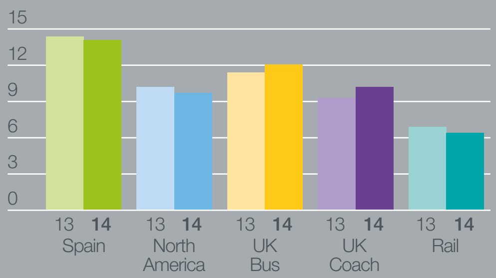
Comment
Continuing to see revenue growth on a constant currency in all divisions, despite one-off headwinds in Spain and North America in first half of the year.

Key risks to manage

- Delivery of service standards
- Managing disruption to services
- Concession and contract renewal
- Managing stakeholder relationships eg to improve transport infrastructure

Read more p26-27

Metric: Margin %



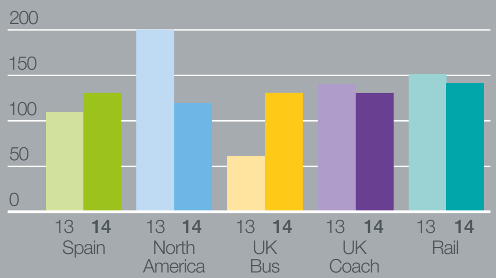
KPI definition
Operating margin is the ratio of normalised operating profit to revenue.

Comment
Margin gains driven by strong performance in UK Coach and UK Bus.

- Control of cost base
- Managing margin risk with renewal of concessions and contracts

Read more p26-27

Metric: Operating cash conversion %



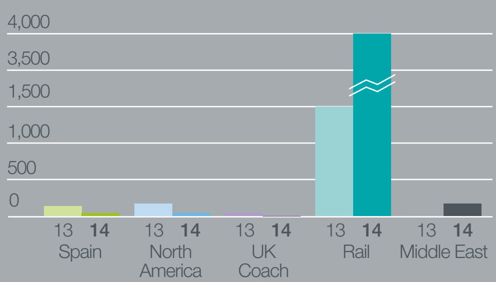
KPI definition
Operating cash conversion is the ratio of operating cash flow to normalised operating profit.

Comment
Continuing strong free cash flow generation driven by strong operating performances in our UK Bus and Coach businesses and an improved working capital performance in our Spanish business.

- Maintaining cash discipline through periods of profit growth and expansion
- Maintaining disciplined approach to capital expenditure
- Management of working capital

Read more p26-27

Metric: Contract wins by value (£m)



KPI definition
Value of contracts won.

Comment
Contract wins across all divisions including retention of our largest Spanish concession and largest US Transit contract, together with contract wins in new markets.

- Winning new business on attractive economic terms
- Building sufficient scale in new markets
- Managing operational and safety risk in setting up in new markets
- Appropriately skilled management team to develop and deliver new opportunities

Read more p26-27

Living our values

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

Four years on from their launch, our Vision and Values continue to provide the foundation for our business.

Our Vision is to earn the lifetime loyalty of our customers by consistently delivering frequent, high performing public transport services which offer excellent value. This provides a clear focus both in running our core operations and in developing new opportunities.

Our five Values continue to underpin the Vision and help us to prioritise what we focus on. The recent addition of Excellence as a fifth value reflected a desire to be excellent in everything we do. It is increasingly clear that our future success depends on it. Excellence is what our existing customers demand. As our most recent successes in German rail and Bahrain demonstrate, a reputation for operational excellence has been crucial in winning contracts in new markets.

Excellence

That is why during 2014 the business focused on embedding Excellence in all our business, with efforts particularly channelled into achieving external accreditation for our approach to quality management.

Across the Group, work has progressed towards the goal of continually delivering sustainable excellence. In Europe we are working towards the European Foundation for Quality Management (EFQM) Excellence Model, which provides a benchmark to compare ourselves against other leading companies. Accreditation is granted after a rigorous review by external assessors. In North America we are working to the complementary Baldrige excellence model.

c2c was the first of our businesses to gain a five star quality rating, in 2013, and the experiences gained during that process have helped the UK Bus and UK Coach businesses in seeking accreditation.

c2c continues to lead performance in the rail industry with three successive years at the top of the UK's rail punctuality league table. It also holds both the annual and four week punctuality records. Our plans for the new franchise we began operating in November 2014 will extend this approach to excellence and embrace new levels of customer service and technology to further enhance our operation.

During 2014, UK Coach had its first EFQM assessment and was awarded four stars by the British Quality Foundation, the body which grants accreditation in the UK. This was an excellent result

c2c continues to lead performance in the rail industry with three successive years at the top of the UK rail punctuality league table

Partnerships deliver business benefits

Our ability to build and maintain strong relationships with our partners is a key driver of our success, both in delivering consistent, high performing public transport services and in winning new contracts in both new and existing markets.

Throughout this report we provide examples of how working in partnership is helping to deliver benefits to our customers and the wider communities we operate in:

- Providing work experience opportunities in Spain p33
- Donating surplus school buses to help the community p35
- Transforming bus travel in the West Midlands p37
- Creating an innovative partnership with the Highways Agency p39
- Working with local authorities to improve rail services p41

Continual training for our drivers in Morocco has delivered sustained improvements in safety

and recognised UK Coach's approach to quality management and excellence. UK Coach is determined to emulate c2c and secure a five star rating at its next assessment.

Both ALSA and UK Bus are currently actively preparing for their first EFQM assessments in the summer of 2015. North America expect their first Illinois Performance Excellence assessment in autumn 2015.

Apart from achieving formal accreditation we are pleased to have gained external recognition during the year for a number of initiatives. UK Bus won awards at both the National Transport Awards and UK Bus Awards for its work with Centro on Transforming Bus Travel in the West Midlands. Our ability to manage disruption at c2c was recognised at the Golden Whistles Awards, and we picked up two Golden Merit Awards from the National School Transportation Association in the USA. ALSA also won a Merit Award in Land Transport from the Ministry of Public Works in recognition of its reputation as an excellent public transport operator.

Safety

Safety is our highest priority in whatever we do as a business and we have appropriate management systems in place across the Group. Overall responsibility for safety sits with our Group Chief Executive, Dean Finch, and our divisional Managing Directors who set out annual plans and priorities for improved performance.

The Driving Out Harm programme, launched across National Express Group in 2010, aims to ensure that safety is always front of everyone's mind so that we achieve a safety record which is best in class among transport operators. Our aim is to drive out all risks of harm to our customers, our colleagues and others affected by our business.

Alongside our standard safety key performance indicators ('KPIs'), during 2014 we introduced a new Fatalities and Weighted Injuries index providing a measure of total responsible harm. This new index is based on the well-established harm index used across the UK rail industry. This has been adapted to more accurately reflect the way the bus and coach industry records incidents, with greater weighting being given to Lost Time Injuries compared with the rail-only methodology.

We have reviewed our safety performance since the 2010 launch of the Driving Out Harm programme using this new index. Although safety requires a relentless focus this has helped identify the good progress we have made. Our external safety auditors Arthur D Little have concluded that total responsible harm has reduced by 54% in four years.

Individual divisions have also recorded particular highlights in the year. c2c, for example, had zero signals passed at danger (SPADs) during the year. This was achieved through continual driver dialogue, including driver and signaller workshops, and targeted safety communications and training throughout the year.

UK Coach was awarded the maximum five stars in the British Safety Council's Five Star Health and Safety Audit and was certified as meeting the OHSAS 18001 international occupational Health and Safety Management Standard. This award recognises the quality of our processes and systems. You can find out more about this in our Safety case study on page 39.

In Morocco the continuing focus on driver training, including the use of bus simulators and twice yearly training and assessment days for drivers, has delivered sustained improvements in safety performance.

You can read more about our safety performance in our Key performance indicators section on page 22.

The Driving Out Harm programme aims to ensure that safety is always front of everyone's mind so that we achieve a safety record which is best in class among transport operators.

Our reputation for delivering great service is reflected in a 97% retention rate for North American school bus contracts

Customers

We never forget that without our customers we would not have a business, so getting things right is critical. Our five Customer Golden Rules set out the standard we expect all employees to follow.

We believe this is really delivering results with the benefit evident in our customer satisfaction scores where most of our operations are leaders in their markets. North American School Bus, for example, has retained 97% of the contracts it bid for, significantly ahead of its peers. Over 93% of customers would also recommend us to other school boards, with quality of service, safety and value being the key considerations.

A particular highlight is our UK Coach business being named the country's 'most trusted ground transportation company' by the Institute of Customer Service, with customers more likely to recommend it to others compared with competing rail, bus and coach providers.

The retention of the new Essex Thameside franchise provided an opportunity to launch a range of new customer initiatives, including smart ticketing. The new c2c Smart card allows c2c season ticket holders to switch from paper tickets to an Oyster-style tap-and-go smartcard ticket they can use anywhere on the c2c route. In addition, c2c and Barclaycard have launched a pilot of the contactless c2c bPay wristband which allows passengers to pay for their travel without buying a separate ticket. If successful, passengers will be able to travel using the c2c bPay wristband and all forms of contactless payment across the entire c2c route.

Apart from smart ticketing, c2c customers now benefit from the new travel app, c2c Live, which provides the latest travel information and free Wi-Fi at stations.

Listening to our customers helps shape the services we deliver. All of our businesses survey their customers, with, for example, ALSA increasing its activity in this area last year with 30,000 surveys completed, 10,000 comments received and 100 face-to-face interviews completed. This activity helps increase customer loyalty, and provides useful insights to improve service delivery.

We have innovated. For example, in UK Bus, we have developed this key relationship by getting all 27 elected members of Centro to adopt a bus route local to them. The councillors regularly travel on the routes and see for themselves the issues which customers raise. Another initiative to get closer to passengers is the launch of our first customer panel in Coventry. The panel comprises eight customers who have a cross-section of user experiences, and will be used to discuss concerns and provide feedback on new products and services.

Centro members have adopted bus routes across the West Midlands to get closer to customer issues

People

We continue to run employee surveys to measure the engagement of our people. Every year, we use the results to influence how we make National Express a better place to work.

As in previous years we used an external research company, VaLUENTiS, to conduct the UK surveys. Using the same company makes it easier to make comparisons across divisions. The results show that in 2014 we made further progress in terms of engagement. Many of our business units are the highest in VaLUENTiS' database:

- Our corporate functions have again registered the highest official engagement score in VaLUENTiS' database. The score of 782 is well ahead of the UK norm of 668.
- UK Coach has again achieved the highest score in the Bus/Coach section of the VaLUENTiS database.
- c2c has the highest score for any train operating company in VaLUENTiS' database.

Our North America employee survey is also run by an independent company, in this case TNS. In 2014, 91% of employees said they enjoy working for the business, two percentage points ahead of the 2013 score. Similarly, there was a two percentage point increase in people saying they would recommend the business as a good place to work, up to 84%. Referring to our results, Mike Schroeder, CEO of TNS Employee Insights, said: "National Express continues to demonstrate exceptional performance when it comes to employee satisfaction and engagement."

Across the Group we employ 42,000 people. We want every one of them to reach their full potential and give their best. We aim to reward exceptional performance and respect the rights of all our employees.

One of our aims for 2014 was to introduce a common employee benefits package for our UK employees. This was to ensure all our people could benefit from the same discounts and offers. This was launched using the My National Express banner, and was well received.

During the year, each business has progressed local initiatives to build employee engagement.

In UK Coach, a coaching programme was introduced to help managers get the most from their teams and develop new ideas and revenue. The programme covered 135 managers across UK Coach.

A new way of engaging with employees was piloted in UK Bus. A Garage Council was set up at the biggest garage in Birmingham,

A common benefits package for UK employees has been developed and promoted under the My National Express banner creating a forum for employees to discuss concerns and be consulted on changes. The Garage Council has proved a success at bringing together people from different functions to debate shared issues.

One of the challenges for c2c in preparing for its new franchise was the need to move everyone over seamlessly to a new company. This involved transferring everyone through TUPE, including re-organising the management structure, in time to meet all the committed obligations for launch.

ALSA, like all our divisions, recognises long service with the company. During 2014, ALSA recognised 130 employees for long service of 20, 30 and 40 years. The commitment of these employees is clear. They have chosen to stay with ALSA for the long term, and we are pleased to be able to celebrate their service to the company.

National Express has a number of policies in place to protect and promote employee welfare, such as the workplace rights and human rights policies, as well as disability, equal opportunities and whistleblowing policies. Any alleged breaches of these policies are fully investigated by the Company and appropriate action taken where necessary. Wherever our employees choose to be represented by unions, National Express actively seeks to maintain relationships based on mutual respect and transparency.

Employee, senior management and director numbers by gender at end 2014

	Male	Female
Directors	8	2
Senior managers	47	14
All employees	24,400	17,853

Community

We recognise that we have a number of important responsibilities towards the communities in which we operate, be that delivering vital transport services to get people about, managing our environmental impact or providing job opportunities for young people. We have a strong record of community involvement and in 2014 this continued.

We are a major employer, and recognise our role in promoting new job opportunities for those in the communities we serve. In the last year our UK Bus and Coach businesses took on 42 apprentices. Our ground-breaking West Midlands 'Routes to Work' partnership with the Department for Work and Pensions has seen over 1,850 new job opportunities filled over the last three years. As well as hiring new staff, we hoped the partnership would broaden the diversity of our workforce. We are pleased, therefore, that it has helped bring the average age of our workforce down by six years and also seen a record number of women apply for jobs.

Our ground-breaking West Midlands 'Routes to Work' partnership with the Department for Work and Pensions has seen over 1,850 new job opportunities filled over the last three years.

The National Express Foundation completed its third year of operation supporting young people with challenging financial circumstances. Awards were made to 13 community groups and three educational establishments, bringing the total of young people to benefit from the foundation since its inception to 2,700.

Our National Express Giving Foundation in North America is now established and providing grants to staff. It is awaiting final approval from the US tax authorities to begin awarding external grants. In 2014 it provided $10,000 in grants to staff.

A highlight of the year was the launch of UK Coach's Youth Promise – an industry-leading package of commitments shaped by members of the UK Youth Parliament. The package includes the creation of new apprenticeships, roll out of a structured work experience scheme and investment of thousands of employee hours in young people's causes. Every member of UK Coach staff has been granted one day of paid leave a year to volunteer to help achieve this. The Youth Promise also includes specific partnerships with The Prince's Trust, Scouts and Whizz-Kidz.

The centenary of the start of the First World War was marked by UK Bus with a special remembrance service at the business' own war memorial in Birmingham. To support this event the business funded the creation of a special book which traced the history of all the former employees who are named on the memorial.

The Employee Charity Panel continues to support UK employees who are engaged in volunteering or fundraising. During 2014, 65 groups benefited from grants from the panel.

Our support for the Special Olympics continues in North America. Employees offer up their time to volunteer at events and we provide shuttle buses for the events. This support was recognised by Special Olympics Illinois in June when they presented Durham School Services with an Outstanding Organisation Award.

Across the Group, we made charitable donations totalling £582,012 during 2014 (2013: £356,000).

Scouts is one of the organisations supported by the Youth Promise in UK Coach

Managing our environmental impacts

One of the key deliverables under our Community value is meeting our environmental responsibilities. Under the guidance of our Group Property and Environment Director each division is challenged with taking the necessary actions to meet ambitious environmental targets.

In 2014, we delivered a strong environmental performance and set new targets for the next new three-year period. Expectations on businesses in this area have increased since the previous targets were set in 2010. Only fuel, site energy and waste were considered as key indicators then, but in setting the targets for 2014-2017 we have included additional indicators – water and total carbon emissions. These new targets apply to all areas of our business and each Managing Director is accountable for delivering them.

The new targets were set after considerable research into which environmental parameters have a significant impact on our carbon emissions and the climate change agenda. We set targets on reducing our consumption of fuel, site energy, water and waste with the aim of reducing our total carbon emissions. The targets set will stretch our divisions, ensuring we meet our corporate ambition of demonstrating excellent global environmental performance. We consider factors such as our supply chain, available investment and what our competitors are doing in our sector. The uniformity of reporting environmental KPI data in the transport sector is poor. Whilst competitors look to report the same key areas such as fuel, site energy, waste, water and carbon, they do not do it consistently across their businesses.

Group environmental KPI targets 2014-2017

1	**Fuel:** 3% reduction in fuel consumption per passenger kilometre
2	**Site energy:** 20% reduction in total consumption
3	**Waste:** 80% reduction in non-hazardous waste to landfill
4	**Water:** 10% (m^3) reduction in total consumption
5	**Total carbon emissions:** 4% reduction in carbon emissions per passenger kilometre All KPIs from 2013 baseline

We value external validation of our environmental performance as it provides assurance that our strategy is delivering and the opportunity to benchmark against our peers.

One of those external measures is the Carbon Disclosure Project (CDP), which helps us to manage our carbon usage. The CDP is an independent assessment of a company's strategy, approach, achievements and performance in all environmental matters. In October 2014, the CDP released its formal assessment of over 2,000 UK companies. We were awarded a performance band of B with a disclosure score of 85, a significant increase on our previous score and the largest improvement in the sector.

This significant improvement in the scoring was due to the efforts of all our divisions, with each having its performance data independently assessed. Our score provides evidence that our strategy is working and providing tangible results in making us more efficient and sustainable. Further information on our carbon performance can be found on our Group website.

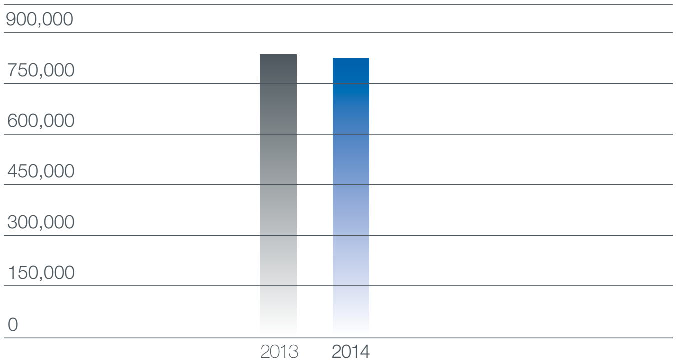
Another external measure is the Carbon Saver Standard. Our work to cut energy costs has continued to deliver carbon emission reductions, resulting in our UK divisions achieving the top Gold Standard.

In 2014, we made a new voluntary commitment to work towards the production and use of climate change related information in our Annual Report. This commitment, developed by the Climate Disclosure Standards Board, highlights the importance we place in considering every opportunity associated with climate change.

One of our goals to achieve Excellence in our management of environmental performance is to work towards the relevant international standards for this activity. Significant progress was made in 2014 with our Spanish division, achieving both the ISO 14001:2004 Standard – for environmental management – and the ISO 50001:2011 Standard – for energy management standards in all its transport and maintenance companies and depots. Certifications were also obtained for four major coach stations in Spain. Our other businesses are committed to achieving these standards as part of achieving external accreditation for excellence.

In 2013 we reported the greenhouse gas (GHG) emissions for the whole Group for the first time. Our continued focus on reducing emissions has resulted in a further reduction in emissions in 2014. This excellent performance was delivered in a year which saw a growth in our business and an increase in the number of vehicles we operate.

National Express Group total emissions 2013 vs 2014 (tCO_2e)

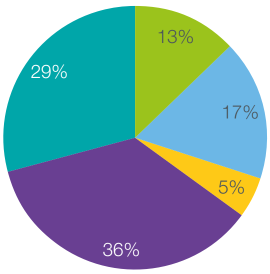


In 2014, we delivered a strong environmental performance and set new targets for the next three-year period.

In 2015 we are committed to ensuring that the GHG accounting system, results and accompanying reports remain robust,continue to enhance our Group level emission performance and are in compliance with the mandatory requirement for carbon reporting.

The Safety & Environment Committee reviews and monitors our environmental systems and processes, makes recommendations on specific issues, and was responsible for setting the new Group targets for 2014-2017. A priority for improvement is the consistency of our internal environmental reporting and these new targets will fully incorporate our Spanish and North American businesses for the first time. Further information about the role and responsibilities of the Committee can be found on page 59.

Greenhouse gas emissions reporting for 2014 (tCO_2e)



Coach (owned and third party)	104,381
Bus (incl. Metro)	142,312
Trains (c2c)	44,724
Leased vehicles and business travel (UK)	443
ALSA	296,214
North America	236,979
Total	825,053

Youngsters from Arc Theatre set up in Basildon Station to deliver their National Express Foundation funded performance about anti-social behaviour

Greenhouse gas emissions reporting for 2014

Emissions from:	Tonnes of CO_2e
Combustion of fuel and operation of facilities (GHG Protocol Scope 1)	750,523
Electricity, heat, steam and cooling purchased for own use (GHG Protocol Scope 2)	66,677
Other upstream emissions (GHG Protocol Scope 3)	7,853
Total	825,053

Intensity metric (tonnes CO_2e/£million revenue)	2014	2013	%
(tonnes CO_2e / £million revenue)	442	441	0.19
Group totals (million pass.km)	35,459	36,379	–2.53
Total tCO_2e per million pass.km	23.27	22.95	1.40
Revenue (million)	1,867.4	1,891.3	–0.01

Methodology

National Express has reported on all of the emission sources required under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013. These sources fall within our consolidated financial statements. We do not have responsibility for any emission sources that are not included in our consolidated statements.

The method we have used to calculate GHG emissions is the GHG Protocol Corporate Accounting and Reporting Standard (revised edition), together with the latest emission factors from recognised public sources including, but not limited to, the Department for Environment, Food and Rural Affairs, the International Energy Agency, the US Energy Information Administration, the US Environmental Protection Agency and the Intergovernmental panel on Climate Change.

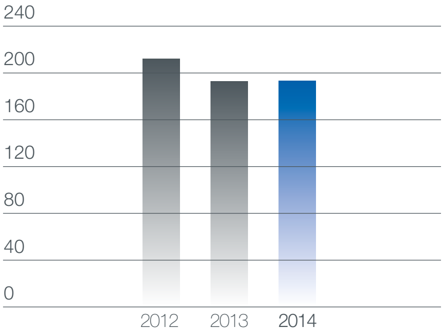
We have used a materiality threshold of 5% and have accounted for all material sources of GHG emissions.

Our continued focus on reducing emissions has resulted in a further reduction in emissions in 2014.

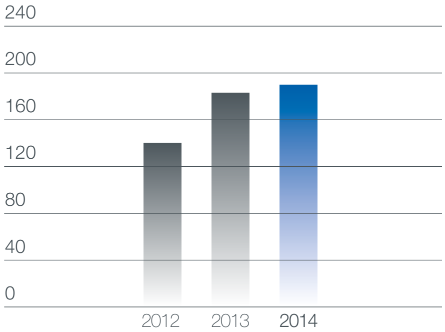
Key performance indicators

Managing our progress

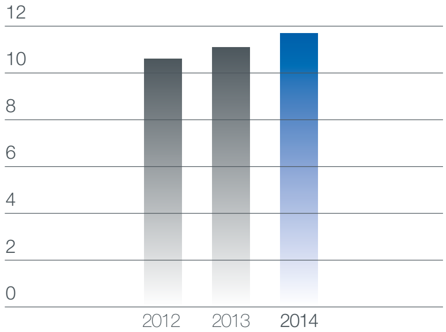
Group normalised operating profit 2014: £193.1m



Free cash flow 2014: £190.3m



Return on capital employed* 2014: 11.7%



*Core non-rail ROCE

KPI definition

Group normalised operating profit.

2014 performance

- Further progress in Group operating profit, driven by strong performances in our UK Bus and UK Coach operations
- One-off events in our North American and Spanish operations depressed Group performance
- Strength of Sterling depressed operating profit performance for the Group

Why we measure

We are focused on driving growth in operating profit in order to drive higher and sustainable returns for our investors.

KPI definition

Free cash flow is the cash flow equivalent of normalised profit after tax.

2014 performance

- Highest level of free cash generation for six years
- Generated over £1 billion of free cash in the last six years
- Operating cash flow conversion rate of 128%
- Targeting free cash flow of £100 million per annum going forward as we return to more typical levels of maintenance capital expenditure

Why we measure

A key part of the Group's strategy is to maximise the cash generation across all our operating divisions. We view cash generation as a key driver for creating shareholder value.

Our core bus and coach operations are strong cash generators, complemented by our capital light model for rail.

KPI definition

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

2014 performance

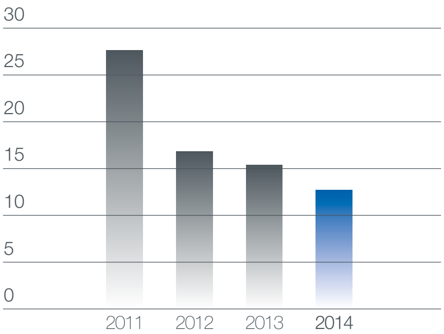
- Strong performances in our UK Bus and UK Coach operations driving higher returns for the Group
- Invested £51 million of net capital expenditure, predominantly in growing our fleet in existing operations and also in new markets

Why we measure

We are focused on improving return on the capital we invest, in order to drive better returns for investors.

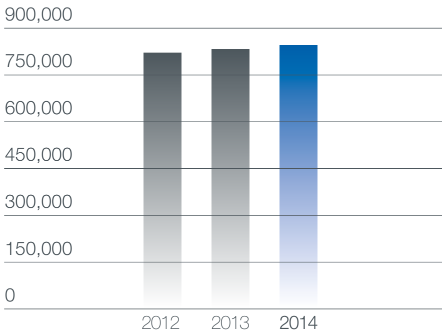
We maintain a disciplined approach to capital investment, and continue to invest in those areas for which we can deliver the best returns.

Safety: Fatalities and Weighted Injuries Index 2014: 12.7

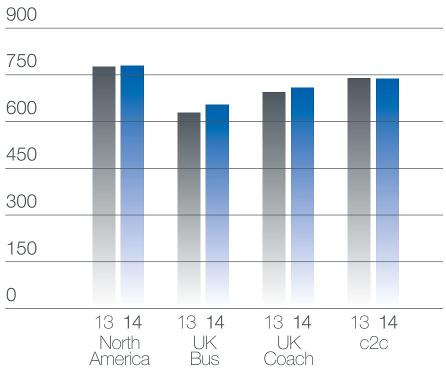


2013 and 2014 include both North America Transit and Petermann

Passenger journeys 2014: 845m



Employee engagement* 2014: By division



*Maximum score is 1,000. Spain conducts employee satisfaction surveys bi-annually and so is excluded

KPI definition

This Index is based on the Fatalities and Weighted Injuries ('FWI') index used in the UK rail industry.

This has been adapted to more accurately reflect the way the bus and coach industry records incidents, with greater weighting being given to lost time injuries compared to the rail only methodology.

2014 performance

- Significant reduction in FWI over the past 12 months reflecting ongoing success of the Driving Out Harm safety programme with big improvements in Morocco and Spain
- 54% improvement in the safety performance since the introduction of Driving out Harm in 2010

Why we measure

Safety is at the heart of our Vision and Values and is our priority for both our customers and employees.

High safety standards also help to drive sustainable growth through customer loyalty and new business wins.

KPI definition

Passenger numbers as measured by the aggregate of passenger journeys across our five operating divisions.

Our numbers for North America are estimated as our school bus services are non-ticketed.

2014 performance

- Further growth in passenger numbers driven by continued investment in fleet, improvement in services and attractive fares
- Strong performance in UK Coach and UK Rail
- First year of operations in Tangier, plus strong growth in Marrakech and Agadir with new services added

Why we measure

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

KPI definition

Our employee satisfaction survey is conducted by VaLUENTiS, a company which is widely used as an employee survey provider in the UK transport industry. The survey delivers an employee engagement score for each individual division, with our score for North America being partially estimated from data provided by TNS, which conduct the employee surveys in North America.

2014 performance

- Further progress in the year in all divisions with the exception of c2c
- Small dip in c2c reflects challenges ahead of preparing for the new rail franchise and remains higher than the average train operating company score of 707
- Our corporate functions have registered the highest official engagement score in the VaLUENTiS database at 782 versus the industry norm of 668

Why we measure

We run employee surveys to measure the engagement of our people. Every year we use the results to influence how we make National Express a great place to work.

Committed to managing risk effectively and robustly

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

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

Responsibilities and actions

The Board:

- has overall responsibility for the Group's system of internal control and for reviewing its effectiveness;
- has a mandate to define the Group's risk culture and to determine its appetite for risk in order to deliver the strategic objectives;
- maintains full control and direction over appropriate strategic, financial, operational and compliance issues; and
- has put in place an organisational structure with formally defined lines of responsibility, delegated authorities and clear operating processes.

The Audit Committee:

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

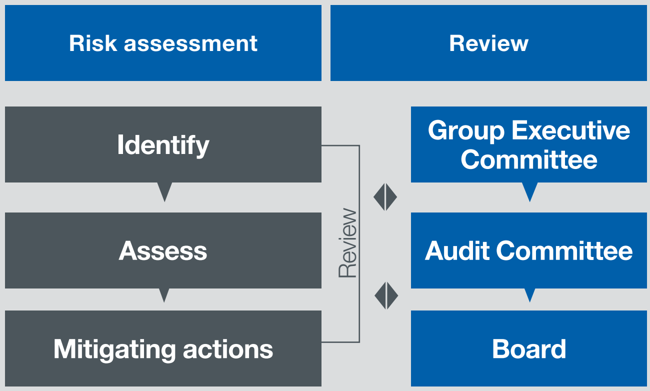
Risk assessment

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

Identify

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

Risk assessment review



Assess

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

Mitigating actions

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

Review

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

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

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

Internal audit

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

During 2014 the Group focused on the following key areas of risk:

Risk	Change	Why?	Responsible
Concession and contract renewal	–	Continued bidding activity	Group Chief Executive and divisional Managing Directors
Economic conditions and austerity	–	Tight public budgets in persistently weak economic conditions	Divisional Managing Directors
Political and regulatory	–	Ongoing regulatory changes in Spain, North America and UK	Group Chief Executive and divisional Managing Directors
Contract bidding	–	Ongoing inherent risk in contract businesses	Divisional Managing Directors
Contract mobilisation	↑	Mobilisation for new bus and rail contracts in Middle East and Germany	Managing Directors of the International and Rail divisions

The following are ongoing risks within the business:

Fuel cost	↓	Unplanned increases in the price of fuel continues to be a risk, despite the significant fall in prices in the last quarter of 2014	Group Finance Director
Insurance and claims	–	Continuing claims management and safety systems in place	Group Finance Director
Credit risk	↓	Payment terms and cash collection better in Spain	Divisional Finance Directors
Currency	↓	Lessening threat of major disruption in Eurozone	Group Finance Director

Principal risks and uncertainties

Looking forward, the Group will focus on the following key areas of risk:

Risks	Assessment	Management	Potential impact
Concession and contract renewal			
Much of the Group's business is secured through winning contracts and concessions, particularly in our North American school bus and transit business, in Spain and in Rail. 2015 continues to see some significant bidding activity, as the Group seeks to expand its operations in the Middle East and Germany and continues bidding to renew inter-city coach concessions in Spain.	Approximately 65% of the Group's total revenue is either contract or concession based. These contracts vary in length and are typically awarded for between 12 months and 20 years. Following the successful retention of the Essex Thameside rail franchise, the Group continues to bid for rail contracts in Germany and will selectively bid for future UK rail franchises. The concession renewal process in Spain has changed, with the most significant difference being the removal of the incumbent advantage. ALSA currently expects about 60% of its national coach concessions to be bid in 2015 and 2016.	A reputation for high quality services helps to win and retain contracts. The Group has a good record of retaining contracts on a historical basis: no national coach concession in Spain has been lost before and retention rates in school bus are typically very high (97% in 2014 and 2013). National Express was successful at retaining the Essex Thameside franchise and in 2015 was awarded the contract to operate the Nuremberg S-Bahn commuter rail service from 2018. Further rail contracts are being bid for in Germany. ALSA is well prepared to submit high quality bids on its own and other concessions as and when they are called to tender.	High
Economic conditions and austerity			
Uncertain economic conditions continue to exist in Europe and North America. Whilst some of the Group's businesses have naturally defensive characteristics, some of the more discretionary parts of the business may be adversely affected by reduced economic activity.	Revenues in the Bus, Coach and Rail businesses in the UK and Spain may be affected by lower passenger demand; there is also some positive risk that the Group would benefit from the prospect of modal shift towards its forms of transport. In North America for example, school boards may reduce their transportation budgets, or look to shift provision to contractors like National Express. In Spain, the division may be affected by the effects of austerity and low GDP growth. However, they may benefit from the outsourcing of further urban bus operations.	The Group seeks to mitigate these risks through proactive cost control, revenue management systems, the careful economic modelling of new and existing contracts, including sensitivities around expected growth rates, and through sharing risk with contracting parties.	High
Political and regulatory			
The Group's businesses are subject to numerous laws in the jurisdictions in which they operate, regulating the operation of concessions, safety procedures, equipment specifications, employment requirements, environmental procedures and other operating issues	Changes in political and regulatory environments can have a significant impact on regulated public transport operators, from adding significant cost to changing the fundamental nature of a market. For example: Changes in UK Government policy resulted in material decreases in subsidies paid in 2012 and 2013 for senior citizen discounts and fuel rebates. The UK Department for Transport is introducing reforms in the franchising process and has recently restarted the tendering process. The Spanish Government has agreed the imposition of a fee on new concessions and the removal of a 5% incumbency advantage on new national intercity concessions.	The risk is reduced by maintaining close relationships with key stakeholders and ensuring that the economic advantages of our business models are fully understood and considered. In the longer term, the Group can mitigate risk by diversifying its operations into other geographies.	Medium

Risks	Assessment	Management	Potential impact
Contract management			
The Group has a significant proportion of its revenue that is won through contract and concession tenders.	An inherent risk in contract bidding is that bid assumptions might prove to be incorrect. If the Group's significant bid assumptions prove to be incorrect, this could have an adverse effect on results of the operations and the Group's financial condition.	The Group seeks to mitigate the risk through careful economic modelling of new contracts, and by sharing revenue risk with the awarding body; for example with the DfT in Rail. Proper mobilisation is a key part of ensuring that risk of divergence from bid assumptions is minimised.	Medium
Contract mobilisation			
The mobilisation to deliver new services following a contract award is involved, often requiring the purchase of new vehicles and in some cases, such as in Germany and the Middle East, the creation of a new business operation.	While mobilisation is a core expertise of the Group, operating in new geographies and cultures increases the complexity and challenge of successful new contract start-up. The risk is greater where contracts are won with relatively short lead time to a fixed service start.	Start-up activities are formally managed with dedicated, skilled local teams supported by Group expertise. Close senior management oversight ensures any key risks or issues are rapidly escalated and resolved.	Medium
The following are ongoing risks within the business:			
Fuel cost			
All of the Group's businesses are exposed to fuel costs – primarily diesel for buses and coaches. Fuel prices are subject to significant volatility due to economic, political and climate circumstances.	Fuel costs constitute approximately 10% of the Group's costs and, consequently, to the extent that price increases cannot be passed on to customers, increases in fuel costs will affect profitability.	The Group seeks to mitigate risks of increases in fuel costs by entering into fuel swaps and forward purchase contracts in line with the Group's hedging strategy discussed on page 31.	Medium
Insurance and claims			
The Group's policy is to self-insure a number of potential claims within its business.	There is a risk that a successful claim or series of successful claims may result in substantially higher charges to profit and cash outflow than expected.	Throughout the business, a strong safety culture prevails, led by the Safety & Environment Committee. Where claims arise, they are managed by experienced claims handlers and professional advice is obtained in order to evaluate and minimise costs to the Group.	Medium
Credit risk			
As contractual operations, the North American and Spanish urban businesses are exposed to the risk that customers are either late or unable to pay sums owed to the Group.	Payment terms and cash collections in North America are extremely good. In Spain the level of outstanding debt is in line with historical levels. In 2012 and 2013 all long-term outstanding amounts were settled through a Federal Government credit facility and through 2014 the level of outstanding debt has continued to fall.	Receivables in each business are closely monitored, based on robust and thorough documentation; provisions are then made where appropriate on a prudent basis for a certain level of non-collection. Additional contractual terms for interest accrual and repayment of outstanding balances have been agreed with overdue debtors where necessary.	Low
Currency			
The Group's exposure to overseas earnings through its Spanish and North American operations creates a risk that movement in exchange rates may adversely impact translation of profit and cash flows together with Group gearing.	Foreign currency movements impact the profit, balance sheet and cash flows of the Group. During 2014 the Euro depreciated against Sterling whereas over the year the US dollar appreciated against Sterling, having initially weakened in the first half of the year. The Group holds Euro denominated debt and US dollar finance leases.	The Group uses currency debt and currency swaps to reduce the impact and mitigate the risk. In addition, management has flexibility to adjust Group capital allocation. The Board has tested for the impact of a break-up of the Eurozone or sovereign debt default on the Group's ability to fund and operate, and has identified plans for such scenarios.	Low

Secure and strong financial position

Matthew Ashley
Group Finance Director
26 February 2015

Presentation of results

We present our financial results on two bases. Normalised results show the performance of the business before exceptional items, loss on disposal of a business in 2013 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 for the year grew 2.3% to £1,867.4 million on a constant currency basis; down 1.3% on a reported basis (2013: £1,891.3m), reflecting the strengthening of Sterling against the Euro and US dollar.

Revenue bridge	£m	Change
2013 full year revenue	1,891	
Impact of one-off events	(6)	(0.3)%
Organic growth	39	2.1%
Acquisitions	10	0.5%
2014 revenue at constant currency	**1,934**	**2.3%**
Currency translation	(67)	(3.6)%
2014 full year revenue	**1,867**	**(1.3)%**

We have delivered revenue growth in local currency in all five of our divisions, through pricing, volume growth and new business. The strengthening of Sterling across the year led to a small decrease in Group revenue on a reported basis.

Normalised profit

Group normalised operating profit increased by 4% to £193.1 million on a constant currency basis, up £0.2 million on a reported basis (2013: £192.9m). Group operating profit margin improved by 20 basis points on a constant currency basis to 10.3% (10 basis points on a reported basis). Normalised operating profit performance continues to be robust in our core non-rail business, increasing by 4.1% on a constant currency basis to £185.1 million, a decrease of £0.4 million on a reported basis (2013: £185.5m).

Profit bridge	£m	Change
2013 normalised operating profit	193	
Impact of one-off events	(5)	
Organic revenue growth	17	
Acquisitions	3	
General cost inflation	(35)	
Cost efficiencies	31	
Fuel price change	–	
Other	(3)	
2014 normalised operating profit at constant currency	**201**	4.0%
Currency translation	(8)	(4.0)%
2014 normalised operating profit	**193**	

The strikes in Spain and the particularly bad weather experienced in North America in the first half of the year reduced profits by £5.0 million. Despite these headwinds, organic profit growth was 8.8% (£17m) and bolt-on acquisitions contributed £3 million. Cost inflation of £35.0 million was largely offset by cost savings of £31.0 million giving an overall growth in profit of 4% in constant currency.

Our UK Coach and UK Bus businesses were the strongest performers, with UK Coach operating profit increasing by 14% to £28.0 million and operating profit margin improving by 90 basis points. UK Bus delivered operating profit growth of 9% with operating margin improving by 70 basis points. Profit in Spain fell, with local currency profit €1.9 million lower, reflecting the industrial action in the first half of the year combined with the impact of increased competition in the inter-city market. However, Spain returned to operating profit growth in the second half helped by the successful roll out of our revenue management programme. In North America profit improved by US$1.0 million on a constant currency basis, with a significant recovery in the second half, together with further progress in winning higher margin contracts. Central function costs were lower as a result of reductions in headcount. Start-up losses in the German Coach operation were £1.7 million and, as previously announced, the German Coach operation was closed in the third quarter. Rail profit from the Group's c2c franchise was down £0.1 million reflecting slightly less favourable contract terms in the franchise extensions.

Operating profit	**2014 £m**	2013 £m
Spain	**75.8**	81.5
North America	**59.5**	62.6
UK Bus	**34.0**	31.2
UK Coach	**28.0**	24.5
Central functions	**(12.2)**	(14.3)
Core non-rail profit	**185.1**	185.5
German Coach	**(1.7)**	(2.4)
Rail	**9.7**	9.8
Group	**193.1**	192.9

Net finance costs decreased to £48.0 million (2013: £49.8m), benefiting from the strong cash generation of the Group driving lower debt, together with a lower cost of financing as a result of the Group's bank refinancing in July 2013. With associate income of £0.3 million (2013: £0.6m), normalised profit before tax was £145.4 million (2013: £143.7m).

Summary income statement	2014 £m	2013 £m
Revenue	**1,867.4**	1,891.3
Operating costs	**(1,674.3)**	(1,698.4)
Normalised operating profit	**193.1**	192.9
Share of results from associates	**0.3**	0.6
Net finance costs	**(48.0)**	(49.8)
Normalised profit before tax	**145.4**	143.7
Tax	**(27.7)**	(32.5)
Normalised profit after tax	**117.7**	111.2

The normalised tax charge was £27.7 million (2013: £32.5m), an effective normalised tax rate of 19.1% (2013: 22.6%), just below the expected medium term rate due to reductions in the statutory tax rates in the UK and Spain which result in favourable changes to deferred tax balances. Consequently, the medium term expected tax rate range has reduced by 2% to a range of 20%-23%, subject to future legislative changes.

Normalised profit for the year was £117.7 million (2013: £111.2m), giving a basic EPS of 22.7 pence (2013: 21.5p), of which non-rail EPS was 21.2 pence (2013: 20.1p). An increase of 3% in the final dividend has been declared, based on maintaining around two times non-rail earnings cover on a full year basis. Our proposed policy with regard to future rail profits is to return value to shareholders separately, reflecting the franchise nature of the rail industry.

Exceptional items

From normalised profit before tax of £145.4 million the Group has invested £50.3 million in exceptional items in the period (2013: £25.7m). This significant investment is focused on delivering two key objectives:

- Developing new business opportunities in rail and international markets to add value to the strongly performing existing operations.
- Restructuring of the existing non-rail operations to consolidate their market leading positions and to respond to both opportunities and challenges.

Exceptional items	2014 £m	2013 £m
Rail bidding	**(19.8)**	(9.3)
International bidding	**(5.7)**	(6.4)
Restructuring	**(25.8)**	(5.4)
Strategic rationalisation	**(18.3)**	–
Exceptional fuel credits	**19.3**	–
Acquisition and integration costs	**–**	(4.6)
Exceptional items	**(50.3)**	(25.7)

Business development

Over the past year investment in new business opportunities has focused on securing future profits from a combination of: new UK rail franchise competitions; leveraging Group rail expertise to capitalise on opportunities outside the UK; and establishing and developing a presence in new international public transport markets.

During 2014, the Group invested £19.8 million bidding for three UK rail franchises and four regional rail opportunities in Germany. As previously announced, the Group won the Essex Thameside (c2c) franchise, securing our presence in the UK rail market through to 2029, with the franchise expected to generate up to £200 million of operating profit over the 15-year term of the contract. More recently we have also secured our third and fourth contract wins in German rail, with our success in the Nuremberg S-Bahn contract. These 12-year contracts are expected to contribute €1.4 billion of revenue and will begin operation in December 2018.

The Group has also invested £5.7 million in order to develop new international markets, where either the liberalisation of state-run public transport markets is presenting attractive opportunities or where there is the establishment of first-time public transport operations. As a result of this activity in 2014, National Express successfully bid for a new urban bus contract in Bahrain, with operations having commenced in February 2015. This will form the foundation for further expansion opportunities in Bahrain and in the wider Middle East region.

As previously outlined, our policy has been to charge development costs for new businesses to exceptional items until a revenue stream has been established. In 2014, UK rail bidding costs were charged to exceptional costs on the basis of materiality, given their relative scale in relation to the profit generated by the Group's remaining UK rail franchise. Having now secured the c2c franchise through to 2029 together with business in German rail and international markets, the Board will not treat any bid costs as exceptional going forward.

Strategic rationalisation

As previously disclosed at the half year, North America launched a strategic rationalisation programme to improve return on capital and to exit from commercially unattractive contracts. The Group recognised a charge of £11.2 million, primarily providing for the future losses from onerous contracts in the business, together with the associated costs of closing facilities and restructuring of related overhead costs. This charge is expected to deliver an annual benefit of £3.1 million.

Following the success of this one-off 'up or out' programme in North America, a detailed review of all of ALSA's contracts was performed, identifying six contracts that were loss making that required turnaround or exit. We are in the process of renegotiating the improved terms or exit of these six contracts. The associated costs of rationalising the business and improving or exiting these contracts are £7.1 million with estimated annual savings of £2.4 million. This one-off programme has now been completed.

Restructuring

The business has undergone a multi-divisional comprehensive restructuring programme to reduce ongoing structural costs and enhance future earnings. As a result of this programme, average managerial and administrative headcount has reduced across the Group by 72 year on year and total headcount by 335.

In the UK, there were three strands to the restructuring:

1. An employee buy-out from part of the principal defined benefit pension scheme combating the increased costs caused by changes in legislation.
2. A one-off reduction in headcount across all three businesses and the centre, reducing managerial and administrative headcount by 20.
3. A write-down and disposal of assets that were deemed surplus to the ongoing needs of the business.

The restructuring costs of £14.6 million will result in annual savings of £5.0 million.

As previously announced, due to the fierce competition and unsustainably low pricing, a decision was made to close the loss-making German Coach operation in the second half of this year, resulting in an associated exceptional charge of £1.7 million.

In Spain, our 'ALSA Futura' restructuring programme is designed to address the significant competitive pressures in the domestic market. We have achieved a reduction in headcount and central overheads through combining the domestic urban and city operations. Total costs were £4.8 million, generating annual savings of £3.4 million.

In North America, our business has implemented a one-off restructuring programme to reduce central overheads in our main corporate centre in the US. Together with the integration of our transit operations from Cincinnati to Warrenville, this cost is £4.7 million and is expected to deliver an annual cost saving of £3.0 million.

Exceptional fuel credits

Following a decision by the European Court rejecting a fuel duty levied in Spain between 2005 and 2012, ALSA has submitted claims to the Spanish court for recovery of the duty paid. On the basis of current approval of claims submitted £21.8 million has been recognised. To date, £9.5 million has been received in cash, with the remainder expected to be received during 2015.

This is partly offset by ineffectiveness of £2.5 million on the Group's fuel hedges following the exceptional volatility in market prices towards the end of the year.

IFRS results

Intangible amortisation decreased to £28.6 million (2013: £49.3m), with the completion of amortisation on Spanish concessions acquired with the ALSA business. Statutory profit for the period was therefore £60.6 million (2013: £58.3m). Basic EPS was 11.6 pence (2013: 11.1p).

IFRS profit	2014 £m	2013 £m
Normalised profit before tax	**145.4**	143.7
Exceptional items and loss on disposal of business	**(50.3)**	(30.0)
Intangible amortisation	**(28.6)**	(49.3)
Profit before tax	**66.5**	64.4
Tax charge	**(5.9)**	(6.1)
Profit for the year	**60.6**	58.3

Cash management

Cash generation is core to our strategy, representing a key driver of shareholder value. The Group's core bus and coach operations are strong cash generators, complemented by rail's capital-light model. In 2013 and 2014, the Group has successfully delivered increased cash flow generation, driven by a programme of capital rationalisation to produce higher returns.

In 2014, the Group delivered operating cash flow of £248.1 million (2013: £248.0m) representing a conversion rate of 128% of operating profit. This reflects a lower level of maintenance capital expenditure, net of disposals, of £43.2 million, which is 43% of the depreciation charge. This includes investment in fleet replacement and ongoing capital discipline across the Group.

We would expect maintenance capital expenditure to return to the more typical historical level of 1.1 to 1.2 times depreciation in the current year, driven by the completion of the North American Bus utilisation and cascade programme.

Working capital reduced by £4.8 million (2013: £30.5m) reflecting continued discipline on cash management.

£190.3 million of free cash flow was generated over the year (2013: £182.8m), reflecting more efficient use of capital and we would expect the level of free cash flow to return to a more typical level in the current year as we increase the level of maintenance capital expenditure as detailed above.

Free cash flow	2014 £m	2013 £m
Normalised operating profit	**193.1**	192.9
Depreciation and other non-cash items	**102.1**	108.2
EBITDA	**295.2**	301.1
Net maintenance capital expenditure	**(43.2)**	(74.9)
Working capital reduction	**4.8**	30.5
Pension contributions above normal charge	**(8.7)**	(8.7)
Operating cash flow	**248.1**	248.0
Receipts from/(payments to) associates and minorities	**1.3**	(0.5)
Net interest paid	**(46.1)**	(48.4)
Tax paid	**(13.0)**	(16.3)
Free cash flow	**190.3**	182.8
UK rail franchise exit outflow	**(1.6)**	(3.6)
Exceptional cash expenditure	**(44.7)**	(22.9)
Cash flow available for growth and dividends	**144.0**	156.3

Free cash flow has funded £44.7 million of exceptional item expenditure, leaving £144.0 million (2013: £156.3m) available to invest in growth capital projects and bolt-on acquisitions. We will continue to focus on capital-light investment opportunities which will drive a higher return on capital employed. The Group's return on capital increased by 70 basis points to 12.4%.

With dividend payments of £51.6 million (2013: £50.3m), the net inflow of funds in the year after foreign exchange movements was £81.8 million (2013: £82.1m) reducing net debt to £664.3 million as at 31 December 2014 (2013: £746.1m).

Net funds flow	2014 £m	2013 £m
Cash flow available for growth and dividends	**144.0**	156.3
Net growth capital expenditure	**(7.3)**	(7.7)
Acquisitions and disposals	**(5.9)**	(9.5)
Dividends	**(51.6)**	(50.3)
Other, including foreign exchange	**2.6**	(6.7)
Net funds flow	**81.8**	82.1

The recent focus of our cash flow has been on debt reduction and growing our dividend. We are now in a strong position to exploit new growth opportunities with a focus in the North American market, where we have more than doubled profitability in the past five years. We believe that there are excellent opportunities in this market given its highly fragmented nature and the continuing trend in conversions. The success of last year's bolt-on acquisition in Philadelphia and the largest ever conversion contract in Memphis demonstrate the opportunity here and we will continue to apply our proven model of excellence to deliver the services our customers value as well as generating good returns for our shareholders.

Treasury management

The Group maintains a prudent approach to its financing and is committed to an investment grade credit rating. It is the Board's policy to target a level of debt that enables disciplined investment and ample headroom on its covenants, with Group net debt to EBITDA maintained at a ratio of 2.0x to 2.5x over the medium term.

The Group's key accounting debt ratios as at 31 December 2014 were as follows:

- Gearing ratio: 2.25 times EBITDA (31 December 2013: 2.5x) bank covenant not to exceed 3.5x.
- Interest cover ratio: EBITDA 6.3 times interest (31 December 2013: 6.1x) bank covenant not less than 3.5x.

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 2014, this represented £742.8 million of funding, primarily from two Sterling denominated bonds comprised of a £350 million bond maturing in 2017 and a £225 million bond maturing in 2020, together with a private placement of €78 million maturing in 2021 and £110 million of finance leases.

Additional committed bank funding of £416 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 successfully renewed and extended to November 2019, at a reduced margin of 0.6% over LIBOR. At 31 December 2014 the Group had £499.7 million in cash and undrawn facilities available.

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 2014, the proportion of Group net debt at floating rates was 28% (2013: 33%).

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 regard to its financial ratios, the Group held, at 31 December 2014, Euro debt of €240 million and US dollar debt of $267 million. These correspond to 1.8 times Euro-generated EBITDA and 1.8 times US dollar-generated EBITDA in 2014.

Pensions

The Group's principal defined benefit pension schemes are all in the UK. At 31 December 2014 these schemes had a combined deficit under IAS 19 of £11.9 million, an improvement from the deficit position of £30.1 million at 31 December 2013, primarily due to improved asset returns during the year. 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 Integrated 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 IAS 19 valuations at 31 December 2014 were as follows:

- UK Bus (under the WM plan and the Tayside Transport Superannuation Fund): £50.6 million deficit (2013: £40.8m deficit).
- UK Coach plan: £30.6 million surplus (2013: £12.6m surplus).
- UK Rail/other: £8.1 million surplus (2013: £1.9m 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.

Fuel costs

The Group consumes approximately 245 million litres of diesel and gasoline each year for which it is at risk (ie 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 2014 of £167 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 2015 at an average price of 47 pence/litre (excluding delivery and tax), 96% fixed for 2016 at an average price of 43p and 81% fixed for 2017 at 43p. The drop in the price of crude oil in Q4 of 2014 resulted in an adverse movement in the value of these hedges to a liability of £71 million, which will be offset by the lower price paid for fuel in 2015-2017. From an accounting perspective, we have recognised £2.5 million of ineffectiveness as an exceptional cost, representing 3.5% of the £71 million fair value liability.

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.

Principal risks and uncertainties

The Group's other principal risks and uncertainties remain in line with those that are detailed on pages 26 and 27 and are summarised here:

- Concession and contract renewal: 2015 is likely to see some significant bidding activity by the Group to retain and renew its existing portfolio of contracts and concessions, for example in Spain and North America, which may be underbid by competitors.
- Economic conditions: parts of the business may be adversely affected by economic conditions, for example in Spain and the UK, as revenues in many of the businesses are historically correlated to GDP and employment.
- Political and regulatory changes: changes in political and regulatory environments can impact a regulated transport business, through the operation of concessions, safety procedures, equipment specifications, employment requirements, environmental procedures and other operating issues.
- Contract management: an inherent risk of bidding for contracts is that bid assumptions prove to be incorrect.
- Fuel cost: changes in economic and political climate can drive changes in cost for the Group.
- Insurance and claims: there is a risk that a successful insurance, employment or other claim may result in material charges to profit and cash flow.
- Financial risks: the Group faces risks from deteriorating customer credit and to movements in currencies.

In addition, the Group has seen an increase in competitive pressure, particularly in Spain, where high speed rail competition has impacted inter-city coach revenues.

Matthew Ashley
Group Finance Director
26 February 2015

Challenging year but revenue management driving improvement in the second half

Javier Carbajo
Chief Executive, ALSA

Year ended 31 December	**2014 £m**	2013 £m
Revenue	**£538.1**	£564.6
Normalised operating profit	**£75.8**	£81.5
Revenue	**€667.7**	€665.0
Normalised operating profit	**€94.1**	€96.0
Operating margin	**14.1%**	14.4%

Overview of 2014

ALSA saw a decline in normalised operating profit of 2% over the year on a local currency basis. This performance reflects the ongoing impact of challenging economic conditions and rail competition on intercity coach patronage, together with the effect of industrial action in Spain in the first half the year. Despite these challenges, overall revenue grew on a local currency basis, with growth in the second half of the year more than offsetting the headwinds and one-off events in the first half. This growth has been driven by contract wins in Spain, including the successful retention of our largest concession to come up for renewal to date, together with strong growth in Morocco, where revenues increased by 22%. Our Moroccan performance has been driven by additional services on our existing operations in Marrakech and Agadir, coupled with the first time contribution from our operations in Tangier, with the official launch of our fleet of 120 new buses in September.

Total revenue for the year in local currency grew by 0.4% to €667.7 million (2013: €665.0m), although reported revenue declined by 5% to £538.1 million (2013: £564.6m), reflecting the appreciation of Sterling over the year. Our inter-city coach business has experienced growing competition on eight key corridors, with five corridors competing against high speed rail, while the other three are competing with aggressively priced regional rail. Together these eight corridors account for 24% of ALSA's total revenue. As we reported at the half year, Renfe has been particularly aggressive on pricing with fare reductions of around 25% while simultaneously increasing the quota of discounted tickets available. While this activity has continued throughout the second half of the year, we have taken action to respond rapidly and effectively to changes in the market, implementing revenue management which has helped to drive an improved revenue performance in the second half of the year.

Underlying revenue for ALSA (including Morocco) increased by 1% when adjusting for the one-off impact of the industrial action. Revenue in Spain fell 1.3% on a like-for-like basis and revenue in Morocco increased by 22%, primarily due to growth in Tangier.

Normalised operating profit on a local currency basis was €94.1 million (2013: €96.0m) and £75.8 million in Sterling terms (2013: £81.5m), with a return to operating profit growth on a local currency basis in the second half of the year. The operating margin of 14.1% (2013: 14.4%) remains the best in class for a Spanish bus and coach operator.

Operational excellence

ALSA is recognised as an excellent operator in public transport and in 2014 we received the Merit Award in Land Transport from the Ministry of Public Works.

The economic environment remains challenging in Spain, which is impacting demand for travel, particularly long-distance travel. At the same time we are experiencing increased competition from rail on eight corridors, with more aggressive regional pricing. In response to this, we have developed a strategic action plan to improve our competitive position and the customer travel experience.

This plan includes some additional services on certain routes, journey time improvements, on-board entertainment and the introduction of revenue management on 90 intercity routes. This prompt response in mid-2014 drew on the experience and expertise from within the Group, especially UK Coach. With a determination to ensure we retained price leadership on these routes, we changed our organisational structure and strengthened our pricing capability to enable a quicker response on pricing decisions and the use of dynamic fares. This has been combined with higher profile and more focused marketing emphasising our low cost services and we have also introduced new lower cost distribution channels. Significantly, following these initiatives we have seen passenger volumes grow 4% in the second half, with revenue only 2% lower, on routes where we have introduced revenue management.

We remain focused on delivering further cost efficiencies in order to mitigate the impact of lower fares and cost inflation. In 2014 we consolidated our intercity and urban transport operations into a single transport division and began centralising other business functions including purchasing. We have also achieved further efficiencies in our sales network with a greater number of activities now being undertaken by our agents. Over the past year we have also increased our efficiency on fuel consumption, resulting in a 2% reduction in fuel consumption, driven by a programme of consumption improvement measures, including fuel efficient driver training.

These actions are already delivering efficiencies and we are working on other opportunities for further savings: in fuel; removing unprofitable mileage; and consolidating corporate teams and functions. Drawing on the success of the North American 'up or out' strategy, we have taken a similar targeted approach with uncommercial Spanish contracts. These actions will continue to deliver cost savings in 2015.

	€m
2013 normalised operating profit	96.0
Net impact of changes in fares and services (increased competition)	(7.4)
Revenue management	4.0
Other cost inflation	(2.2)
Cost efficiencies	5.7
Strike	(2.0)
2014 normalised operating profit	94.1

Cash and returns

In 2014, ALSA delivered another strong performance, generating operating cash of €122 million with operating cash conversion of 130%, reflecting improvement in working capital of €11 million, mostly driven by action taken to reduce receivables.

We have maintained our disciplined approach to capital investment. In 2014 we invested €26 million, mainly in fleet, including new buses for our contract renewal in Bizkaia.

Creating new opportunities

We believe there are further opportunities to be gained from the programmes we started in 2014. We will extend the revenue management system and are determined to ensure we maintain our price leadership. Our 'up or out' strategy has further to run and our ongoing cost efficiency programme will continue to deliver savings.

Our focus is to ensure we are well placed for the upcoming concession renewal process. The main contract renewal process starts this year with any impact from new terms for our larger concessions unlikely to be felt until 2017. We are determined to maintain our significant market share. Our bidding team is industry-leading and has already demonstrated its effectiveness in retaining and growing our significant Bizkaia contract. In addition, we have negotiated a five-year extension until 2024 to the Madrid Consortium contracts, securing €350 million of additional revenues. We expect some pressure on margins from the concession renewals, which is why we already have cost efficiency and revenue management programmes in place. We will also look to again leverage the Group expertise and experience in customised e-marketing; building on UK Coach's leadership similar programmes will be rolled out across the businesses.

While the Spanish market is clearly changing, it is moving towards models we already operate under and have a significant level of expertise in.

We will also analyse bolt-on acquisitions in Spain as far as they meet our financial criteria. We continue to monitor future prospects for private sector development in the domestic rail market while the liberalisation of the bus market in Portugal could also present attractive opportunities.

Partnership: Muévete employment programme
Gloria Aza
Director of the MA in Transport and Logistics Management
University of Oviedo, Spain

ALSA has introduced a work experience programme which is helping young people into work.

> "The Muévete work programme for young people launched by ALSA is an excellent initiative. It provides Spanish university students with an opportunity to have their first contact with the world of work and a real working experience within a company. This will undoubtedly grant them access to more job opportunities in the future."

Building on the success of our operations in a third Moroccan city – Tangier – we believe there continue to be good opportunities for further growth. This is both through organic growth and in other cities across Morocco, where our services' excellent reputation is opening up new opportunities.

★ Excellence – Master Driver

ALSA drivers who participated in one of the Master Driver training courses

The National Express Master Driver programme was created across the Group to encourage and recognise excellence in driving. It provides a framework to measure the performance of drivers and identify those with an impeccable safety record and outstanding driving skills. But it goes beyond just driving skills to recognise those drivers who are ambassadors for customer service, who impress customers each and every day through consistent and exceptional demonstration of National Express' customer service standards.

The programme is being followed throughout the Group's businesses, but ALSA has made particularly good progress in introducing it. The programme is based on an ongoing assessment of the results from each driver. Depending on their score they are classified into three categories – Professional Driver, Advanced Driver and Master Driver. Drivers are incentivised to work on improving their scores, enabling them to reach higher levels. During 2014, more than 1,300 drivers from ALSA took part in the Master Driver programme, achieving excellent results and 800 more will participate in 2015.

Strong recovery in the second half

David Duke
Chief Executive, National Express Corporation

Year ended 31 December	**2014 £m**	2013 £m
Revenue	**£620.2**	£645.0
Operating profit	**£59.5**	£62.6

Revenue	**US$1,021.8**	US$1,009.4
Operating profit	**US$98.0**	US$97.9
Operating margin	**9.6%**	9.7%

Overview of 2014

Our North American business has more than doubled profits over the last five years (2009: £25.3 million) and has delivered another year of growth in revenue and operating profit, offsetting significant headwinds seen during the first half of the year. On a constant currency basis* revenue grew by 2% with operating profit increasing to $98.0 million (2013: $97.0m). A strong performance in the second half more than offset the one-off impact of $6.1 million in lost profit in the first half from the extreme cold weather and snow.

We continued to focus on increasing profitable growth and improving the quality of our portfolio, exiting those contracts that fall below our minimum return criteria and winning new business which generates more attractive returns. In the last bid season we achieved price increases on these contracts of nearly 5% and this trend of increasing prices has continued into the current bid season.

This growth has been boosted by the first time contribution from our bolt-on acquisition in Philadelphia where we were able to deliver synergy benefits through the seamless integration of the acquired business into our existing operations, together with the largest conversion we have made to date. We were able to leverage our previously existing 275 bus contract in Memphis, significantly growing the contract with an additional 440 buses. We have also seen overall positive price movements on contract renewals of over 4%, with over 200 contracts renewed throughout the year.

*Revenue and operating profit at constant currency, adjusting for Canadian Dollar to US Dollar foreign exchange rate movement in the year.

We have maintained our relentless focus on costs and the streamlining of operations. Within school bus we have reorganised some support staff and head office functions and we have also consolidated our transit business into our Warrenville headquarters. With the upturn in the US economy and the associated fall in unemployment, there are early signs of some upward pressure on drivers' wages.

	$m
2013 normalised operating profit	97.9
Exchange movement (CAD to USD)	(0.9)
2013 normalised operating profit at constant currency*	97.0
Net impact of revenue growth	2.5
Acquisitions	4.7
Fuel cost	(0.8)
Other cost inflation	(15.0)
Cost savings including synergies	17.5
Weather	(6.1)
Other	(1.8)
2014 normalised operating profit	98.0

Operational excellence

Our North American operation already delivers best in class margin, following the successful completion of our margin improvement programme between 2010 and 2012. Traditionally, the school bus industry is a capital-intensive, low cash generation business. Over the past two years, 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 2014/15 school year bid season we relinquished 11 contracts, leading to a reduction, net of bid wins, of more than 550 buses operated. We have continued to cascade buses where they meet the appropriate age criteria, thereby increasing fleet utilisation.

We continue to deliver superior service standards, with over 93% of our customers willing to recommend us on the basis of quality of service, safety and value. This is also reflected in our industry leading contract retention rate which remains very high, achieving over 97% again for the last bidding season, excluding those contracts which we have not contested as they do not meet our minimum returns criteria. We have invested further in improving our maintenance standards in the past year, with enhanced training and skills testing programmes resulting in an increased number of quality assured Automotive Service Excellence certified technicians. In addition, we are utilising our GPS tracking technology across all our locations, enabling on-time performance measurement for our businesses, and are currently piloting a 'Where's My Bus' app which provides parents with real-time tracking information. And we are pleased that our employee survey has again demonstrated year-on-year improvements, with over 90% saying they enjoy working for the company. Our North American foundation has also given its first grants within our business.

Cash and returns

Operating cash flow represented a conversion of 119% of operating profit with $117 million of operating cash delivered in the year, with the normal pattern of strong working capital collection at the school and calendar year-ends continuing.

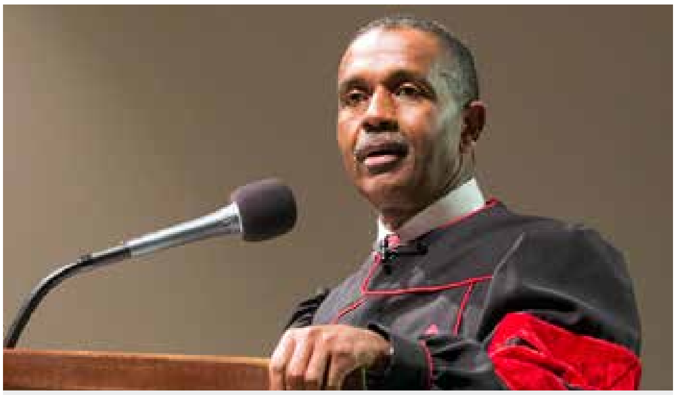
As we commented last year, our ongoing programme to improve contract capital returns has resulted in lower capital investment requirements, as we look to increase asset utilisation, actively managing spare capacity within our fleet together with cascading fleet from exited contracts. This drive for more efficient capital deployment has delivered a significant improvement in return on assets over the past two years rising from 17.2% in 2012 to 23.8% in 2014. We are targeting year-on-year improvements in our operating margin as our more disciplined contract management and bidding and asset management programmes continue to deliver benefits. We expect to return to a constant fleet replacement level in 2015 in line with depreciation.

Creating new opportunities

Our transit business provides a good business development opportunity in a growing market. In most bids, vehicles are funded either by the Federal Government or the customer, resulting in a low capital investment requirement and high returns on capital. Using our operational expertise and superior track record of service delivery, we will continue to seek further bid opportunities in this attractive market.

We see attractive growth opportunities in the North American school bus market as it remains highly fragmented and the trend towards conversion continues. With over 10,000 private school bus businesses in the US, we see significant opportunity for consolidation. Better pricing discipline in the market, combined with our ongoing focus on efficient capital deployment, means we are optimistic about our prospects in North America.

Building on our recent successes we will continue to focus on further selective bolt-on acquisitions where we can leverage our existing operations and deliver synergy benefits. We have demonstrated a strong track record of success here, from the acquisition of Petermann through to our more recent purchase of a school bus business in Philadelphia. We have a successful track record of acquiring and seamlessly integrating new businesses with all of our acquisitions exceeding original expectations and as we enter 2015 and beyond, we expect to increase our level of investment in these attractive growth markets. We will also continue to seek further conversion opportunities, building on our recent success in Memphis.



Partnership: School bus donation

Rev. Dr. Charles B. Jackson

Senior Pastor, Brookland Baptist Church, West Columbia, South Carolina

Local organisations are benefiting as a result of our programme of donating surplus buses in North America.

"This bus makes possible transportation for young people and provides not only encouragement but huge momentum in our efforts to reach out to them. Transportation has been a problem in terms of the services that our church wants to provide, but these needs have been met by the contribution of the very beautiful bus that National Express has made to us. National Express cares about people; National Express cares about communities."

Community – Blue Valley School

Blue Valley's Friend of Education Award

The school buses we run in North America are part of the fabric of the local communities they operate in. They provide a vital link which ensures students reach school safely. The exceptional work carried out by our employees does not go unrecognised. An example of this last year was when we were honoured by the Blue Valley School District in Overland Park, Kansas as a 2014 'Friend of Education' for its excellent service to the district in providing student transportation.

"Durham School Services sees transportation as an extension of Blue Valley's educational efforts. Durham's attention to detail, customer-oriented approach, and willingness to go above and beyond the call of duty has helped to bring Blue Valley's mission of 'Education Beyond Expectations' to life," said Steve Davis, Director of Business Operations for Blue Valley School District.

Each year, the Blue Valley Board of Education recognises organisations and individuals who have played a critical role in bringing leadership and quality in education to the district. According to Steve Davis, recipients of the Friend of Education awards understand that student success depends on the combined efforts of the community.

Strong performance with the partnership approach driving further growth

Peter Coates
Managing Director, UK Bus

Year ended 31 December	**2014 £m**	2013 £m
Revenue	**281.0**	273.4
Operating profit	**34.0**	31.2
Operating margin	**12.1%**	11.4%

Overview of 2014

UK Bus delivered a strong performance with revenue growth driven by a combination of increased passenger volume and price inflation. Passenger growth has reflected our continued investment in fleet, service and technology.

Total revenue grew by 3% to £281.0 million (2013: £273.4m) with like-for-like commercial revenue growth of 3%. In the West Midlands commercial passenger journeys rose by nearly 1% in the year, whilst concession and other income increased by 3%.

	Growth %
Like-for-like commercial revenue	3
Mileage	–
Underlying commercial revenue	3
Concession and other revenue	3
Total revenue	3

Normalised operating profit was strong, with growth of 9% to £34.0 million (2013: £31.2m), reflecting both revenue growth and cost efficiencies. The operating margin has now risen to 12.1% (2013: 11.4%), and we believe this level of margin is sustainable supported by our strong partnership relationships.

	£m
2013 normalised operating profit	31.2
Net impact from revenue growth	5.3
Fuel cost	(0.6)
Other cost inflation	(5.6)
Cost efficiencies	4.2
Other	(0.5)
2014 normalised operating profit	34.0

Operational excellence

We believe our partnership approach is a key driver for delivering a combination of superior service standards and customer offering together with profitable growth. In 2014, our 'Transforming Bus Travel' partnership with Centro won two industry awards including the National Transport Award for the Top Transport Team/Partnership of the Year, recognising our industry leading relationship with Centro (the West Midlands Passenger Transport Executive). We are making excellent progress towards meeting all of our commitments, particularly with regard to safety and security.

Operational delivery is crucial for achieving profitable growth. In 2014, our service delivery has continued to improve, with increased punctuality and a reduction in customer complaints. This has been reflected in customer satisfaction of 86% in the 2014 Passenger Focus survey, an 8% increase on the 2013 score. After a strong performance last year, we have seen punctuality improve by 2%, despite unprecedented levels of roadworks in the second half of the year.

Ongoing network improvements have driven further growth in passengers. Our network reviews enable us to drive further growth in passengers as we meet new customer demand, for example, working closely with Jaguar Land Rover at their factories, on the new i54 business park near Wolverhampton and in Birmingham and Solihull. The i54 development is an excellent example of how we have worked closely with employers, local councils and Centro by adapting our commercial services to support economic growth, while delivering excellent value to both customers and the taxpayer.

New route-branded buses have been introduced on key corridors, supported by marketing campaigns, driving higher levels of passenger volume growth on those routes. We continue to drive improvements in operational performance through the use of technology. In 2014, we rolled out our Automatic Vehicle Location tracking system to iPads used by every roadside inspector, allowing more responsive management of our services, and improved customer information. In addition, over 250,000 mobile users downloaded our West Midlands bus app and we have launched a new app for customers in Coventry.

Our increasing number of ticket options and focus on value is driving growth in passenger volumes. We have seen further growth in travelcards and day tickets, both of which reduce cost to the passenger and increase loyalty to National Express services. In 2013, we helped introduce industry leading multi-operator smartcards, in partnership with Centro, and we have seen a huge increase over the past year, with over 1 million smartcard passenger journeys taken and rapid expansion continuing, driving revenue growth. In 2015 we will reinforce our leadership credentials with the launch of a Pay As You Go smart ticketing option.

We have also made significant improvements in safety, both for customers and employees, resulting in a lower number of injuries and assaults and reduced cost of claims.

Cash and returns

The UK Bus business generates an excellent return on capital, delivering good asset utilisation and profitable returns on investment. In 2014, we delivered a strong performance generating operating cash of £45 million.

We continue to maintain our disciplined approach to investment, targeting areas which will deliver the greatest returns. Capital expenditure will rise in 2015, predominantly due to the investment in new buses as described below, which in turn will drive growth in passenger volumes.

Creating new opportunities

UK Bus is a stable, strong return on capital business, with opportunity for organic 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 and profitability.

Via our ground-breaking 'Transforming Bus Travel' partnership with Centro, we are jointly committed to a range of initiatives and investments to enhance bus services in the West Midlands. In 2015, we will make a record level of investment of £37 million, of which £34 million is in 171 new, high-quality vehicles. Importantly, this investment has unlocked local authority commitment to make significant highways investment in bus priority schemes on key routes in Birmingham and Solihull. These schemes will enable our new *Platinum* buses to deliver faster journey times as well as superior passenger comfort, helping to drive further growth in passengers. We believe there is real opportunity to continue growing passenger numbers through this approach where our increased investment in improved services is complemented by local authority investment in improved road conditions and punctuality.

In 2015 we will complete delivery of the 83 Transforming Bus Travel partnership commitments, and plan to sign the fourth generation of the partnership, building upon our award-winning achievements.

We will also make further enhancements to our industry-leading multi-operator smartcards, which will be extended to our tram operation, and we will launch and roll out a Pay As You Go option, both of which will promote greater customer loyalty and growth in passenger journeys.

Partnership: Transforming bus travel with Centro

Cllr. John McNicholas
Chairman, Centro

Since 2009 we have worked in partnership with the West Midlands integrated transport authority, Centro, to improve the experience of bus customers.

"Our award winning partnership with National Express has led to big increases in customer satisfaction, record levels of investment and an industry leading smartcard. We have delivered 100% of the objectives set in our last two partnerships and are on course to complete all of those set in our current agreement."

Our tram service will be extended through the centre of Birmingham in 2015, with new longer trams now in service, adding nearly 50% additional capacity.

Finally in 2014, we won a number of private tender contracts including business with John Lewis, Amazon and DHL, and we will look to build on this success in 2015.

People – Health Bus

The Health Bus provides a well equipped, quiet environment for personal consultations

A purpose built health bus, complete with a fully trained nurse and consultation rooms, is now visiting National Express bus garages offering free health advice and support to all employees.

The bus was created following comments in our annual employee survey which praised our employee safety awareness but asked for similar support in health and wellbeing. The Health Bus was designed and constructed by our own engineers and fitters who adapted a redundant bus into a modern, mobile health facility offering two consultation areas and a waiting room. Confidential advice is offered during each 20-minute appointment by a fully qualified nurse who also performs checks on blood pressure, eyesight and cholesterol.

Our innovative and industry-leading Health Bus now offers pre-bookable appointments with visits planned to ensure that it covers both day and night workers. It has already supported over 1,000 employees who have overwhelmingly given this new facility their full support via feedback. This initiative has also been welcomed by Unite union representative Noel Mulvey, who said "We're really pleased that National Express has invested in the Health Bus. There is nothing more important than your health and it is great that the Company is looking after us in this way."

Strong revenue and margin performance

Tom Stables
Managing Director, UK Coach

Year ended 31 December	2014 £m	2013 £m
Revenue	**275.2**	263.5
Operating profit	**28.0**	24.5
Operating margin	**10.2%**	9.3%

Overview of 2014

UK Coach has delivered another year of excellent performance, with profit growth of 36% since 2012 (£20.6 million). The business has continued to build a strong financial and operational foundation which has enabled further revenue growth and margin improvement and continues to generate momentum for the future.

Total revenue increased by 4% to £275.2 million (2013: £263.5m). Core network revenue increased by 4% with new partnership agreements and dynamic pricing achieving passenger volume growth. This was supported by a strong performance at The Kings Ferry where revenue increased by over 20% as it successfully grew its contract hire business.

	Growth %
Passenger yield	(–)
Passenger volume	4
Change in core express revenue	4
Other revenues	6
Total revenue	4

Normalised operating profit increased by 14% to £28.0 million (2013: £24.5m) and operating margin showed a further increase following on from the strong gains in 2013, rising to 10.2% (2013: 9.3%). We provide passengers with easy access to lower fares (thereby growing volumes and improving load factors), together with more frequent and punctual services and this, combined with investment in new coaches and greater cost efficiency, all contributed to this strong performance.

	£m
2013 normalised operating profit	24.5
Net impact of growth and new routes	4.4
Cost inflation	(4.3)
Cost efficiencies	3.4
2014 normalised operating profit	28.0

Operational excellence

Our customer service strategy has continued to focus on providing frequent coach services at low prices. Lower prices were sustained throughout the year and passenger volume growth has been achieved by flexing prices in response to market conditions. This has been supported by increasing our sales distribution through the development of existing partnership arrangements with Ryanair, the Post Office and Wizz Air and creating new partnership arrangements with companies such as easyBus.

During 2014 we enhanced the sophistication of our customer offers and marketing activities. We have analysed our database of 14 million customers to create segments that then receive customised offers. Of the emails we send to our database, 69% are now targeted compared with 18% in 2013.

Following the success of Christmas Day services, launched in 2013, both routes and services were further expanded in 2014, enhancing our customer offer and delivering additional revenue growth.

We have also focused on building on our contract capabilities, retaining airport work at Stansted and Gatwick and carrying a record number of passengers to the Glastonbury Festival. The Kings Ferry also expanded its contract work, which included the provision of transportation at the NATO Summit in Gwent.

Investment has been made in customer facing systems with enhancements to the web and mobile sales channels and improvements in customer relationship management ('CRM') capabilities, allowing better targeting of marketing communications.

Punctuality of services improved during the year and National Express was rated number 1 in the UK Customer Service Index within the ground transportation sector. Safety also improved with lower levels of vehicle incidents and employee injuries during 2014. The business has been awarded a five-star rating by the British Safety Council and also gained certification to BS OHSAS 18001 for safety management standards.

In 2014, UK Coach was awarded a four-star rating by the EFQM in recognition of our high operational and service delivery standards, demonstrating our commitment to constantly drive operational excellence throughout our network. UK Coach is determined to emulate the achievement of our UK Rail operator, c2c, and secure a five-star rating at our next assessment.

Cash and returns

The UK Coach business model has a 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. In 2014, we delivered another strong performance, generating operating cash of £37 million with operating cash conversion of 133% of profit. Capital expenditure remains primarily focused on technology and retail systems aimed at delivering improved CRM capabilities together with enhanced mobile and online booking options for customers.

Creating new opportunities

Attractive pricing, coupled with improved yield management, will allow the division to continue to grow volume, improve load factors and drive profitability. We are investing further in CRM and targeting and believe there are good opportunities for growth. The data we gather from this more sophisticated approach not only allows us to continually improve our targeting but also provides valuable inputs in to our reviews of network efficiency. We are better able to match our stops and service patterns to geographical concentrations of particular customer segments.

By leveraging the strength of our brand, we will continue to grow the number of distribution channels to customers, together with an ongoing focus on operational efficiency. We remain committed to maintaining our competitive position against rail, our key competitor.

Contract services will also continue to provide growth with further opportunities to expand airport services including the provision of transportation services for British Airways at Heathrow from mid-2015, which was recently awarded in a competitive tender process.

The unique UK Coach model with its low price, modern, frequent services is well placed to continue to grow both revenue and margin.

Partnership: Highways Agency
Graham Dalton
Chief Executive, Highways Agency

UK Coach became the first commercial organisation to sign a formal agreement with the Highways Agency. The agreement, a formal commitment to work collaboratively, is the first of its kind and marks the start of accelerated partnership working between the organisations to improve the experience of road users.

"Our partnership with National Express is one which puts customers first. Our joint aim is to make the experience of using the Strategic Road Network a better one, working together on important topics such as punctuality and communication to improve journeys."

Safety – BS OHSAS 18001 certification

Craig Barker, Head of Safety, UK Coach, receives the five star award from Marianne Phillips, Products and Services Director at the British Safety Council

UK Coach has achieved a major milestone in its approach to managing safety during the year by being awarded 96% – the highest mark ever given on a first audit by the British Safety Council. We also gained five out of five stars and an 'Excellent' rating for our approach to safety management as a result of the review.

The auditor conducting the review commented that in his seven years working for the British Safety Council he had never come across an organisation as advanced as National Express at a first audit, adding that he had been auditing some companies annually for seven years and they were yet to gain a five star status.

Gerard Hand, Past President of the Institute of Occupational Safety and Health, said: "In the world of safety, business leaders often use the words 'passion, priority, morals'. To have it demonstrated in a pragmatic way, which starts from the boardroom and infiltrates throughout all areas of the UK Coach division, gives me a great sense of pride to be part of their journey. National Express UK Coach division doesn't just say the words, it believes them, practises them and, most importantly, delivers in all aspects of safety. Their strategic strapline is to 'Drive Out Harm'. In everything they do, my experience of them shows they clearly deliver."

A year of significant progress in both the UK and Germany

Andrew Chivers
Managing Director, Rail

Year ended 31 December	2014 £m	2013 £m
Revenue	**151.6**	143.0
Operating profit	**9.7**	9.8
Operating margin	**6.4%**	6.9%

Overview of 2014

National Express' Rail division has had a successful year. We successfully retained the long-term contract for the operation of the Essex Thameside franchise (through to 2029) and recently secured our third and fourth contracts in Germany, winning the Nuremberg S-Bahn contract which will start in December 2018. Over the coming year we will continue to leverage our UK rail expertise to bid for further selective franchise opportunities in both the UK and Germany.

Total revenue in 2014 increased by 6% to £151.6 million (2013: £143.0m) supported by passenger growth of 2%. Normalised operating profit was £9.7 million (2013: £9.8m), reflecting an increase in franchise premiums coupled with a rise in train maintenance costs under the terms of the interim franchise extension, resulting in a planned decrease in the operating margin to 6.4% (2013: 6.9%).

Operational excellence

Our Rail division is at the forefront of the Group's drive for operational excellence. In 2014 c2c retained its position as the top rated performer of all UK rail franchises with an annual average punctuality of 96.6%. Significantly, c2c has also improved its Right Time punctuality performance and is now rated the second best performing UK rail franchise on this measure.

During the year we have demonstrated our ambition and capability to be at the forefront of international standards for customer service. We have introduced a number of industry-leading initiatives, including the ground-breaking Personal Performance Promise which lies within the Passenger's Charter. Our industry leading consumer friendly compensation framework will significantly enhance the offer to all customers, including season ticket holders.

We continue to expand our offering to customers and are at the leading edge of new flexible ticketing systems, having been previously selected by the DfT to trial and then subsequently launch and roll-out the use of smartcards across the route, together with the introduction of contactless payment systems. The launch of new discounted advanced fares enhances the offer to customers whilst at the same time enabling us to increase the utilisation of our off-peak capacity, driving further growth in passenger volumes through modal shift and the creation of new demand.

We are also delivering a technological revolution for our customers with the introduction of Wi-Fi in all of our stations, together with a new mobile 'c2c Live' app which will allow customers to access live, personalised information, coupled with online purchase of tickets and car parking.

As we move into 2015, we will continue to strive for operational excellence with the introduction of a new timetable later in the year, which will improve capacity throughout the network and increase connectivity options in London. We will refurbish all 26 stations across the network, whilst the installation of smart meters will drive a reduction in energy consumption, in line with our commitment to improving environmental performance.

December 2015 will see the commencement of our first two German rail contracts in North Rhine-Westphalia. We are making excellent progress with our mobilisation plans, including the public launch of new trains in November 2014, establishing a new operational team, and the recruitment and training of train drivers.

Cash and returns

Rail offers a capital-light model with lower margins but high returns on capital. In 2014 c2c converted 141% of normalised operating profit into operating cash.

Creating new opportunities

c2c is the best performing rail franchise in the UK and this strength in operational performance is helping to drive growth in new rail markets. Our strategy in rail is to secure smaller, lower risk German rail franchises where the risk is acceptable and meets our capital-light investment criteria. We will also continue to monitor the UK market and consider competitions as they arise and will bid for new franchises where they meet our strict financial criteria. In addition, we will regularly monitor the regulatory environment across Europe and may look to enter other markets as they liberalise.

In 2014 c2c successfully retained the Essex Thameside franchise which is expected to generate £4 billion of future revenue over the next 15 years. We are encouraged by the passenger response so far to the new franchise's focus on customer service. Investment in Wi-Fi and new advance purchase off-peak tickets are already proving popular. With new flexible ticketing and pioneering automatic delay-repay compensation being introduced in due course, we are confident this enhanced customer service offer will continue to be popular.

In addition, we now have a total of four long-term contracts in Germany, having recently been awarded preferred bidder status for two contracts for the Nuremberg S-Bahn, covering five rail lines in Bavaria. This significant contract is expected to generate €1.4 billion of future revenues over 12 years, starting in December 2018, whilst our operations in North Rhine-Westphalia will commence in December 2015 and are expected to generate future revenues of €1.6 billion over 15 years. In a relatively short period of time, we have built a business which will generate revenues of €3 billion and we expect to see further growth having successfully pre-qualified for three other franchises. With up to 30 contracts coming to market in the next two years in German rail, we see a strong pipeline of opportunities and we will continue to be selective in our bidding approach in order to drive the best returns.

Partnership: Thurrock Council
John Kent
Chief Executive, Thurrock Council

Thurrock Council and c2c have formed a ground breaking partnership to improve rail services for people living in the district.

"This partnership is really good news for everyone who uses public transport in Thurrock and those who have to cross the lines whether on foot or in a vehicle.

"We have been doing a great deal of preparatory work, but now we can ensure things start moving forward on all the projects.

"The idea of a smartcard that works on c2c as well as Thurrock bus journeys is a tremendous plan and I want to see us meeting with all the public transport providers to take that forward as soon as possible."

Our 2014 Strategic Report, from page 1 to page 41, has been reviewed and approved by the Board of directors on 26 February 2015.

Dean Finch

Dean Finch
Group Chief Executive
26 February 2015

Customer – c2c Live app and free Wi-Fi

Rail Minister Claire Perry tries out the new app with c2c Managing Director,Julian Drury

The successful retention of the c2c franchise has enabled the launch of a raft of new customer benefits. The c2c team worked hard to deliver many of these for the start of the new franchise on 10 November 2014.

We were able to introduce a new app called c2c Live which provides a one-stop-shop for passengers with everything from personalised journey information to buying tickets, and even paying for car parking. Developed with IBM, this is the first app made by a UK rail company to include nationwide door-to-door public transport journey planning, enabling users to plan a route for any journey anywhere in the UK. In future, customers will also be able to use their c2c Live app to register for automatic refunds, which will be paid out whenever they are delayed by as little as two minutes.

Supporting the launch of c2c Live, we introduced free Wi-Fi at all stations, and will be extending this in future to operate on board trains. With download speeds of up 50mb/s, the service is the fastest in the UK rail network.

Welcoming these new benefits, Rail Minister Claire Perry said: "Passengers deserve the best from our railways, and they will see real benefits from this franchise, with new and improved trains and extra services. The technology improvements that I have seen will also make planning journeys and buying tickets easier than before."

Chairman's introduction to governance

Committed to the values of good corporate governance

Dear shareholder,

As a UK company with a premium listing on the London Stock Exchange, National Express is subject to the UK Corporate Governance Code (the 'Code').

Governance provides a framework within which the Board sets its values and delivers long-term success for the Company and its investors whilst recognising its duties towards the wider stakeholder community. The National Express Board is therefore committed to ensuring that high standards of good corporate governance, values and behaviours are consistently applied throughout the Group. This section of the Annual Report and Accounts sets out our approach with regard to the various aspects of the governance of the Company and includes reports from each of the Board Committees on their activities in 2014.

I should like to share with you a few key areas which have received increased focus during the year as the Board puts into practice its governance procedures.

Strategy oversight

The Board's role in the oversight of strategy continues to be fundamental. The Board sets the Group's three-year forward looking strategy at its January meeting each year. Through challenge and the application of objectivity in considering proposals on strategy, the Board ensures that, once strategic aims are agreed, the necessary capital, resources and performance monitoring processes are in place in order to achieve the objectives required for driving forward our business in both established territories and those that are new to us.

Leadership and effectiveness

The Board is committed to ensuring that it provides leadership to the business as a whole, having regard to the interests and views of its shareholders and other stakeholders whilst also promoting high ethical standards. As Chairman, I am responsible for leading the Board and ensuring its effectiveness; it is therefore important that the Board comprises the right balance of skills and experience and that Board members work together effectively.

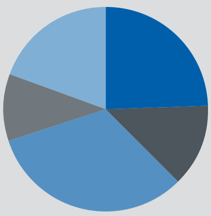
During the year, we have refreshed the Board whilst making continued progress with succession planning. At the end of the year, Jez Maiden stepped down as Group Finance Director after six years' service on the Board. We are very sorry to lose Jez and are very appreciative of the significant contribution he has made during his period of tenure. As reported in the Nomination Committee Report, a thorough search was conducted to identify candidates, both internal and external, to succeed him to this role. Upon the recommendation of the Nomination Committee, on 28 January, the Board appointed Matthew Ashley as Group Finance Director. Matthew was formerly the Finance Director of the UK Bus business, having also previously held the position of Group Financial Controller. I am delighted that Matthew has joined the Board; he brings with him significant financial, corporate and operational experience and I look forward to continuing to work with him.

Audit Committee

"The Audit Committee plays a key role in the governance of the Company and I am pleased to report to you on the work undertaken by the Committee during 2014."

Jackie Hunt, Audit Committee Chair

How the Committee spent its time



Financial statements and reports	25%
External audit	13%
Internal audit and risk management	34%
Tax/Treasury	10%
Corporate governance	18%

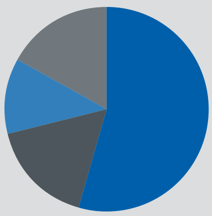
Read more p54

Nomination Committee

"I am pleased to report to you on the work undertaken by the Committee during 2014."

Sir John Armitt, Nomination Committee Chair

How the Committee spent its time



New NED appointments	55%
Election/Re-election of Directors	16%
New Executive Director appointment	12%
Succession planning	17%

Read more p58

We are also sorry that Sir Andrew Foster will be retiring as a Non-Executive Director at the forthcoming AGM after more than nine years' service. I would like to thank Sir Andrew for his support and guidance to the Board and, in particular, to the Remuneration Committee. Jackie Hunt is also stepping down as a Non-Executive Director after nearly three years on the Board and will not be seeking re-election at the AGM. Jackie has brought great insight to Board discussions during her time with us. I am very pleased to say that Lee Sander has agreed to become Senior Independent Director with effect from 6 May 2015. A search for an additional independent Non-Executive Director is approaching its conclusion and we hope to be in a position to announce an appointment shortly.

External Board performance evaluation

During 2014, the performance evaluation of the Board and its Committees was undertaken by an external facilitator in accordance with the Code. With the objective of the independent review being to ensure that the Board's structure, governance and processes are appropriate for our current and future business, the findings concluded that the Board continues to operate effectively. Details of the external review process, analysis and recommendations are given on page 51.

Shareholder engagement on Directors' remuneration

In response to the relatively low margin of support for the resolution passed at the 2014 AGM on last year's Annual Report on Remuneration, members of the Remuneration Committee undertook to engage with significant institutional investors in order to gain a greater understanding of their views on the Executive Directors' remuneration. As a result of this open dialogue, a restructured remuneration package for the Executive Directors was devised to take into account shareholder expectations in this area. A fuller explanation and the details of this restructuring are provided within the letter from the Remuneration Committee Chairman and in the Directors' Remuneration Report from pages 60 to 83.

This year our AGM will be held at 2.00pm on 6 May 2015 in the Purcell Room at the Queen Elizabeth Hall, Southbank Centre, Belvedere Road, London SE1 8XX and I would encourage you to attend to meet me and the Board.

Sir John Armitt
Chairman
26 February 2015

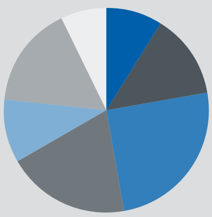
Good governance helps us to implement our strategy, achieve our objectives for the business and create value for our investors and other stakeholders

Safety & Environment Committee

"I am pleased to report that in 2014 we continued to make good progress in our safety performance and in the management of the Company's environment responsibilities."

Chris Muntwyler, Safety & Environment Committee Chair

How the Committee spent its time



External audit of corporate governance of safety	15%
Driving Out Harm annual review	13%
Safety performance review	25%
Environment review	20%
Maintenance audits	10%
Specific site and topic reviews	10%
Health and wellbeing	7%

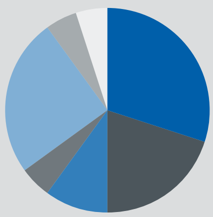
Read more p59

Remuneration Committee

"I am pleased to be given the opportunity to introduce the Directors' Remuneration Report for the year ended 31 December 2014."

Sir Andrew Foster, Remuneration Committee Chair

How the Committee spent its time



Bonuses	30%
LTIP awards and vesting	20%
Remuneration Report review	10%
Remuneration market practice	5%
Executive Directors' remuneration	25%
Chairman's fee	5%
Good leaver approval	5%

Read more p60

Board of Directors

A strong and experienced Board with the right mix of skills and experience delivering effective oversight

Sir John Armitt, Chairman (69)

Appointment: 1 January 2013 and as Chairman on 1 February 2013

Experience: Sir John Armitt is currently Deputy Chairman of Berkeley Group Holdings PLC, Chairman of City and Guilds and a member of the Board of Transport for London and of the Airports Commission. Sir John was Chairman of the Olympic Delivery Authority from 2007 to 2014 and Chairman of the Engineering and Physical Science Research Council from 2007 to 2012. From 2001 to 2007 he was Chief Executive of Network Rail and its predecessor, Railtrack. In 1997 he was appointed as Chief Executive of Costain Group PLC, a position he held until 2001. Before this, Sir John was Chief Executive of Union Railways, the company responsible for the development of the high speed Channel Tunnel Rail Link. This followed a 27-year career at John Laing PLC.

Dean Finch, Group Chief Executive (48)

Appointment: 15 February 2010

Experience: Prior to joining National Express, Dean Finch was Group Chief Executive of Tube Lines from May 2009. Before that he worked for over ten years in senior roles within FirstGroup PLC. He joined FirstGroup in 1999 having qualified as a Chartered Accountant with KPMG, where he worked for 12 years specialising in Corporate Transaction Support Services, including working for the Office of Passenger Rail Franchising on the privatisation of train operating companies. At FirstGroup, he was Managing Director of the Rail Division from 2000 to 2004 and then was appointed to the main board as Group Commercial Director in 2004, before being made Group Finance Director. With the completion of the Laidlaw acquisition, he became Chief Operating Officer in North America before returning to the UK as Group Chief Operating Officer. Dean is also currently a Non-Executive Director of the Royal Free London NHS Foundation Trust.

Jackie Hunt, Senior Independent Director (from 26 February 2014) (46)

Appointment: 13 September 2012

Experience: Jackie Hunt was appointed Chief Executive of Prudential UK & Europe in September 2013. She joined Prudential from Standard Life where she was Chief Financial Officer. Prior to this, Jackie held a number of senior financial management positions in companies including Norwich Union Insurance, Aviva, Hibernian Group, Royal & SunAlliance and PricewaterhouseCoopers. Jackie was also Chair of the Association of British Insurers' Prudential Financial and Taxation Committee. Jackie is currently a Non-Executive Director of TheCityUK and a member of the FCA Practitioner Panel. Jackie Hunt will not be seeking re-election at the 2015 AGM.

Matthew Ashley, Group Finance Director (41)

Appointment: 28 January 2015

Experience: Matt Ashley joined National Express as Group Financial Controller in 2010 from Deloitte where he was a Director specialising in transport and infrastructure and the auditing of listed companies, having previously qualified as a Chartered Accountant in 1998. He was then promoted to the role of Finance Director of the UK Bus division in 2013 before becoming interim Group Finance Director in October 2014. He has no external directorships.

Sir Andrew Foster, Non-Executive Director (70)

Appointment: 1 August 2004

Experience: Sir Andrew Foster has had an extensive career in the public sector, having served as Chief Executive of the Audit Commission for England and Wales between 1992 and 2003. Before this, he was Deputy Chief Executive of the NHS and Regional CEO for Yorkshire. From 2003 to 2012, he was Deputy Chairman of Royal Bank of Canada, remaining a consultant until 2014. He was also Chairman of the Commonwealth Games England team (2007 to 2014). Sir Andrew is currently also a Non-Executive Director at PruHealth. Sir Andrew has conducted independent reviews for the Government into the Intercity Express Project, the Building Colleges for the Future programme, and previously into Further Education and the Future of Athletics. Sir Andrew will not be seeking re-election at the 2015 AGM.

Joaquín Ayuso, Independent Non-Executive Director (59)

Appointment: 1 June 2011

Experience: Joaquín Ayuso is Board Vice Chairman for Ferrovial, the €8 billion Spanish transport infrastructure and services group that employs over 70,000 people worldwide. He has been with Ferrovial since 1981 and was appointed CEO in 2002 and held that position until October 2009. During this period, Ferrovial expanded internationally with business interests in the UK, US, Canada, Latin America and Europe. He is also currently a Non-Executive Director of Bankia, a Member of the Board of Autopista del Sol SA, Independent Director of Hispania Activos Inmobiliarios SA and Senior Advisor to AT Kearney in Spain and Portugal.

Jane Kingston, Independent Non-Executive Director (57)

Appointment: 26 February 2014

Experience: Jane Kingston is currently Group Human Resources Director at Compass Group PLC and was previously Group Human Resources Director at BPB PLC. Prior to this, Jane has worked in a variety of sectors including roles in Blue Circle Industries PLC, Enodis PLC and Coats Viyella PLC.

Lee Sander, Independent Non-Executive Director (58)

Appointment: 1 June 2011

Experience: Elliot (Lee) Sander is President and Chief Executive Officer of the HAKS Group, Inc. An American citizen, he has been Executive Director and CEO for the New York Metropolitan Transportation Authority and has served as Commissioner for the New York City Department of Transportation. Lee is Chairman of the Regional Plan Association, a prominent NGO based in New York that has played a highly influential role in driving public policy and investments in the New York Metropolitan area over the last 80 years. In the past, he has also served on the National Surface Transportation Infrastructure Finance Commission.

Jorge Cosmen,
Deputy Chairman (46)

Appointment: 1 December 2005

Experience: Jorge Cosmen was appointed to the Board at the time of the ALSA transaction. He was appointed Deputy Chairman in October 2008. He was Corporate Manager for the ALSA Group from 1995, becoming Chairman in 1999. Between 1986 and 1995, he worked in sales, distribution and banking. He is a Business Administration graduate and has an International MBA from the Instituto de Empresa in Madrid. He is a Non-Executive Director of Bankia, as well as of other private companies.

Chris Muntwyler, Independent Non-Executive Director (62)

Appointment: 11 May 2011

Experience: Chris Muntwyler is CEO and Chairman of the Swiss Management Consulting company Conlogic Ltd. He is also Non-Executive Director of Panalpina World Transport (Holding) Ltd (Switzerland) and the Austrian Post Ltd (Austria). During his 27 years at Swissair he held top executive positions in Switzerland, Sweden and North America. In 1999 he joined DHL Express serving as Managing Director of Switzerland, Germany and Central Europe and from 2005 to 2008 as CEO of DHL Express (UK) Ltd based in London.

Sandra Forbes, Group General Counsel and Company Secretary

Appointment: 2 June 2014

Experience: Sandra Forbes is a qualified solicitor and, prior to joining National Express, was a specialist banking and transport partner at Burges Salmon where she was the Head of the Corporate and Financial Institutions Department and the firm's Banking Sector Head. Sandra is also a Governor at the University of the West of England where she chairs the Strategic Planning and Performance Committee.

The right mix of skills and experience

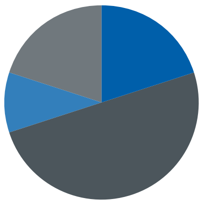
Board experience

80%	Finance	1 female, 7 male
100%	Operational	2 female, 8 male
100%	International	2 female, 8 male
70%	Transport	7 male
80%	Public Board	1 female, 6 male

Board composition

20%	Executive	2 male
80%	Non-Executive	2 female, 6 male
80%	Male	8 male
20%	Female	2 female

Board tenure



20%	0-2 years	1 female, 1 male
50%	2-4 years	1 female, 4 male
10%	4-6 years	1 male
20%	6-10 years	2 male

Committee membership

Director	Audit Committee	Nomination Committee	Remuneration Committee	Safety & Environment Committee
Sir John Armitt		■		●
Jorge Cosmen		●		●
Jackie Hunt	■			●
Chris Muntwyler	●			■
Sir Andrew Foster	●	●	■	●
Joaquín Ayuso		●		●
Jane Kingston			●	●
Lee Sander			●	●
Dean Finch				
Matthew Ashley				

■ Chairman ● Member

Governance report

Compliance with the UK Corporate Governance Code

The Governance Report set out below is designed to provide shareholders with a summary of the Group's governance policies and practices and an explanation of how the Company has applied the main principles of the UK Corporate Governance Code (the 'Code') that was published in 2012 by the Financial Reporting Council and which applied to the Company for the whole of the financial year ended 31 December 2014. The Directors believe that the Company has complied with the provisions set out in the Code during 2014 save as described below. A copy of the Code is available at www.frc.org.uk.

As at 21 February 2014, Tim Score had served for more than nine years on the Board meaning that, for a short period of time until the appointment of Jane Kingston on 26 February 2014, the composition of the Board did not meet the requirements under provision B.1.2 of the Code.

As reported last year, Sir Andrew Foster has served on the Board for more than nine years and is no longer deemed to be independent under the Code. However, as part of the Board's succession plans and in order to ensure continuity, Sir Andrew was asked to remain a Director until the conclusion of the AGM to be held on 6 May 2015. Given his significant experience, he has continued to chair the Remuneration Committee until he steps down at the AGM when Jane Kingston will become Chair of that Committee. Sir Andrew remained a member of the Nomination and Audit Committees throughout 2014 and will continue to be so until he stands down as a Director as mentioned above; the composition of the Committees will then become in line with the Code requirements with Lee Sander joining as a member of the Audit Committee with effect from 6 May 2015. As described in the Nomination Committee report on page 58, a search for an additional Non-Executive Director commenced during the latter part of 2014.

Leadership

The role of the Board

The Board provides leadership of the Group and direction for management. It is collectively responsible and accountable to the Company's shareholders for the long-term success of the Group and for ensuring the appropriate management and operation of the Group in pursuit of its objectives. The Board is responsible for setting the Group's strategy, values and standards and ensuring that the necessary controls and resources are in place to deliver these.

The Chairman and the Group Chief Executive

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

Chairman's responsibilities

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

The Chairman's other significant commitments are detailed in his biography on page 44.

Group Chief Executive's responsibilities

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

Non-Executive Directors

The Non-Executive Directors collectively represent a robust element of the Board and each brings with them his or her own expertise gained in a variety of business sectors. They constructively challenge and scrutinise the performance of management and help develop proposals on strategy as well as ensuring high standards of financial probity and corporate governance. The terms and conditions of appointment of the Non-Executive Directors are available for inspection at each AGM, on the Company's website and at its registered office during normal business hours. The Non-Executive Directors disclose to the Board their other significant commitments. The procedure adopted by the Company in relation to Directors' conflicts of interest is detailed on page 84.

Senior Independent Director

Jackie Hunt became the Senior Independent Director ('SID') on 26 February 2014 replacing Tim Score. As well as being available to shareholders whose concerns have not been resolved through normal channels or when such channels would be inappropriate, the SID provides a sounding board for the Chairman and serves as an intermediary for the other Directors, where necessary. Following Jackie Hunt's stepping down from the Board at the 2015 AGM, Lee Sander will become Senior Independent Director.

Executive Directors

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

Company Secretary

The Board has access to the advice and services of the Company Secretary, Sandra Forbes, who has held this office since 2 June 2014. She is a qualified solicitor. The Company Secretary supports the Chairman in the delivery of the corporate governance framework and is responsible for advising the Board, through the Chairman, on all governance matters, including the planning of agendas for the annual cycle of Board and Committee meetings so that all key issues are considered at the appropriate times. Every effort is made to ensure that information reported to the Board is of high quality in terms of accuracy, quality, appropriateness, comprehensiveness and currency. Directors are able to seek clarification or amplification from management where necessary. The Company Secretary also facilitates the induction process and assists with professional development for Directors as required. The Company Secretary acts as secretary to the Board and each of its Committees. The appointment or removal of the Company Secretary is a matter for the Board as a whole. As well as the support of the Company Secretary, there is a procedure in place for any Director to take independent professional advice where considered necessary.

Corporate governance framework

The Board discharges its responsibilities for the leadership and control of the Group by:

- providing strategic direction and support in a manner which maximises opportunities to develop the business profitability, whilst at the same time assessing and managing associated risks;
- engaging at Board meetings with, and challenging, the Group Chief Executive, Group Finance Director and other members of the senior management team, as appropriate, on the financial and operating performance of the Group and external issues material to the Group's prospects; and
- ensuring that the financial, management and other resources required to meet its objectives are in place.

To help discharge its responsibilities, the Board has a formal schedule of matters specifically reserved for its decision, which forms the core of the Board's agenda. The Board has also delegated certain aspects of its responsibilities to the following principal Committees: the Audit Committee, the Remuneration Committee, the Nomination Committee and the Safety & Environment Committee. More details on each of these Committees can be found in this report.

Key matters reserved for Board approval

Group strategy and risk management

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

Financial and internal controls

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

Board membership and Committees

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

Corporate governance

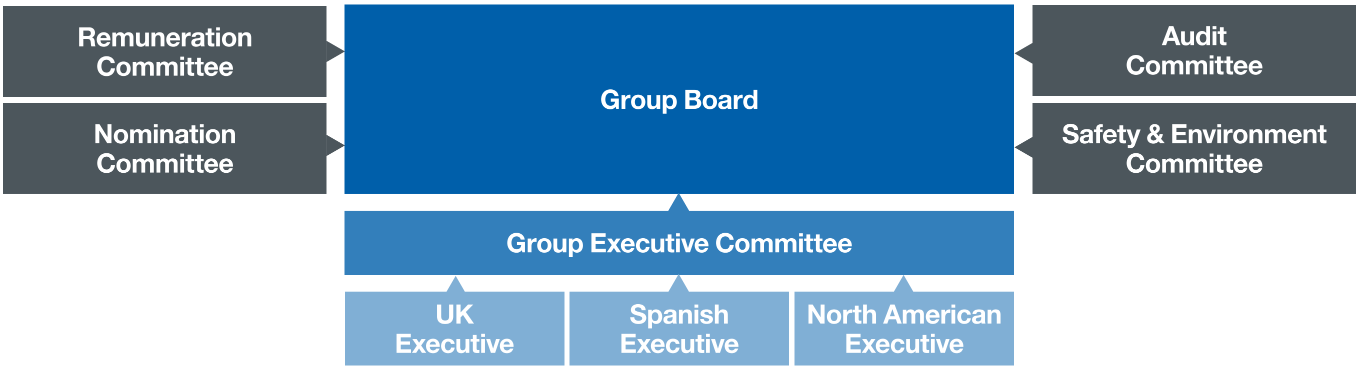
- Undertaking formal performance reviews of the Board, Committees and individual Directors
- Determining the independence of Directors
- Receiving reports from the Company's major shareholders

Policies

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

Committed to high standards of governance

Reporting framework



Board meetings

The Board and its Committees have regular scheduled meetings and hold additional meetings as and when required. Directors are expected, where possible, to attend all Board meetings, relevant Committee meetings, the AGM and any general meetings. The Board met eight times during 2014: six meetings were held in the UK (including a strategic review), one in Spain and one in the US. The table below sets out the number of meetings of the Board and its Committees during the year and individual attendance by the Board and Committee members at these meetings.

If a Director is unable to attend a Board or Committee meeting, he or she still receives all the papers and materials for discussion at the meeting. He or she will review them and then advise the Board Chairman or Committee Chairman of their views and comments on the matters to be discussed so that they can be conveyed to others at the meeting.

Only members of the Board are entitled to attend Board meetings, with the Company Secretary in attendance to formally record each meeting. This is also the case in respect of Committee members and meetings. The Executive Directors and representatives of management, together with the Company's advisors, are also invited to attend Committee meetings as required. Directors have the right to raise any concerns they may have about the running of the Company, or a proposed course of action which cannot be resolved, and have them recorded in the relevant meeting minutes and may also provide a written statement to the Chairman for circulation to the Board, setting out such concerns. During the year the Chairman met on several occasions with the Non-Executives without the Executive Directors present to allow informal discussions on a variety of issues.

Board agenda, oversight and benchmarking

The Chairman and the Company Secretary are responsible for ensuring that the Directors receive accurate, timely and clear information on all relevant matters so that they are properly briefed in advance of meetings

Number of Board meetings

Board meetings	The Board of Directors	Audit Committee	Nomination Committee	Remuneration Committee	Safety & Environment Committee
Total meetings in 2014	8	4	3	2	3
Executive Directors					
Dean Finch, Group Chief Executive	8	–	–	–	–
Jez Maiden, Group Finance Director	8	–	–	–	–
Non-Executive Directors					
Sir John Armitt	8	–	3	–	3
Joaquín Ayuso	5	–	2	–	2
Jorge Cosmen	8	–	3	–	3
Sir Andrew Foster	7	3	3	2	2
Jackie Hunt	8	4	–	–	2
Chris Muntwyler	8	3	–	–	3
Lee Sander	8	–	–	2	3
Jane Kingston*	6(6)	–	–	1(1)	2(2)
Tim Score**	2(2)	2(2)	–	1(1)	1(1)

Group General Counsel and Company Secretary, Sandra Forbes, also acts as Secretary to the Board Committees.

* Appointed to the Board on 26 February 2014. Eligible meetings are shown in brackets.

** Resigned from the Board on 25 February 2014. Eligible meetings are shown in brackets.

and the information is of sufficient quality to assist Directors in making informed contributions and decisions.

The Board regularly and rigorously reviews and benchmarks operational and functional performance. At each meeting the Board receives a report from the Group Chief Executive on operational performance, and from the Group Finance Director on the financial performance of the Group as a whole and each of the Group's businesses individually. Other regular reports for the Board's consideration at its meetings include capital expenditure requests, key project reviews, summary activities of the Board Committees and human capital, legal, governance and investor relations reports. Presentations from either a business Managing Director or a functional head are also given at each meeting.

The core activities of the Board and its Committees are documented and planned on an annual basis and a list of matters arising from each meeting is maintained and followed up at subsequent meetings. The timeline below shows the main items of business addressed by the Board during the year.

Principal Committees of the Board

The main Committees established by the Board are the Audit Committee, the Remuneration Committee, the Nomination Committee and the Safety & Environment Committee. Each Committee operates within defined terms of reference, the full versions of which can be found on the Company's website at www.nationalexpressgroup.com. Each Committee reports its proceedings to the Board through the submission of reports and minutes as appropriate. A Disclosure Committee of the Board is also established with its membership comprising the Chairman, Group Chief Executive and Group Finance Director. This Committee meets as required to deal with the control of price sensitive information within the Group and to ensure that timely announcements are made in accordance with the Company's obligations under the Listing Rules and the Disclosure and Transparency Rules. Its terms of reference are also available on the Company's website at www.nationalexpressgroup.com.

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

Reports of each of the principal Committees are provided on pages 54 to 83, and include information on each Committee's membership, duties and activities throughout the year.

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

The reporting framework of the Board Committees and of the Group Executive Committee and its sub-committees is shown on page 48.

Effectiveness

Composition of the Board

We seek to build an effective and complementary Board which comprises the correct balance of individuals whose capabilities are appropriate for the scale, complexity and strategic positioning of our

Board activity throughout 2014 (excluding standing items)

January
- Review of the Group Strategic Plan for 2014-2016
- Rail bids update
- Bus bids update

February
- Capital investment
- Succession planning
- Approval of the Preliminary Results Announcement, Annual Report and Accounts for the year ended 31 December 2013 and Notice of Annual General Meeting
- Recommendation of the final dividend for financial year 2013

April
- Rail bid (ScotRail)

May
- Capital investment
- Update on UK and German Coach businesses

June
- Capital investment
- Presentation on the Spanish and Moroccan businesses

July
- Rail bids update
- Approval of the Half Year Results Announcement and interim dividend

September
- Capital investment
- Presentation on the North American business
- North America Safety and Maintenance Audit update
- North America HR Strategy Review
- Financing structure
- Bank facility amendment and extension

November
- 2015 Budget
- Rail update
- Executive Directors' Remuneration

business. The Board consists of an appropriate balance of Executive and Non-Executive Directors who collectively bring a strong and in-depth mix of business skills and experience and considerable knowledge to assist with Board decisions. The process for Board appointments is led by the Nomination Committee and is described on page 58.

A list of the individual Directors, their biographies and Committee memberships as at the date of this report are set out on pages 44 and 45.

Independence

The Board considers all of the Non-Executive Directors to be independent other than Jorge Cosmen and Sir Andrew Foster. Sir John Armitt was considered to be independent prior to his appointment as Chairman.

As at 21 February 2014, Tim Score had served for more than nine years on the Board meaning that for a short period of time until the appointment of Jane Kingston on 26 February 2014 the composition of the Board did not meet the requirements under provision B.1.2 of the Code. For the remainder of 2014, at least half of the Board, excluding the Chairman, comprised independent Non-Executive Directors in accordance with the Code.

Jorge Cosmen is not considered to be independent by the Board due to his close links with the ALSA business and significant interests in the shares of the Company which are held through European Express Enterprises Limited. Despite his non-independence, the Board feels that it benefits greatly from Jorge Cosmen's extensive local market knowledge and experience.

As at 1 August 2013, Sir Andrew Foster had served on the Board as a Director for more than nine years. As reported last year, Sir Andrew agreed to remain on the Board until the 2015 AGM and the Board believes that it has been in the best interests of the Company and shareholders that he has done so, given his wealth of experience and to ensure continuity following the recent changes to the Board's composition.

Non-Executive Directors do not participate in any of the Company's share option or bonus schemes and their service is non-pensionable.

Time allocation

It is in the Board's interest to ensure that all Directors have sufficient time to commit to their responsibilities as Directors. The Chairman monitors the extent of Directors' other interests to ensure that the effectiveness of the individual and the Board is not being compromised.

In respect of the appointment of new Non-Executive Directors to the Board, candidates are made aware of the time commitment expected of them which is reflected in their individual letters of appointment with the Company. The Board considers that all the Directors are currently able to devote sufficient time and attention to their duties and responsibilities to the Company.

As part of their continuing development, and recognising the significant benefits to be derived to both the Company and the individual, Executive Directors are permitted to accept one external non-executive directorship with a non-competing company provided they first obtain Board approval. During the year, Dean Finch was appointed a Non-Executive Director of the Royal Free London NHS Foundation Trust. Jez Maiden continued to hold an external directorship with Synthomer PLC throughout 2014.

Induction of new Directors

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

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

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

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

On appointment

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

Following appointment

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

Performance evaluation

An evaluation of the effectiveness of the Board and its Committees is conducted annually.

In 2012 and 2013, internal evaluations of Board effectiveness were conducted by the Group HR Advisor, via a questionnaire circulated to all the Directors.

Actions implemented from the 2013 evaluation are detailed below.

2013 recommendations	Actions
Improve timing of delivery of Board papers to Directors.	Changes in process were made to ensure more time between delivery of the Board papers and the actual meetings.
Allow sufficient time for discussion of complex issues.	When producing agendas and during meetings, as directed by the Chairman, more time has been allocated to such agenda items.
Ensure the Board has the right balance of skills.	This has been addressed through the NED search process that resulted in the appointment of Jane Kingston in February 2014. A search for an additional NED with a marketing and digital bias was commenced towards the end of 2014.
Provide the Board with greater contact with senior management.	The Board continues to meet the North American and Spanish management teams once a year and more opportunities have been created to give the Board increased exposure to the UK management teams.

For 2014, the Board engaged Advanced Boardroom Excellence ('ABE') to undertake an independent external evaluation of the performance of the Board comprising the stages and elements shown below. ABE has no other connection with the Company.

Scoping:	ABE engaged with the Chairman and Company Secretary to set the context for the evaluation and to tailor the questionnaires to the specific circumstances of the Company.
Interviews:	In-depth, structured, face-to-face interviews were conducted by consultants from ABE with each Board member and the Company Secretary. The structure of the interviews was based on the Financial Reporting Council's criteria for Board Effectiveness.
Boardroom observation:	ABE undertook an observation of the November Board meeting. This provided an opportunity to gain a clearer understanding of the Board dynamics, enabling greater development insight for the Board beyond the procedural aspects of the Board's functioning.
Documentation review:	A review of the documentation of the Board and its four principal Committees covering a year's worth of meeting packs was undertaken in order to ensure a complete picture of the interrelationship of the Board and Committees.
Report, presentation and discussion:	The information gained from the interviews, documentation review and boardroom observation was analysed to provide structured conclusions for the Board Review Report which was initially submitted to and reviewed by the Chairman. ABE then presented its final Board Review Report and feedback to the Board including appropriate recommendations and discussion of benchmark information and areas for Board development to meet the Company's underlying strategic aims.

The conclusions and recommendations for the Board's development have been reviewed by the Board and an Action Plan and priorities for 2015 agreed. The key areas are set out below. The Action Plan also covers areas of Board processes and procedures to be tightened and documented.

Non-Executive Director composition: NED skills to be kept under review in relation to future digital knowledge and skills needs.	**Board information:** the Board to build further on exemplary Board information provision.
Strategy: the Board to further enhance its processes for strategy setting.	**Risk assessment:** the Board to continue its pro-active approach to risk assessment.
Communication to shareholders: the Board to continue to develop a more structured shareholder engagement plan following on from recent direct shareholder engagement on remuneration.	**Documentation:** the Company Secretary to action the appropriate recommendations on tightening the terms of reference, agenda developments for the Board and its Committees.
Succession: the Board to have enhanced engagement with the scheduled regular review of the executive succession pipeline.	

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

Re-election of Directors

In accordance with the Company's Articles of Association, and the Code, all Directors of the Company, with the exception of Sir Andrew Foster and Jackie Hunt, both of whom will be stepping down from the Board, will offer themselves for either election or re-election at this year's AGM. Non-Executive Directors are appointed for specific terms, subject to re-election. Non-Executive Directors will only be put forward for re-election if, following performance evaluation, the Board believes the Director's performance continues to be effective and demonstrates commitment to the role.

Accountability

Internal control statement

The Board's responsibilities

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

Key elements of the control framework

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

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

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

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

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

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

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

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

Board-level reporting on internal control

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

Review of internal control effectiveness

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

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Group Chief Executive's Review on pages 8 to 11 and the Group Finance Director's Review on pages 28 to 31. In addition, note 29 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposure to credit risk and liquidity risk.

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

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

The Board is mindful of the changes made to the UK Corporate Governance Code in 2014 with regard to the longer term viability statement, compliance with which will apply to the Company for the financial year ended 31 December 2015. The Directors are ensuring that processes are in place in order to be in a position to report in compliance with such enhanced disclosure in next year's Annual Report.

Remuneration

The Directors' Remuneration Report, including details of the revised Remuneration Policy and service contracts, is set out on pages 60 to 83.

Relations with shareholders

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

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

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

From time to time the Company invites research analysts and institutional investors to presentations and site visits that are designed to provide more understanding of the strengths and capabilities of its business operations and strategy.

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

Institutional shareholders

The Board is committed to maintaining an open dialogue with shareholders and recognises the importance of that relationship in the governance process. A focused and proactive investor relations programme is place. The Chairman, Group Chief Executive and Group Finance Director have held a number of meetings with existing and prospective institutional shareholders during the year as well as having given presentations following the full year and half year results. They have also met and given presentations to research analysts and stockbrokers' sales teams. The Company's appointed brokers and investor relations advisors in turn have provided regular confidential feedback to the Company on the views of the major institutions.

The Chairman, Senior Independent Director and other Non-Executive Directors are also given the opportunity to meet institutional shareholders and are available by contact through the normal channels. During 2014 the Chairman met with major shareholders to discuss the governance and direction of the Company.

In response to the 36% vote against the resolution on the Annual Report on Remuneration at the 2014 AGM, members of the Remuneration Committee engaged with the Company's key institutional shareholders and representative bodies in order to gain a greater understanding of their views on Executive Directors' remuneration. As a result of this open dialogue, a restructured remuneration package for the Executive Directors and a revised Remuneration Policy have been devised to address the specific concerns raised by shareholders. The Directors' Remuneration Report on pages 60 to 83 provides full details of the revised Directors' Remuneration Policy which will be put to shareholders for a binding vote at the 2015 AGM.

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

Analyst coverage

The Company is aware of 14 analysts who have published equity research notes covering National Express Group PLC during 2014 and we provide names and contact numbers of their firms on our website.

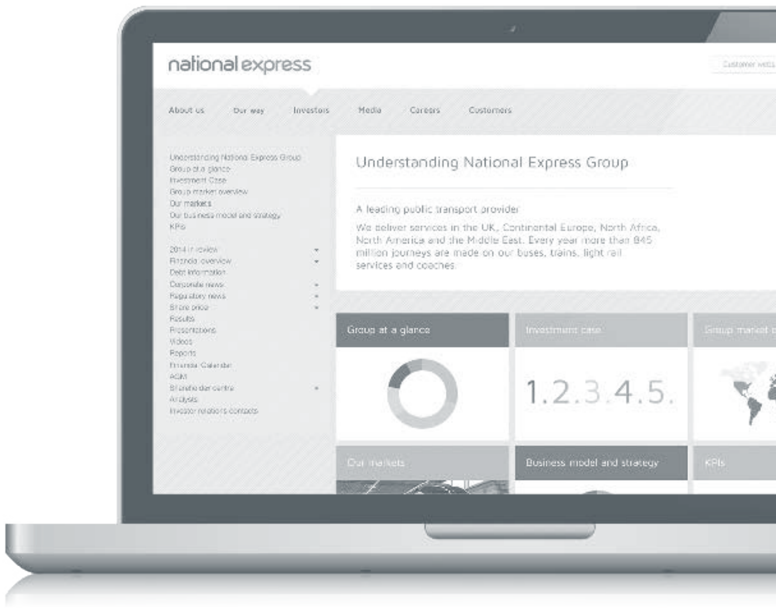
Private shareholders

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

Annual General Meeting

Notice of the Annual General Meeting and related papers are sent to shareholders at least 20 working days before the meeting. Last year's Annual General Meeting included a presentation by the Group Chief Executive on the progress of the business and an opportunity for shareholders to ask questions. All of our Directors were available formally to answer questions during the meeting and many circulated and talked to shareholders informally afterwards. Voting on the resolutions was conducted by poll. Some 83% of the shares in issue were voted and all the resolutions were passed.

The results were published on the Group's website shortly after the meeting. We look forward to welcoming shareholders to our 2015 Annual General Meeting and updating them on the progress of the business this year.



www.nationalexpressgroup.com/investors/

Audit Committee overview

Dear shareholder,

During the year, the Audit Committee (the 'Committee') has continued to play a key role as an independent oversight body in ensuring the integrity of our financial reporting, the appropriateness of our system of risk management and internal controls, and the effectiveness of both our internal and external audit processes. I am pleased to report that the regular challenge and engagement with management, internal audit and the external auditor, together with the timely and clear receipt of reports and information, has enabled the Committee to discharge its duties and responsibilities effectively. I hope you find this report helpful in understanding the work of the Audit Committee.

Membership

The membership of the Committee during the year ended 31 December 2014 is set out below. Attendance at meetings held during the year is shown on page 48.

Member	Position	Member since
Jackie Hunt*	Committee Chair and Senior Independent Director	13 September 2012
Sir Andrew Foster	Non-Executive Director	23 November 2004
Chris Muntwyler	Non-Executive Director	21 November 2011
Tim Score**	Senior Independent Director	21 February 2005

* Appointed Committee Chairman 26 February 2014.
** Resigned 25 February 2014.

Biographies appear on pages 44 and 45.

Other attendees at Committee meetings:

Attendee
Company Secretary (as Secretary to the Committee)
Company Chairman
Group Chief Executive
Group Finance Director
Head of Group Internal Audit
Group Financial Controller
External Auditor: Deloitte LLP

Qualifications of Audit Committee members

Following Tim Score's stepping down from the Board, I took on the role of Chair of the Committee from 26 February 2014. I am considered by the Board to meet the requirements of the Code that at least one Committee member has recent and relevant financial experience.

Role and responsibilities

The primary role of the Audit Committee is to assist the Board in fulfilling its oversight responsibilities with regard to financial reporting, risk management and internal controls procedures and the work of its internal audit function and external auditors. The Committee's terms of reference are reviewed annually and are available on the Company's website, www.nationalexpressgroup.com.

The Committee's main duties and responsibilities in advising the Board include the following:

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

The Audit Committee routinely considers a number of standing items during the year such as consideration of the internal and external audit reports, review of the Annual Report and Accounts, review of the Preliminary and Half Year Results Announcements, and review of the Governance Report.

Meetings

Four Committee meetings were held in 2014. Details of attendance at these meetings can be found on page 48. Outside of the meeting process the Committee Chair has regular contact with the Executive Directors, other Committee members and the auditor on a variety of topics. The Committee itself meets with both the Head of Group Internal Audit and the external auditor at least once a year without the Executive Directors being present.

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

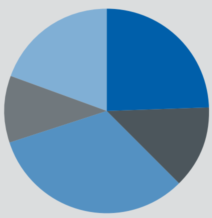
Main activities during the year

During the year and through to the date of this report, the activities of the Committee included:

- a review of the 2013 and 2014 Preliminary Results and Annual Report and Accounts (including consideration of the going concern statement, accounting policies and key areas of financial judgement and of the associated reports from the external auditor regarding their audit findings);
- a review of the 2014 Half-Year financial statement and the report from the external auditor regarding their review findings;

- a review of the effectiveness of the external audit process and assessment of the performance, continued independence and recommendation to the Board of the re-appointment of the external auditor, and consideration of any external audit tendering;
- approval of the 2014 external audit plan and fees;
- approval of the Internal Audit Charters;
- approval of the internal audit plans for 2014 and 2015;
- consideration of the results of internal audit compliance testing of financial controls (Annual Fitness Checks) within the subsidiaries;
- a review of the effectiveness of the Group's internal audit function and internal controls including feedback from divisional Managing Directors;
- a review of the Group Risk Register;
- a review of the Group's IT Disaster Recovery strategy;
- approval of the updated Group Treasury Counterparty Risk Policy;
- a review and approval of the Audit and Non-Audit services and fees;
- a review of corporate governance and legal and regulatory compliance;
- an external review of the effectiveness of the Committee concluding that it continued to operate effectively; and
- a review and approval of the Committee's report for inclusion in the Annual Report.

How the Committee spent its time



Financial statements and reports	25%
External audit	13%
Internal audit and risk management	34%
Tax/Treasury	10%
Corporate governance	18%

Financial Reporting and significant financial judgements for 2014

- **Goodwill impairment:** as it is required to do annually, the Committee considered whether the carrying value of goodwill and intangible assets held by the Group should be impaired. The judgements largely related to the assumptions applied in calculating the value in use of the Spanish Coach and Bus and the North American School Bus businesses. When testing for impairment, the key considerations were the underlying cash flows, the discount rates and the future growth rates. The Committee received a detailed report on the outcome of the impairment reviews performed by management and took into account the views of the external auditor. The Committee concluded that the goodwill and intangible assets of the Spanish Coach and Bus and the North American School Bus businesses were not impaired and it approved the disclosures included in the 2014 financial statements.
- **Spanish receivables**: the Committee considered the assessment of the recoverability of the Spanish Coach and Bus net trade receivables. Considerations were given to the nature of overdue balances and the ageing of trade receivables along with the associated provisions. The Committee received a report on the analysis of the net aged receivables from management and took into account the views of the external auditor. The Committee concluded that the Spanish Coach and Bus net trade receivables were fairly stated.
- **Insurance and other claims:** the Committee considered the adequacy of the provisions associated with insurance and other claims risks particularly in North America. The assessment focused on the advice received from a third party actuary in connection with the Group's exposure to auto and general liability and workers' compensation insurance claims. Consideration was also given to the most likely outcome, and associated financial effect, of other claims and exposures facing the Group. The Committee received a report from management on North American insurance and other claims and considered the views of the external auditor. The Committee concluded that the insurance and other claims provision was fairly stated.
- **Exceptional items:** the Committee considered the treatment and disclosure of exceptional income and expenditure. The assessment focused on the nature of the costs and the appropriateness of presenting them as exceptional following the Financial Reporting Council guidance issued in December 2013. The Committee received a report on the Group's exceptional items from management and took into account the views of the external auditor. Consideration was given to the Group's success in winning new contracts in the year, that the Group is not anticipating there being any exceptional costs for reorganisation and restructuring in 2015 and also that bid costs will be included within operating costs from 2015.
- **Other matters:** the Committee also considered the key assumptions underpinning the Group's defined benefit pension obligations, the adequacy of the liabilities arising from uncertain tax positions and the accounting for the Group's financial derivatives and the associated tests for hedge effectiveness. The Committee received reports from management and considered the views of the auditor on the appropriateness of the defined benefit pension assumptions with reference to the latest market assumptions and employee pension benefits. Similarly, reports were received from management and the auditor on the taxation charge and the adequacy of the taxation liabilities in the context of uncertain tax positions. Reports were also received from management and the auditor on the fair value of the Group's financial derivatives and support for the tests for hedge effectiveness, particularly on the Group's fuel derivatives following recent changes in market values.

Following consideration, the Committee concluded that the defined benefit pension assumptions were reasonable and the taxation liabilities and financial derivatives were fairly stated.

At the request of the Board, the Committee undertook a formal review of the annual report process in terms of preparation, quality of content, key themes and messages, consistency of information and presentation. From the information and assurance provided by management and the review conducted by the external auditor, the Committee was able to confirm to the Board that the 2014 Annual Report, taken as a whole, is fair, balanced and understandable and provides the necessary information for shareholders to assess National Express' performance, business model and strategy.

Risk management and internal controls

The Board as a whole, including the Committee members, considers the nature and extent of National Express' risk management framework and the risk profile that is acceptable to achieve the Company's strategic objectives. As a result, it is considered that the Board has fulfilled its obligations under the Code.

The Committee continues to be responsible for reviewing and monitoring the adequacy, design and effectiveness of the Group's ongoing systems of internal control and risk management. In that regard, the Committee received reports from management, the Head of Internal Audit and the external auditor.

Further details of the internal controls are set out on pages 52. A summary of the Company's risk management framework and an overview of its principal risks are detailed on pages 26 and 27.

Internal audit

The Committee has oversight responsibilities for the internal audit function which is led by the Head of Group Internal Audit.

The purpose of the internal audit function is to provide an independent, objective assessment of the effectiveness of internal controls, risk management and governance processes throughout the Group. The function adds value by:

- contributing to the continuous improvement of internal control and related processes, including identifying and sharing good practice across the Group;
- addressing the safeguarding of assets, compliance with applicable laws and regulations and achievement of management's operational objectives;
- promoting business processes that deliver effective internal control at reasonable cost; and
- providing alignment with the Group's risk management process.

An Internal Audit Charter sets out the responsibilities of both the internal audit function in terms of its focus, programme of activity, scope of investigations and reporting lines and management in terms of it providing support and co-operation at all levels of the business.

During 2014, a targeted internal audit plan was agreed and undertaken on certain of the Group's operations, systems and support functions with subsequent reports, including management responses and recommended actions plans, considered by the Audit Committee in January, July and November.

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

Anti-bribery policy

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

Whistleblowing policy

Whistleblowing policies are in place in each of the Group's businesses and are also available on the Group's website, www.nationalexpressgroup.com. The Board supports the highest standards of corporate governance and ethical practices within all its operations and continues to review its policies on an ongoing basis. The Board has endorsed a set of principles which establish the framework for how its businesses operate. Key to these is working in an open and honest manner. The Group is committed to the highest standards of quality, honesty, openness and accountability. Employees are encouraged to raise genuine concerns under the policy either by contacting their line manager or telephoning a dedicated external helpline. Any concerns raised are investigated carefully and thoroughly to assess what action, if any, should be taken and confidential records are maintained. The Company Secretary reports any matters of significance to the appropriate committee. In 2014 there have been no cases relating to fraud or financial misconduct.

External audit

The external auditor is engaged to express an opinion on the Company's financial statements. The audit includes the review and test of the systems of internal financial control and the data contained in the financial statements to the extent necessary to express an audit opinion on the truth and fairness of the financial statements.

The Committee has responsibility to review and make recommendations with regard to the appointment, re-appointment and removal of the external auditor. In making such recommendations, the Committee considers auditor effectiveness and independence, partner rotation and any other pertinent factors which may impact the external auditor's appointment.

External audit tendering

The Committee currently has no set policy on the tendering frequency of the external auditor or the tenure of the external auditor. The Committee is aware of the audit tendering provisions in the Code and regularly considers the marketplace, benchmarking the current level of audit services that the Company receives along with the fees it pays and the value being delivered. The Company last put its external audit contract out to tender in 2011, following which Deloitte LLP was appointed as the Company's auditor. The Committee is satisfied that Deloitte LLP continues to provide an effective external audit service and it will continue to review the same each year in parallel with the Committee's review and determination as to when would be the most appropriate time to tender the external audit contract.

Assessment of the effectiveness and independence of the external auditor and external audit process

The Audit Committee assesses and reviews on a regular basis the independence and effectiveness of the external auditor. As part of their determination, the Audit Committee reviewed the scope, materiality threshold and fees for the external audit plan and received and considered the external auditor's assessment of the significant risks affecting the Group (as detailed above). The Committee also considers a report by the external auditor on the firm's independence which is required in order to carry out their professional duties and responsibilities as auditor.

Additionally, the effectiveness of the 2014 external audit process was formally assessed by the Committee to meet the expectations set out in provision C3.2 of the Code. This was carried out through the use of a survey and analysis approach taking into account the views and opinions of the Group Finance team and divisional finance directors. In so doing, the Committee's review and qualitative assessment focused on: feedback and insights, process and communication, handling of issues and quality of team. The Committee is satisfied that the external audit process continues to be effective and provides an appropriate independent challenge to the Group's senior management. A few minor areas were identified for further focus and improvement as a result of the assessment and these will be addressed during the current year.

Having completed its assessment of both the external audit process and the external auditor for the financial period under review, the Committee is satisfied that the auditor has performed satisfactorily in 2014, that the audit process implemented was effective and that the external auditor remains independent.

Re-appointment of auditor

The auditor is re-appointed on an annual basis. Based on Deloitte's work during the year, the Committee concluded that it was satisfied with its performance and we were happy to recommend to the Board that it be put forward to be re-appointed at the 2015 AGM.

Non-audit services

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

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

The services that have general pre-approval are tax, transaction investigation and advisory and corporate finance services. The fees for these services are pre-approved up to £50,000 for each non-audit assignment undertaken and subject to an overall limit of 75% of the total fees paid to the external auditor. For services exceeding this limit specific pre-approval is required. In deciding whether or not to grant approval for the provision of specific services by the external auditor, the Audit Committee includes in its consideration the following factors:

(i) whether the external auditor is best placed to provide an effective and efficient service, given its knowledge and understanding of the Company's processes, systems and people; and

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

The majority of non-audit work undertaken by the external auditor during the year relates to advice in respect of tax advisory and other regulatory services.

The split between audit and non-audit fees for the year ended 31 December 2014 appears in note 6 to the consolidated accounts.

Jackie Hunt
Audit Committee Chair
26 February 2015

Nomination Committee overview

Dear shareholder,

I am pleased to report on the work undertaken by the Nomination Committee (the 'Committee') during 2014. The main focus of the Committee this year has been to continue to review the composition of our Board (both Executive and Non-Executive) and to ensure that succession planning for both Directors and senior management remains high on the agenda. I am delighted to report that the recent appointment of a new Group Finance Director, as detailed in this report, together with the search for an additional independent Non-Executive Director is progressing well; we will further strengthen our Board and its alignment to the Company's long-term operational needs and governance oversight.

Membership

The membership of the Committee during the year ended 31 December 2014 is set out below. Attendance at meetings held during the year is shown on page 48.

Member	Position	Member since
Sir John Armitt	Committee Chair and Company Chairman	1 January 2013
Joaquín Ayuso	Independent Non-Executive Director	26 February 2013
Jorge Cosmen	Deputy Company Chairman	2 June 2008
Sir Andrew Foster	Non-Executive Director	15 December 2004

Biographies appear on pages 44 and 45.

Other attendees at Committee meetings:

Attendee
Company Secretary (as Secretary to the Committee)
Senior Independent Director
Group Chief Executive
Group Human Resources Director
External advisors: as appropriate

Full minutes are kept by the Secretary of the matters considered and decisions taken by the Committee.

Advisors

During the year, the Committee appointed search consultants, the Zygos Partnership, to undertake a search for an additional independent Non-Executive Director in view of Sir Andrew Foster's retirement from the Board with effect from the end of the forthcoming AGM.

Russell Reynolds was also appointed to identify candidates for the role of Group Finance Director to replace Jez Maiden who stepped down from the Board as an Executive Director with effect from 31 December 2014.

Neither the Zygos Partnership nor Russell Reynolds has any other connection to the Company.

Role and responsibilities

The primary role of the Nomination Committee is to ensure that the Board is appropriately structured and has in place the correct balance of individuals to discharge its duties effectively, and to lead the process by which new Board members are appointed. It also advises the Board on succession planning for Directors.

The Committee's terms of reference are reviewed annually and are available on the Company's website, www.nationalexpressgroup.com.

The Committee's main duties and responsibilities in advising the Board are summarised below:

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

Activities

During the year the Committee:

- reviewed succession plans across the Group;
- made a formal recommendation to the Board for the appointment of Jane Kingston as a Non-Executive Director with effect from 26 February 2014 following a search conducted by JCA Group;
- recommended to the Board that Jackie Hunt succeed Tim Score both as Senior Independent Director and as Audit Committee Chairman with effect from 26 February 2014;
- evaluated the balance of skills, experience, independence, diversity and knowledge on the Board and then prepared a description of the role and capabilities required for the recruitment of a new independent Non-Executive Director;
- oversaw the appointments process for a new independent Non-Executive Director and interviewed shortlisted candidates; and
- oversaw the process for the search for the vacant role of Group Finance Director and interviewed shortlisted candidates (both internal and external) following which the appointment of Matthew Ashley was subsequently recommended to the Board.

Diversity

Our goal at National Express is for our people to reach their full potential and to give their best as individuals and in teams. In this context, we are committed to never discriminate on the grounds of race, colour, creed, disability, religion, ethnic origin, sex, sexual orientation or age. We maintain a policy of selecting the best available candidate for any position and, with respect to Board appointments, take into account the guidance issued by the Equality and Human Rights Commission on appointments to boards and equality law. Whilst National Express has set the aspirational target that, by the end of 2015, 30% of the Board will be women, we are conscious of the ongoing debate regarding quotas and opportunities and the risks created by adhering to such quotas. Recognising that good progress has been made towards reaching our target with, as at the date of this report, 20% of our Board being female, we shall take the opportunity, when available, to increase the diversity of our Board further.

Sir John Armitt
Nomination Committee Chair
26 February 2015

Safety & Environment Committee overview

Dear shareholder,

Safety is one of our Values: we only do what is safe and stop any unsafe behaviour. The management of the Group's environmental impact on the communities it serves also forms a key component of our Community Value. The Safety & Environment Committee (the 'Committee'), comprised solely of Non-Executive Directors, plays a fundamental role in reviewing and challenging the structure, content and operation of the safety management arrangements which have been put in place by the Executive and in monitoring environmental performance and targets. I am pleased to report that in 2014 we continued to make good progress in our safety performance with a 17% improvement in responsible harm reported during the year. With respect to the management of the Company's environmental responsibilities, I am particularly pleased to report that the Group received external recognition by the Carbon Disclosure Project for its significant improvement in environmental performance and sustainability as a UK public company.

Membership

The membership of the Committee during the year ended 31 December 2014 is set out below. Attendance at meetings held during the year is shown on page 48.

Member	Position	Member since
Chris Muntwyler	Committee Chair	11 May 2011
Sir John Armitt	Company Chairman	1 January 2013
Jorge Cosmen	Deputy Company Chairman	14 December 2005
Joaquín Ayuso	Independent Non-Executive Director	1 June 2011
Sir Andrew Foster	Non-Executive Director	9 November 2004
Lee Sander	Independent Non-Executive Director	1 June 2011
Jackie Hunt*	Senior Independent Director	13 September 2012
Tim Score**	Senior Independent Director	23 March 2005
Jane Kingston***	Independent Non-Executive Director	26 February 2014

Biographies appear on pages 44 and 45.

* Appointed Senior Independent Director on 26 February 2014.
** Resigned 25 February 2014.
*** Appointed 26 February 2014.

Other attendees at Committee meetings:

Attendee
Company Secretary (as Secretary to the Committee)
Group Chief Executive
Group Finance Director
Group Safety Director
Group Property and Environment Director

Full minutes are kept by the Secretary of the matters considered and decisions taken by the Committee.

The Committee's terms of reference are reviewed annually and are available on the Company's website, www.nationalexpressgroup.com.

Role and responsibilities

The Committee's key responsibilities are summarised below:

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

Main activities during the year

During the year the Committee:

- reviewed the findings and recommendations of the comprehensive external annual Audit of Corporate Governance of Safety undertaken by Arthur D Little for 2013 in line with our Global Safety Standard;
- reviewed the findings and recommendations from the 2013 independent review of the Group's Driving Out Harm programme;
- monitored progress of the divisional action plans arising from the Driving Out Harm review;
- reviewed the findings and actions arising from a comprehensive audit of maintenance processes across the Group;
- reviewed activity in health and wellbeing in the divisions;
- reviewed environmental policy, strategy, management and key environmental performance indicators across the Group; and
- monitored safety practices and procedures across the Group.

The Company's detailed mandatory report on greenhouse gas emissions in all of its businesses during 2014 can be found on pages 20 and 21.

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

Chris Muntwyler
Safety & Environment Committee Chair
26 February 2015

Chairman of the Remuneration Committee's Annual Statement

Remuneration Committee overview

Dear shareholder,

As the Chairman of the Remuneration Committee ('Committee'), I am pleased to present the report of the Board covering the Remuneration Policy and its implementation for 2014. The Committee has undertaken a significant amount of work during the last year to review the remuneration arrangements for the Executive team and we present a revised policy which will be put to shareholders for a binding vote at the 2015 AGM.

Membership

The membership of the Committee during the year ended 31 December 2014 is set out below. Attendance at meetings held during the year is shown on page 48:

Name of Director	Position
Sir Andrew Foster	Committee Chair
Lee Sander	Independent Non-Executive Director
Jane Kingston	Independent Non-Executive Director (appointed 26 February 2014)
Tim Score	Senior Independent Director (resigned 25 February 2014)

Biographies appear on pages 44 and 45.

Other attendees at Committee meetings:

Other attendees	Position
Dean Finch	Group Chief Executive
Mike Goddard	Human Resources Director
Michael Hampson	General Counsel and Company Secretary (until 30 May 2014)
Sandra Forbes	General Counsel and Company Secretary (from 2 June 2014)
PwC LLP	Independent Remuneration Consultants

Company highlights for the 2014 financial year

The following financial results were achieved in 2014:

- Group revenue of £1.87bn, a 2% increase on 2013 on a constant currency basis;
- Normalised Group profit before tax of £145.4 million, which was a 7% increase on a constant currency basis from the prior year;
- Statutory Group profit before tax of £66.5 million, which was a 10% increase on a constant currency basis from the prior year;
- Free-cash flow was £190 million and net debt was £664.3 million, which was £81.8 million lower than in 2013.

Remuneration highlights for the 2014 financial year

The following remuneration events and decisions for 2014 took place:

- The Group's financial performance for 2014 was considerably better than budgeted (despite the unanticipated headwinds) and Executive Directors performed strongly against the non-financial targets set for 2014. Bonuses equal to 138.75% of salary were therefore determined by the Remuneration Committee for the year to reflect the overall strong performance of the Executive Directors.
- Some of the long term incentive awards granted in 2012 reached the end of their performance period at 31 December 2014. None of the awards vested under the EPS or TSR conditions attached to these awards.
- The Committee determined that the comparator group for the TSR condition attached to the 2014 long term incentive awards should be amended to link more closely to the Company's comparators and to assess performance against a broader market index.
- As a result of the feedback received from shareholders and the significant vote against our Remuneration Policy, the Committee has undertaken a full review of Executive remuneration during 2014 which completed at the beginning of 2015. The review has been undertaken to ensure effective alignment of the reward strategy with that of shareholders and to reward for the long term success of National Express. Further details of this review and the outcomes are provided below.

Key activities of the Remuneration Committee

During the year, the Committee undertook the following:

- Conducted an extensive shareholder consultation in connection with the formulation of a revised Directors' Remuneration Policy including the simplification of the long term incentive arrangements into a single plan.
- Considered and approved a new long term incentive arrangement plan for the Executive Directors' 2015 Long Term Incentive Plan, including the types and range of performance conditions to be used, which is to be approved at the 2015 AGM.
- Approved the new remuneration arrangements for the incoming Group Finance Director and agreement as to treatment of the outgoing Group Finance Director, Jez Maiden.
- Reviewed Executive Directors' and senior executives' salary levels;
- Approved annual bonus payments having duly considered the overall strong financial performance of the Company including the exceptional items based on the clear business case and justification for the exceptional items incurred.
- Reviewed the Chairman's fees.
- Considered and approved performance targets to apply to the 2014 Long Term Incentive Plan awards (including the total shareholder return comparator group used and the range of earnings per share targets set).

- Approved 2014 award levels under the Company's share plans.
- Tested performance conditions and approval of vesting of Long Term Incentive Plan awards granted in 2011.
- Set targets for the Group's 2014 bonus scheme.
- Reviewed and approved the draft Directors' Remuneration Report for the year ended 31 December 2014.
- Reviewed advisors and fees paid to them.

I hope that you find the information in this Report helpful and I look forward to your support at the Company's Annual General Meeting.

I am always happy to hear from the Company's shareholders and you can contact me via the Company Secretary if you have any questions on this Report or more generally in relation to the Company's remuneration.

Sir Andrew Foster
Chair of the Remuneration Committee
26 February 2015

Notes

This Directors' Remuneration Report has been prepared in accordance with Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the 'Regulations') and the provisions of the 2012 Corporate Governance Code. In preparing the report, the Company has also taken into account the September 2014 Corporate Governance Code in order to comply with both Codes on a forward-looking basis and the Listing Rules.

The report consists of the following sections:

- The Annual Statement by the Remuneration Committee Chairman.
- The 'At a glance' section providing a summary overview.
- The Annual Report on Remuneration which sets out payments made to the Directors and details the link between Company performance and remuneration for the 2014 financial year.
- The Remuneration Policy report which sets out the Company's Remuneration Policy for Directors and the key factors that were taken into account in setting the policy. This policy will apply for three years from its date of approval at the 2015 AGM.

The Chairman's Annual Statement and the Annual Report on Remuneration will be subject to an advisory vote at the AGM. The Policy will be subject to a binding vote.

At a glance

Introduction

In this section, we summarise the purpose of our Remuneration Policy, its linkage to our corporate strategic objectives and we highlight the performance and remuneration outcomes for the 2014 financial year. More detail can be found in the Annual Report on Remuneration.

Our principles of remuneration

The Remuneration Policy is based on the following broad principles set by the Committee to:

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

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

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

Revised policy for Executive Directors

We have revised the policy approved at the 2014 AGM in response to shareholder feedback received. The following changes have been made:

- Three long term incentive arrangements have been simplified to a single plan. Awards under the Share Matching arrangement will cease and the Five Year Awards will no longer be granted to the Group Chief Executive.
- The remuneration package of the Group Chief Executive has been rebalanced to give less weighting to long term incentives and reduce the overall quantum.
- The aggregated opportunity under long term plans for the Group Chief Executive has been reduced from 320% of salary to 200% of salary and the Committee has introduced a two year holding period post-vesting.
- The maximum annual bonus for the Group Chief Executive has increased from 150% to 200% of salary, with 75% of the additional 50% subject to compulsory deferral.
- The shareholding requirement has been increased from 100% to 200% of salary for the Group Chief Executive and from 100% to 150% of salary for the Group Finance Director.
- The unfunded pension arrangement for the Group Chief Executive will cease to accrue upon the completion of a 12 month notice period.

Directors' Remuneration Policy report

Changes to policy for 2015

Element	Operation of element	Potential value	Performance metrics used, weightings and time period applicable
Salary	No change.	No change for Group CEO. The incoming Group FD will have a starting salary set at £300,000 which will be increased to median based upon development in role.	n/a
Benefits	No change.	No change.	n/a
Pension	Removal of ongoing accrual of the Group CEO's unfunded pension promise.	No change to existing salary supplements. The new Group FD will receive a salary supplement of 25% in line with previous Group FD.	n/a
Annual bonus	No change to structure with exception of: • 75% of the additional bonus opportunity for the Group CEO will be subject to deferral in shares for one year. Deferral into shares of: • 25% of bonus earned up to 125% of salary; • 50% of bonus earned between 125% and 150% of salary; and • 75% of bonus earned above 150% of salary (applies for Group CEO only).	The maximum bonus opportunity for 2015 will increase to 200% of salary for the Group CEO. The new Group FD will have a maximum opportunity of 150% of salary.	Performance conditions for the 2015 financial year and their weighting: • Normalised PBT (50%); • Free cash flow (25%); and • Non-financial objectives (25%).
Long-Term Incentive Plan	Matching Shares removed Chief Executive's Five Year Award removed Introduction of new performance share plan measured over a three year performance period	Overall quantum reduced from 320% of salary to 200% of salary for Group CEO and from 220% of salary to 150% of salary for Group FD.	Performance conditions and weightings will be: • 1/3 Earnings Per Share • 1/3 Return On Capital Employed • 1/3 Total Shareholder return (split between 50% FTSE 250 comparator group and 50% competitors). Two year holding period added to Performance Shares.

Link to strategy

Our focus is to deliver sustainable growth and profitability and we seek to achieve this through the following strategic initiatives:

Strategic initiatives	Measurement through the Incentives
Revenue growth	Short term through the profit targets in the annual bonus plan and longer term through EPS growth targeted by the LTIP.
Cost efficiency and better margins	Targeted through ROCE metric under the Performance Shares and indirectly through relative TSR condition attached to Performance Shares.
Operational excellence – safety, customers, people, community	Measured by non-financial metrics in the annual bonus plan.
Superior cash and returns	Measured by free cash flow metric in the annual bonus plan and ROCE and TSR conditions attached to the Performance Shares.
Creating new business opportunities	Measured by non-financial metrics in the annual bonus plan.

How we have performed in 2014

Bonus KPIs	Threshold	Target	Maximum	Actual
Normalised PBT (£m)	£128.4	£135.2	£148.7	£145.4
Net debt (£m)	–	£671.7	–	£664.3

Single total figure of remuneration for Executive Directors for 2014

£'000	Base salary	Taxable benefits	Performance related bonus	Value of LTIP vested	Pension related benefits	2014 Total	2013 Total
Group Chief Executive – Dean Finch	561	27	778	0	196	1,562	1,553
Group Finance Director – Jez Maiden	428	25	594[1]	0	107	1,154	1,155

1 A portion of the bonus will be deferred in shares for one year although, as he was not treated as a good leaver, the shares will not vest.

Remuneration Committee composition and terms of reference

The individuals who served on the Remuneration Committee during 2014, and those individuals who attended Remuneration Committee meetings, are set out on page 60.

Role and responsibilities

The key responsibilities of the Committee are to:

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

The full terms of reference of the Committee are available on the Company's website at www.nationalexpressgroup.com.

Meetings

The Committee met twice on a formal basis in 2014 and held a number of additional informal meetings during the year in relation to the remuneration restructuring for the Group Chief Executive and the shareholder engagement on remuneration which was carried out. Details of attendance at the formal Committee meetings can be found on page 48.

The Committee is authorised by the Board to seek any information that it requires from any employee of the Group.

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

Advisors to the Committee

Material advice or services were provided to the Committee during the year by:

- PricewaterhouseCoopers LLP ('PwC') – Independent Remuneration Consultants;
- Dean Finch – Group Chief Executive;
- Mike Goddard – Group HR Director;
- Michael Hampson – General Counsel, and Company Secretary (until 30 May 2014); and
- Sandra Forbes – General Counsel, and Company Secretary (from 2 June 2014).

The Group Chief Executive attends meetings of the Committee to make recommendations relating to the performance and remuneration of his direct reports. The Group HR Director guided the Committee on reward matters relating to the Executive Directors and senior Executives and the broader Group HR strategy and policy. The Company Secretary acts as Secretary to the Committee.

During 2014, PwC provided advice to the management of the Group on various matters including pensions, international taxation and business consulting.

From time to time, the Company submits the remuneration consultant function to tender.

PwC are members of the Remuneration Consultants Group and the voluntary code of conduct of that body is designed to ensure objective and independent advice is given to remuneration committees.

The Committee is satisfied that advice received was appropriate, objective and independent.

Advisor	Fees in relation to remuneration advice (£'000s)
PwC	112[1]

1 This fee includes advice to management on remuneration issues as well as advice to the Remuneration Committee.

Remuneration structure from 2015

The table below sets out the key elements of the Company's Remuneration Policy for the Executive Directors with effect from the 2015 AGM and will apply for the period of three years from the date of approval. The changes to the policy below reflect the detailed review of the existing policy and balance the desire to align remuneration to the long term success of the business and shareholders whilst also enabling the Company to effectively recruit and motivate key individuals.

The Remuneration Policy in force during 2014 is set out in the Remuneration Report for the year ended 31 December 2013.

Consideration of shareholder views

The Committee is committed to an ongoing dialogue with shareholders and seeks shareholder views when any significant changes are being made to remuneration arrangements. In particular, the Committee consulted with a number of major shareholders in the formulation of this Remuneration Policy to understand their views and to inform the Committee's approach. The Committee believes that the feedback received has been crucial in the development of the new structure for 2015.

In addition to the components described below, it is the policy of the Company to honour any commitments made to a Director before this policy takes effect or before he/she became a Director. Such commitments include the Group Chief Executive's unfunded pension arrangement, which is described on page 69, and his Five Year Award, which is described in the Annual Report on Remuneration.

Directors' Remuneration Policy report continued

Remuneration policy table for Executive Directors

Element	How element supports business strategy	Operation
Base salary	To provide a competitive level of salary as the main component of fixed remuneration. Enables the Group to recruit and retain Executive Directors of the calibre required to fulfil the role and is key to developing and implementing business strategy without paying more than is necessary to do so.	The salary of individual Executive Directors is paid monthly in cash and is normally reviewed annually. In determining base salaries, the Committee considers: • pay levels at companies of a similar size and complexity in the FTSE 250; • external market conditions; • general performance of the Company; • pay and conditions elsewhere in the Group; and • individual performance, skills, experience in post and potential. When considering pay increases the Committee will use comparator groups that will be based on groups of transport/leisure and general sector companies of a similar size. The Committee retains discretion to amend the comparator groups as necessary in order to remain relevant. Any changes to the comparator group will be disclosed in the part of the report setting out the operation of the policy for the future year.
Pension related benefits	To provide competitive benefits in line with market practice. Provide funds to allow Executives to save for retirement. Pension benefits are a fixed element of remuneration.	Executive Directors are provided a cash allowance in lieu of a pension provision in line with market practice. The Group CEO receives a cash supplement in lieu of pension at 35% of salary. The Group FD receives a pension contribution or a cash supplement in lieu of pension at 25% of salary. Only basic salary counts for the purpose of the allowance.
Benefits	To provide competitive benefits as part of fixed remuneration in line with market practice to enable the Group to recruit and retain talent.	Executive Directors receive family private healthcare, death in service and life assurance cover (4 x base salary), long term sickness and disability insurance, a cash alternative to a fully expensed car, free travel on the Company's services and professional membership subscriptions. The Committee has discretion to provide additional benefits or remove benefits in order to remain competitive or to meet the needs of the business, for example to provide relocation expenses, including financial tax and legal advice if applicable. Any change to benefit provision will be detailed on an annual basis.

Maximum potential value	Performance conditions and assessment
The Committee's policy is to set base salary at an appropriate level taking into account the factors outlined in this table. The maximum annual salary increase will not normally exceed the average increase which applies across the wider workforce. However, larger increases may be awarded in certain circumstances including but not limited to: • increase in scope of responsibilities of the role; • to apply salary progression for a newly appointed Director; and • where a Director's salary has fallen significantly below market position. In these circumstances, subsequent increases may be staged over a number of years until the target positioning (and desired performance) is reached. In such circumstances, the increase will not exceed RPI + 10%. The Company will set out in the section headed 'Statement of Implementation of Remuneration Policy' in the following financial year the salaries for that year for each of the Executive Directors (see page 82).	Not applicable.
The Committee's policy is that the maximum cash allowance payable in lieu of a pension will be 35%.	Not applicable.
The cost to the Company of providing the benefits may vary from year to year in accordance with market conditions and will, therefore, determine the maximum amount that would be paid in the form of benefits during the policy period.	Not applicable.

Directors' Remuneration Policy report continued

Element	How element supports business strategy	Operation
Performance related bonus	To incentivise delivery of performance objectives which are directly linked to the financial and strategic priorities of the business. A portion of bonus is deferred into shares, assisting retention of Executive Directors and aligning their financial interests with those of shareholders.	Bonus payments are based on the achievement of specified corporate (financial and non-financial) objectives over a one-year performance period. A proportion of the bonus payments is subject to mandatory deferral into shares for one year from award as follows: • 25% of the bonus earned up to 125% of salary; • 50% of the bonus earned from 125% to 150% of salary; and • 75% of the bonus earned above 150% of salary (applicable to Group CEO only). Dividends or dividend equivalents (which may assume notional reinvestment) are paid on these shares. The Remuneration Committee retains the discretion to standardise the percentage of the bonus deferred into shares if this is deemed appropriate in the future. Unless the Committee determines otherwise, the market price per share on the date of the award will be calculated on basis of the average market price share in the five days preceding the date of the grant. Bonus payments are paid following year end and are not pensionable. Only the Executive Directors currently participate in the Company's bonus deferral arrangements. Other employees may be invited to participate in future years at the Committee's discretion. Achievement of each element of the bonus is assessed independently. Provisions exist that require the deferred shares to be forfeited or repaid should it be necessary for the Company to restate materially the financial results upon which the bonus was awarded within a two-year period following the deferred bonus being awarded. The proportion of the bonus that would be subject to this provision would depend on the extent to which the original bonus payment turned out to be false following the publication of corrected results.
Long Term Incentive Plan – Performance Shares	To drive performance, aid retention and align the interests of Executive Directors with shareholders. The performance conditions are aligned with the long term performance of the business, thereby driving participants to achieve outcomes that realise shareholder value.	Performance Share Awards (in the form of conditional awards, nil-cost options or forfeitable shares) are granted annually and vesting is dependent on the achievement of performance conditions measured over a three-year period. An additional two year holding period has been introduced to increase alignment with shareholders. Dividend equivalents can be paid on these shares. Awards are reviewed annually to ensure that grant levels, performance criteria and other features remain appropriate to the Company's current circumstances. Malus and clawback provisions are attached to awards made under the LTIP which apply over a two year period post vesting.
Shareholding requirement	Executive Directors are encouraged to build up a shareholding over a five year period from 2015. The requirement for the Group CEO will be equivalent to 200% of salary and for the Group FD the requirement will be 150% of base salary. Adherence to these guidelines is a condition of continued participation in the equity incentive arrangements. This policy ensures that the interests of Executive Directors and those of shareholders are closely aligned.	

Maximum potential value	Performance conditions and assessment
Maximum 200% of base salary.	The targets for the bonus in respect of 2015 are as follows: • 75% bonus is subject to normalised profit and free cashflow targets. • 25% is subject to non-financial targets. The Committee retains discretion in exceptional circumstances to amend the weightings of the financial and non-financial elements of the bonus from year to year and for each Executive as appropriate. The targets attached to the financial condition will typically relate to profit and/or cash generation, are set on an annual basis and are intended to be achievable at threshold and stretching at maximum. The numerical values of the target will not be disclosed in advance as the Committee considers this information commercially sensitive. Actual targets, performance achieved and awards will be published at the end of the performance period in order that shareholders can fully assess the basis for any pay-outs under the annual bonus. The non-financial targets will be set annually based on strategic objectives for the year. The non-financial targets include safety, customer, operational excellence and people objectives and will be determined by the Committee on an annual basis. The proportion of the bonus determined by performance against non-financial targets will only become payable when the Company achieves a threshold level of normalised profit. It is a pre-condition to the award of any bonus that the Remuneration Committee has determined that there has been an improvement in safety processes, procedures and outcomes during the year in the relevant business unit before any bonus is paid. For further details on the measures and targets which applied to bonuses in 2014, please see page 74. The annual bonus contains malus and clawback provisions.
The Group CEO is eligible to receive a conditional award of Performance Shares up to an equivalent of 200% of salary per annum. The Group FD is eligible to receive a conditional award of Performance Shares up to an equivalent of 150% of base salary per annum.	Awards will be subject to stretching performance targets over a period of three years. The Committee may change the balance of the measures, or use different measures for subsequent awards, as appropriate. No material change will be made to the type of performance conditions without prior shareholder consultation. For 2015, the Awards will be based equally as follows: • 1/3 Earnings Per Share • 1/3 Return On Capital Employed • 1/3 Total Shareholder return (split between 50% FTSE 250 comparator group and 50% competitors). Achievement of threshold performance results in 30% vesting for each part of the Award. There is no ability to retest any of the performance conditions. The Committee retains discretion under the rules of the LTIP to amend existing performance conditions to take account of any events that may arise which would mean, in its opinion, if such adjustments were not made, the performance condition would not constitute a fair measure of the Company's performance over the period.

Directors' Remuneration Policy report continued

Elements of remuneration applying under the previous policy applicable for 2014

Element	How element supports business strategy	Operation
Long Term Incentive Plan – Matching Shares	To drive performance, aid retention and align the interests of Executive Directors with shareholders. Participants only receive Matching Shares subject to investing into the business and therefore this mechanism adds an element of buy-in to the remuneration. The performance conditions are aligned with the long term performance of the business, thereby driving participants to achieve outcomes that realise shareholder value.	Executive Directors are eligible to receive awards of Matching Shares that are based on a personal investment in National Express Group PLC shares funded either through using an annual bonus award to purchase shares or through the pledging of shares held not already allocated to the LTIP. Matching awards are made on the basis of up to four Matching Shares being awarded (based on the value of the investment) for each National Express share pledged or purchased. Reviewed annually to ensure that grant levels, performance criteria and other features remain appropriate to the Company's current circumstances, and to ensure that there are no features of the plans that could inadvertently motivate irresponsible behaviour.

LTIP – performance conditions for the 2015 LTIP

EPS, TSR and ROCE have been chosen for the LTIP as appropriate measures of the Group's long term performance. The table below summarises the rationale for the inclusion of these measures in the new LTIP:

Measure	Rationale for performance measure
EPS	• Important growth measure considered within the Company and a driver of shareholder value • Provides a transparent and accessible method of gauging the financial performance of the Company • Ensures the annual profit performance targeted by the annual bonus plan flows through to long-term sustainable EPS growth • The Company calculates performance against this measure by reference to the earnings per share figures reported in the Company's audited accounts
TSR	• Improves shareholder alignment • Consistent with the Company's objective of providing superior long term returns to shareholders
ROCE	• Added to the LTIP for 2015 • Demonstrates how efficiently the Company is operating with the resources available

If the Committee changes the performance conditions within the life of the policy, it will inform shareholders of the changes made and the reason for making any change.

On a change of control, Performance Shares will vest, except to the extent they are exchanged for awards over shares in the acquiring company. Vesting will be subject to any performance conditions and will normally be reduced to reflect early vesting, unless the Remuneration Committee determines that a reduction in the number of vested shares is considered inappropriate. The number or class of shares under award may be adjusted on a rights issue, variation of capital, demerger or similar transaction.

Comparison with approach to remuneration across the Group

National Express Group operates internationally and accordingly, the remuneration policy for employees generally reflects the legislative and labour market requirements in each separate jurisdiction. The Group will always meet or exceed national minimum standards for terms and conditions of employment in each of our business areas, offering pay, terms and conditions that are appropriate to each labour market in which we operate. Base pay is set at a level that allows us to recruit and retain staff in each relevant labour market and performance related pay arrangements are based on the achievement of business unit and individual goals, objectively assessed. Other than for a small number of senior Executives in each business unit, long term incentive plans are only applicable at Executive Director level.

Approach to recruitment remuneration of Executive Directors

In the event that the Company recruits a new Executive Director (either from within the organisation or externally), when determining appropriate remuneration arrangements, the Committee will take into consideration all relevant factors (including but not limited to quantum, the type of remuneration being offered and the jurisdiction the candidate was recruited from) to ensure that arrangements are in the best interests of both the Company and its shareholders without paying more than is necessary to recruit an Executive of the required calibre.

The Committee's policy is for all Executive Directors to have rolling service contracts with a notice period of 12 months, unless on an exceptional basis to complete an external recruitment successfully, when a longer initial period reducing to 12 months may be used.

The Committee would generally seek to align the remuneration of any new Executive Director following the same principles as for the current Executive Directors (set out in the table above).

The elements that would be considered by the Company for inclusion in the remuneration package for a new Director are:

- salary and benefits including defined contribution pension participation or a salary supplement in lieu of pension provision;
- participation in the performance related bonus pro-rated for the year of recruitment to reflect the proportion of the year for which the new

Maximum potential value	Performance conditions and assessment
The maximum value of investment in any year is 30% of base salary.	Half of any award will be subject to EPS growth. The remaining half will be subject to the relative total shareholder return ('TSR') of the Company measured against an appropriate group of companies. Achievement of threshold performance results in 30% vesting for each part of the Award. There is no ability to retest either performance condition. The Committee retains discretion under the rules of the LTIP to amend existing performance conditions to take account of any events that may arise which would mean in its opinion, if such adjustments were not made, the performance condition would not constitute a fair measure of the Company's EPS or TSR growth over the period.

recruit was in post (maximum of 200% of salary). If the commencement date is after 1 September in the year, no award would normally be made for that year;

- participation in the Long Term Incentive Plan. The performance shares granted will be in line with the grant levels for that grade. In the case of the appointment of a new Group Chief Executive, this grant would be a maximum of 200% and for any other position a grant of 150% would be made. The grant may be pro-rated depending on the time of appointment through the year; and
- costs relating to but not limited to relocation; London Allowance; legal, financial, tax and visa advice and pre-employment medical checks.

The Committee may make awards on appointing an Executive Director to 'buy out' remuneration arrangements forfeited on leaving a previous employer. The Committee would take into account both market practice and any relevant commercial factors in considering whether any enhanced and/or one-off annual incentive or long term incentive award was necessary. Awards made by way of compensation for forfeited awards would be made on a comparable basis, taking account of performance achieved (or likely to be achieved), the proportion of the performance period remaining and the form of the award. Compensation could be in cash or shares.

In the event of recruitment or retention (other than buy out awards as described above), the Committee may also grant awards to a new or existing Executive Director under the Listing Rule 9.4.2 up to an equivalent of 200% of salary per annum.

Executive Directors

The contract dates and notice periods for the Executive Directors are shown in the table below:

Executive Directors' service contracts and notice periods

Director	Contract date	Notice period from the Company	Notice period from the Director
Dean Finch	16 December 2009	12 months	6 months
Matthew Ashley	Note 1	6 months	6 months

1 As at the date of this report, the new service contract for Matthew Ashley is being agreed and his notice period will be aligned to that of the Group Chief Executive.

The service contract of Dean Finch, which is a rolling contract, contains a provision, exercisable at the option of the Company, to pay an amount on termination of employment equal to one year's salary, salary supplement in lieu of pension and car allowance. The Director will not be obliged to mitigate his loss in relation to any payment in lieu of notice. The Company will use the payment in lieu of notice provisions when the speed, certainty and protection of restrictive covenants afforded by such clauses are thought to be in the best interests of the Company and the circumstances surrounding the departure of the Director justify their use.

The service contracts for the current Executive Directors are available to view on request from the Company Secretary.

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

The Group Chief Executive is entitled, under an unfunded pension arrangement, to a pension based on the value of notional contributions of 25% of his salary, plus a 5% per annum notional return. The Group Chief Executive will be given 12 months' notice, at the end of which this ongoing accrual will cease. The pension normally becomes payable, at the earliest, on 1 April 2022. All or part of it may be paid as a lump sum.

Executive Directors are also provided with Directors' and Officers' insurance and are indemnified by the Company against certain liabilities incurred in the course of their duties, including the costs of defending actions against them.

Directors' Remuneration Policy report continued

Executive Directors' external appointments
Under the terms of their service agreements, Board approval is required before any external appointment may be accepted by an Executive Director. The Executive Director is permitted to retain any fees paid for such services.

Details of fees received by Executive Directors in 2014 are shown below:

Director	Fee	External appointment
Dean Finch	£10,275	Royal Free London NHS Trust
Jez Maiden	£55,000	Synthomer PLC

Executive Directors' termination payments
The Company may at its discretion pay in lieu of notice. Payment in lieu of notice could potentially include up to 12 months' base salary, benefits and pension (which may be payable in instalments and subject to mitigation).

The table below sets out the treatment of other elements of remuneration that would normally apply for Executive Directors whose service with National Express terminates:

Reason for termination	Salary and contractual benefits	Performance related bonus awards	Unvested deferred bonus awards	Unvested Long Term Incentive Plan awards	Other
Retirement, disability, redundancy, death, sale of part of Company that employs participant, or any other reason that the Remuneration Committee decides	Payment equal to the aggregate of the basic salary and the value of any contractual benefits for the notice period including any accrued but untaken holiday	Bonus awarded (subject to satisfaction of performance targets) for the relevant financial year	Award vests on the date of cessation of employment	Awards vest on the date of cessation of employment, unless the Remuneration Committee determines it should vest at normal vesting date The amount of award vesting will be subject to the satisfaction of performance conditions as at the date the award is deemed to vest Awards will normally be reduced time pro rata to reflect time elapsed between grant and cessation of employment	Fees for outplacement and legal advice may be paid
Other leavers	Paid to date of termination, including any accrued but untaken holiday pay	No award for year of termination[1]	Award lapses on cessation of employment	Awards lapse in full on leaving employment	

1 Pursuant to Dean Finch's service contract dated 16 December 2009, if his contract is terminated for reasons other than for an event of default by the Executive (such as gross misconduct), he is entitled, subject to the applicable performance conditions, to a pro rata bonus calculated up to the termination date from the commencement of the relevant bonus year in which termination takes place.

Subject to the circumstances surrounding the termination, the Committee in its discretion may treat the individual as an approved leaver (ie under the first section in the table above). The Committee will consider factors such as personal performance and conduct, overall Company performance and the specific circumstances of the Executive's departure including, but not restricted to, whether the Executive is leaving by mutual agreement with the Company.

In addition, the Committee will consider the above circumstances in considering whether awards in respect of approved leavers should be pro-rated to reflect the service completed.

The Committee reserves the right to make additional exit payments where such payments are made in good faith:

- in discharge of an existing legal obligation (or by way of damages for breach of such an obligation); or
- by way of settlement or compromise of any claim arising in connection with the termination of a Director's office or employment.

Remuneration policy for Non-Executive Directors

Non-Executive Directors' appointments

The Non-Executive Directors do not have service contracts with the Company and do not participate in the Group's pension scheme, annual bonus scheme or long term incentive schemes. Non-Executive Directors have letters of appointment and are appointed for an initial three-year term. Non-Executive Directors are typically expected to serve for two three-year terms, although their appointment can be terminated either by them or the Company on one month's written notice. It is open to the Company to invite a Non-Executive Director to serve for a further period after the expiry of two three-year terms. The letters of appointment for the current Non-Executive Directors can be found on the Company's website, www.nationalexpressgroup.com.

Non-Executive Directors are also provided with Directors' and Officers' insurance and are indemnified by the Company against certain liabilities incurred in the course of their duties, including the costs of defending actions against them.

In accordance with the requirements of the Code, all Directors are required to stand for election or re-election by shareholders each year. The original appointment dates of the Chairman and Non-Executive Directors are shown in the table below. The remuneration of any new Non-Executive Director will be determined following the same principles as for the current Non-Executive Directors.

Non-Executive Directors' appointment dates

Director	Date of appointment	Notice period by either Company or Director
Sir John Armitt	1 January 2013	3 months
Joaquín Ayuso	1 June 2011	1 month
Jorge Cosmen	1 December 2005	0 months
Sir Andrew Foster	1 August 2004	1 month
Jackie Hunt	13 September 2012	1 month
Chris Muntwyler	11 May 2011	1 month
Lee Sander	1 June 2011	1 month
Jane Kingston	26 February 2014	1 month
Tim Score[1]	21 February 2005	1 month

1 Tim Score resigned from his position on 25 February 2014.

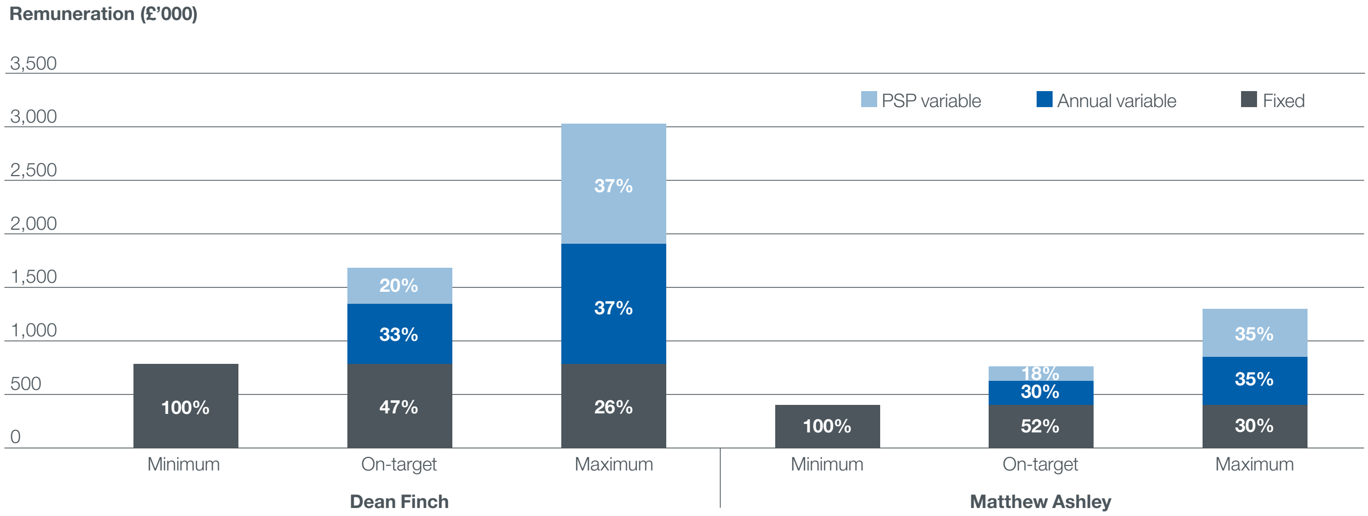
The table below sets out the Company's Remuneration Policy for the Non-Executive Directors with effect from the 2015 AGM:

Element	Purpose	Operation	Maximum potential value
Non-Executive fees	To attract and retain persons of a suitable calibre for a group of this size and to pay fees which are reflective of responsibilities, competitive with peer companies without paying more than is necessary.	The fees of the Non-Executive Directors are set by the Board as a whole and those of the Chairman are set by the Remuneration Committee. The fees are reviewed at appropriate intervals (normally once every year). The review takes account of fees paid for similar positions in the market, the time commitment required from the Director (estimated to be 60 days per year for the Chairman and 20 days per year for the other Non-Executive Directors) and any additional responsibilities undertaken, such as acting as Chairman to one of the Board Committees or fulfilling the role of Senior Independent Director. Non-Executive Directors are not eligible to receive pension entitlements or bonuses and may not participate in long term incentive arrangements. A travel allowance may be paid to Non-Executive Directors for attendance at Board meetings held outside the continent in which the Non-Executive Director is resident.	The Committee's policy is to set base fees at an appropriate level taking into account the factors outlined in this table.

Directors' Remuneration Policy report continued

Illustrations of application of Remuneration Policy for Executive Directors

The chart below illustrates the remuneration that would be paid to each of the Executive Directors under three different performance scenarios: (i) Minimum; (ii) On-target; and (iii) Maximum:



The elements of remuneration have been categorised into three components: (i) Fixed; (ii) Annual variable; and (iii) Multiple reporting period, which are set out in the future policy table below:

Element	Descriptions
Fixed	Total amount of salary, pension and benefits
Annual variable	Performance related bonus (including deferred element)
Multiple reporting variable	Long Term Incentive Plan

Assumptions used in determining the level of payout under given scenarios are as follows:

- Salaries are as at 31 December 2014 for the Group Chief Executive and on appointment at 28 January 2015 for the Group Finance Director.
- Benefits are as at 31 December 2014 for the Group Chief Executive and in line with the benefits received by the previous Group Finance Director during 2014.
- Performance Share Awards are granted at the maximum level permitted under the policy.
- Minimum performance scenario assumes fixed pay only and no variable payments.
- On-target performance scenario assumes performance in line with the Company's expectations, resulting in 30% of maximum vesting in respect of long term incentive awards and 50% of maximum payout, assuming 50% achievement of personal objectives, in respect of the annual bonus. Whilst the bonus scheme has targets for threshold, on-target and maximum, the LTIP only has targets for threshold and maximum. The value shown above in the on-target scenario includes the values for on-target bonus and threshold LTIP performance.
- Maximum performance scenario assumes outstanding level of performance ie maximum bonus and full vesting of long term incentives.

Share price appreciation is not allowed for.

Statement of conditions elsewhere in the Group

The Group operates across a number of countries and accordingly sets terms and conditions for employees which reflect the different legislative and labour market conditions that operate in each of our jurisdictions. We set Global People Standards to provide a framework for recognition and rewards internationally. We will always meet or exceed national minimum standards for terms and conditions of employment in each of our business areas. Pay arrangements in our businesses also reflect local performance with personal increases based on achievement, individually assessed. National Express believes in the value of continuous improvement, both for the individual and for the Company. The Company did not consult with employees in drawing up the Directors' Remuneration Policy.

When determining the remuneration of Executive Directors, the Remuneration Committee takes into account business unit performance, including both financial performance and safety improvements in the year. Because of the wide variety in labour market conditions and in exchange rate movements, pay rates locally are not normally considered when considering Executive Director base pay reviews.

The Remuneration Committee reviews and notes the salaries of senior Executives within the Group. LTIP awards are cascaded down below Executive level to senior management, aligning the senior team to deliver value for the Group.

Annual Report on Remuneration

The following sections of the report explain how the Remuneration Policy approved in 2014 was implemented during the year. Following a thorough review, the Committee is proposing significant changes to this policy for 2015 onwards to simplify remuneration arrangements and to reflect changes in corporate governance best practice.

The relevant sections of this report have been audited, as required by the Regulations.

Single total figure of remuneration

Executive Directors

The table below sets out the single total figure of remuneration and breakdown for each Executive Director in post during the 2014 financial year. Comparative figures for 2013 have also been provided.

	2014						2013					
£'000	Base salary	Taxable benefits[1]	Performance related bonus	Value of LTIP vested	Pension related benefits	Total	Base salary	Taxable benefits[1]	Performance related bonus	Value of LTIP vested	Pension related benefits	Total
Dean Finch	561	27	778	0	196[2]	1,562	550	26	785	0	192[2]	1,553
Jez Maiden	428	25	594[3]	0	107	1,154	420	25	605	0	105	1,155

1 Taxable benefits comprise a cash alternative to a fully expensed car (£20,000 for each of Dean Finch and Jez Maiden), health insurance and death in service and life assurance cover.

2 In addition, Dean Finch has an entitlement under an unfunded pension arrangement as described on page 69.

3 A portion of the bonus will be deferred in shares for one year although, as he was not treated as a good leaver, the shares will not vest.

Base salary

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

The Committee decided to award a base salary increase for 2014 to the Executive Directors of 2%, in line with the typical salary increases across Group employees. The rates of base salary for 2014 were:

- Group Chief Executive: £561,000;
- Group Finance Director: £428,000.

Performance related bonus

A summary of the 2014 performance related bonus scheme is summarised below.

The maximum potential bonus payable to Executive Directors in 2014 was 150% of salary for both Executive Directors:

- For the Group Chief Executive, 25% of the bonus earned up to 125% of salary and 50% of the bonus earned from 125% to 150% of salary was to be deferred.
- For the Group Finance Director, 25% of the bonus earned up to 112.5% of salary and 50% of the bonus earned from 112.5% to 150% of salary was to be deferred.

The amounts deferred under the bonus plan in 2014 are deferred into shares awarded under the Executive Deferred Bonus Plan ('EDBP') for one year. Receipt of the deferred shares is subject to continued service and the same 'good leaver' provisions and other terms as noted for the Long Term Incentive Plan below. The 2014 bonus also includes provisions that require the deferred shares to be forfeited or repaid should it be necessary for the Company to restate materially its 2014 results within a two-year period following the deferred bonus being awarded. The proportion of the bonus that would be the subject to these provisions would depend on the extent to which the original bonus payment turned out to be false following the publication of corrected results.

The Committee has reviewed the performance against the conditions attached to the performance related bonus and in addition, made an assessment of the performance of the Group as a whole during 2014.

The Committee determined that the 2014 bonus for Jez Maiden should be paid as he left the employment of the Group on 31 December 2014.

The Committee has full discretion in the payment of annual bonuses. For any financial element to be payable, the Group must have achieved a threshold level of normalised profit target for the year. In addition, it is a pre-condition to the award of any bonus that the Remuneration Committee has determined that there has been an improvement in safety processes, procedures and outcomes during the year before any bonus is paid.

In respect of the targets applying to the annual bonus for 2014 for the Group Chief Executive and Group Finance Director, a maximum of 105% of salary was payable based on achievement against a sliding scale of challenging financial targets and a maximum of 45% of salary was payable based on non-financial targets that encompassed customer, operational excellence and people objectives.

The targets set in relation to non-financial performance are key strategic Group objectives that are tailored to the responsibilities of each individual Executive Director and, in aggregate, are considered to be similarly challenging to the range of financial targets set.

The table below summarises the performance conditions attaching to the 2014 awards and the actual performance and bonus value achieved.

Annual Report on Remuneration continued

Bonus structure for 2014

	% of salary	Details
Maximum bonus potential	150%	Proportion of bonus subject to mandatory deferral into Company shares for one year from award
Bonus potential at threshold normalised profit before tax (PBT)	22.5%	
On-target bonus potential at 100% of budgeted normalised PBT	45%	Awarded on achieving budget
Stretch bonus for 110% of budgeted normalised PBT	90%	Awarded on achieving a stretch target of 110% of normalised PBT
Net debt	15%	
Non-financial targets (underpinned by achievement of threshold normalised PBT)	45%	Awarded on meeting key strategic Group objectives tailored to each Executive Director's responsibilities

A summary of performance during 2014, the targets set and the extent to which the targets were met is set out in the following tables:

Summary of bonuses paid

Performance condition	Weighting	Threshold performance required	On-target performance required	Maximum performance required	Actual performance	Bonus value achievable for meeting threshold and maximum performance (% salary)	Actual bonus value achieved (% salary)	
							Dean Finch	Jez Maiden
Normalised profit	60%	£128.4m	£135.2m	£148.7m	£145.4m	22.5%-90%	78.75%	
Net debt	10%	–	£671.7m	–	£664.3m	3.75%-15%	15%	
Non-financial targets	30%		See detail below			0%-45%	45%	45%
Total awarded							138.75% salary	138.75% salary
							£778,388	£593,850
Of which deferred in shares							38.13% salary	41.25% salary
							£213,882	£176,550[1]
Of which paid in cash							100.62% salary	97.50% salary
							£564,506	£417,300

1 As Jez Maiden was not treated as a good leaver, the shares will not vest.

Summary of non-financial conditions for 2014

Dean Finch

Objective	Performance
1 Support long term growth of Group through effective leadership of the re-bidding of current contracts and successfully win at least one contract in a new market	• Key contracts retained in Britain, Spain and North America • Announced as preferred bidder for the Nuremberg S-Bahn contracts over a 12 year period • Bahrain Bus bid won as joint venture with partners AMA
2 Successfully bid for and retain the Essex Thameside franchise	• Won 15 year Essex Thameside franchise, which commenced in November 2014
3 Continue to lead to effective implementation of the Driving out Harm initiative. Achieve 5% reduction in the overall responsible harm index (Fatalities and Weighted Injuries Index) against 2013	• FWI improved by 18% during the year • Maintenance audits independently conducted in all divisions • Comprehensive programme of additional work initiated in North America • Additional training of 500,000 hours delivered • Exceeded target safety hours
4 Maintain ability of North American employees to exercise freedom of choice in deciding matters of representation	• Programme of briefings held with shareholders prior to AGM • Reduced number of petitions for representation (two in 2014, down from four in 2013, eight in 2012 and ten in 2011) • Employee satisfaction increased during 2014
5 Lead talent management and succession planning processes	• Continued development of key individuals in Spain and North America • Implementation of a talent assessment process in all divisions • Continued management graduate programmes
6 Continue to improve the Group's reputation through driving our Operational Excellence agenda. Achieve external accreditations to recognise achievement	• All divisions progressed towards delivery of Operational Excellence • Further accreditations included award of four-star rating for UK Coach by the British Quality Foundation, winning two industry partnership awards for Bus and c2c being the most punctual UK Rail operating company for the third year in succession

Jez Maiden

Objective	Performance
1 Group responsible harm index (Fatalities and Weighted Injuries Index) to improve on 2013	• FWI improved by 18% during the year • Number of responsible fatalities lower in 2014 than in 2013 • Fewer responsible major injuries and passenger Injuries
2 Secure at least one rail bid win	• Won 15 year Essex Thameside franchise, which commenced in November 2014
3 Secure at least one international bid win	• Contract In Bahrain secured
4 Identify and deliver cost saving opportunities within divisions and deliver savings from corporate costs	• Divisional profit protection initiatives delivered in North America • Exceeded cost saving target for corporate costs delivered in IT cost savings, lower staffing and licence costs • Shared service function created to deliver financial transaction processing efficiently • Group financial reporting process improved
5 Deliver more customer-centric UK organisation and improve resilience of systems for UK businesses	• Coach – improvements delivered to ensure systems resilience and affordable roadmap for customer systems development • Bus and Rail – roll out of smartcard solution during 2014 • Initial phase of data centre upgrade implemented successfully

Based on the above assessment against the objectives set, the Committee determined that the performance of Jez Maiden and Dean Finch warranted maximum payout for the non-financial elements of the bonus.

Annual Report on Remuneration continued

LTIP awards

Performance Share Awards and Matching Share Awards granted under the LTIP in 2012 are scheduled to vest in 2015. The performance period relating to these Awards ended on 31 December 2014. Details of the performance conditions and the extent to which they have been satisfied are set out below:

Performance Shares

Performance condition	Weighting	Threshold performance required	Maximum performance required	Actual performance	LTIP value achievable for meeting threshold and maximum performance (% salary)	Actual LTIP value achieved (% salary)
TSR[1]	50%	Median of comparator group	20th percentile of comparator group	Below median of comparator group	15%-50%	0%
EPS	50%	2014 EPS of 23.7p	2014 EPS of 26.4p	22.7p	15%-50%	0%
Total	100%		30%-100%		30%-100%	0% salary
						nil

Matching Shares

Performance condition	Weighting	Threshold performance required	Maximum performance required	Actual performance	LTIP value achievable for meeting threshold and maximum performance (% salary)	Actual LTIP value achieved (% salary)
TSR[1]	50%	Median of comparator group	20th percentile of comparator group	Below median of comparator group	18%-60%	0%
EPS	50%	2014 EPS of 23.7p	2014 EPS of 26.4p	22.7p	18%-60%	0%
Total	100%		36% 36%-120%		36% 36%-120%	0% salary
						nil

1 TSR was measured against a bespoke comparator group of transport companies taken predominantly from the FTSE Industrial Transportation and FTSE Travel & Leisure sectors.

LTIP Awards held by Jez Maiden lapsed on 31 December 2014 upon cessation of employment.

Pension entitlements and cash allowances

Under the terms of their service agreements, Executive Directors are not entitled to become members of one of the Group pension schemes.

The Group Chief Executive receives a 35% salary supplement in lieu of pension contributions.

The Group Chief Executive has agreed to a one year notice period to stop any further accruals in respect of the unfunded pension arrangement.

The Group Finance Director received a 25% salary supplement in lieu of pension contributions.

Long term incentives awarded in 2014

The tables below set out the details of any long-term incentive award granted in the 2014 financial year where vesting will be determined according to the achievement of performance conditions that will be tested in future reporting periods:

Dean Finch

Grant date	Award type	Basis on which award made	Face value of award[1] £,000	Percentage of award vesting at threshold performance	Performance period end date	Performance conditions
09.04.14	LTIP – Performance Shares	100% of salary	572	30%	31.12.16	TSR and EPS equally weighted
09.04.14	LTIP – Matching Shares	120% of salary	686	30%	31.12.16	TSR and EPS equally weighted
09.04.14	Chief Executive's Five Year Award	100% of salary	572	30%	31.12.18	TSR and EPS equally weighted

Jez Maiden

Grant date	Award type	Basis on which award made	Face value of award[1] £,000	Percentage of award vesting at threshold performance	Performance period end date	Performance conditions
09.04.14	LTIP – Performance Shares	100% of salary	437	30%	n/a[2]	TSR and EPS equally weighted
09.04.14	LTIP – Matching Shares	120% of salary	524	30%	n/a[2]	TSR and EPS equally weighted

1 The face value in the tables above has been calculated by multiplying the maximum number of shares that could vest by the closing share price at the date of grant. The share price was 279.5p on 9 April 2014.

2 Awards lapsed on 31 December 2014 upon cessation of employment.

Performance conditions for LTIP awards made in 2014 – Performance Shares and Matching Shares

Performance level	Part A – EPS Condition (50% of the award)	Part B – TSR Condition v FTSE 250 comparator group rank over three years to 31 December 2016 (25% of the award)	Part C – TSR Condition v Index[1] over three years to 31 December 2016 (25% of the award)	Vesting percentage of the award
Below Threshold	Less than 21.3p	Below median	Below Index	0%
Threshold	21.3p	Median	Equal to Index	30%
Maximum	23.9p or above	20th percentile	Equal or above Index + 10% pa	100%
Threshold – Maximum	Between 21.3p and 23.9p	Between median and 20th percentile	Between Index and Index + 10% pa	30%-100% pro rata

Performance conditions for the Chief Executive's Five Year Award made in 2014

Performance level	Part A – EPS Condition (50% of the award)	Part B – TSR Condition v FTSE 250 comparator group rank over five years to 31 December 2018 (25% of the award)	Part C – TSR Condition v Index[1] over five years to 31 December 2018 (25% of the award)	Vesting percentage of the award
Below Threshold	Less than 23.3p	Below median	Below Index	0%
Threshold	23.3p	Median	Equal to Index	30%
Maximum	28.2p or above	20th percentile	Equal or above Index + 10% pa	100%
Threshold – Maximum	Between 23.3p and 28.2p	Between median and 20th percentile	Between Index and Index + 10% pa	30%-100% pro rata

1 Index comprising of the total returns of three comparator companies.

Annual Report on Remuneration continued

Indicative percentage of LTIP awards vesting based on performance to 31 December 2014

The table below sets out the percentage of each extant award that would have vested if the performance conditions had been tested at 31 December 2014 (without making any allowance for pro rata reduction for any period of less than three years).

Year of award	Part A: EPS element (50% of award)	Part B and C (2014 only): TSR element (50% of award)	Total (max 100%)
2012 – Chief Executive's Five Year Award	0%	0%	0%
2013 – Performance Shares and Matching Shares	46.2%	0%	23.1%
2013 – Chief Executive's Five Year Award	0%	0%	0%
2014 – Performance Shares and Matching Shares	67.7%	0%	33.8%
2014 – Chief Executive's Five Year Award	0%	0%	0%

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

Deferred bonuses awarded in 2014 (based on performance to 31 December 2013) will vest on 28 February 2015 as set out in the table below:

			During year						
		As at 1 January 2014	Granted	Vested	Lapsed	**At 31 December 2014**	Market price at date of vesting	Date of grant	Date of vesting
Dean Finch	2013	79,523	–	79,523	–	**0**	304.0p	28.02.13	28.02.14
	2014	–	73,378	–	–	**73,378**		28.02.14	28.02.15
Jez Maiden	2013	62,981	–	62,981	–	**0**	304.0p	28.02.13	28.02.14
	2014	–	61,220	–	61,220	**0**		28.02.14	n/a[1]

1 Awards lapsed on 31 December 2014 upon cessation of employment.

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

Deferred shares will be required to be forfeited or repaid should it be necessary to restate materially the Company's 2013 and 2014 results within a two-year period following the award of the bonus. The proportion of the bonus subject to these provisions would depend on the extent to which the original bonus turned out to be false following the publication of corrected results.

Non-Executive Directors

The table below sets out the single total figure of remuneration and breakdown for each Non-Executive Director serving during 2014. The table includes only those columns in respect of elements of remuneration received by Non-Executive Directors.

	2014 fees £'000	Total	2013 fees £'000	Total	Notes
Sir John Armitt	**225**	225	225	225	
Joaquín Ayuso	**51**	51	49	49	
Jorge Cosmen	**47**	47	45	45	
Sir Andrew Foster	**57**	57	55	55	
Jackie Hunt	**60**	60	45	45	
Jane Kingston	**40**	40	–	–	Appointed on 26 February 2014
Chris Muntwyler	**61**	61	59	59	
Lee Sander	**71**	71	73	73	
Tim Score	**10**	10	60	60	Resigned on 25 February 2014

In addition, a travel allowance of £4,000 is payable to Joaquín Ayuso, Chris Muntwyler and Lee Sander for attendance at Board meetings held outside the continent in which the Non-Executive Director is resident.

With effect from 1 January 2014, it was agreed that the fees for the Non-Executive Directors would increase to £47,000 but there would be no increase in the fees payable to the Chairman.

Payments to past Directors

No payments were made to past Directors during the period.

Payments for loss of office

All loss of office payments to any person who has served as a Director of the Group will be disclosed in this report.

Jez Maiden's employment with the Group ceased on 31 December 2014. The treatment of his remuneration was agreed by the Committee as follows:

- Salary, pension and benefits – paid up to cessation of employment;
- No further loss of office or termination payments were made;
- Annual bonus for 2014 – given that Jez Maiden was in service for the whole of 2014, the Committee decided to award a bonus as disclosed on page 73. A portion of the bonus will be deferred in shares for one year although, as he was not treated as a good leaver, the shares will not vest;
- Long term incentives including deferred shares – all outstanding awards lapsed as at 31 December 2014 as Jez Maiden was not treated as a good leaver.

Statement of Directors' shareholdings

Directors' shareholdings – Executive Directors' interests and share ownership guidelines

In order to align the interests of the Directors more closely with the shareholders, the Remuneration Committee has determined that the Executive Directors are expected to build up a share fund as set out in the share ownership guidelines as described on page 66 of the Policy. This guideline has been increased this year from 100% to 200% of salary for the Group Chief Executive and from 100% to 150% of salary for the Group Finance Director.

The beneficial and non-beneficial interests of the Executive Directors in office and their connected persons as at 31 December 2014 and the details of long term incentive interests are shown below:

			Shares held directly	Other shares held		
	Shareholding requirement (% salary)	Current shareholding as at 31 December 2014 (% salary)[1]	Beneficially owned	EDBP interests not subject to performance conditions	LTIP interests subject to performance conditions	Shareholding requirement met?
Executive Directors						
Dean Finch	100%	163%	294,598	73,378	319,967	Yes
Jez Maiden[2]	100%	98%	168,919	0	0	Yes

1 The share price of 248.4p (as at 31 December 2014) has been taken for the purpose of calculating the current shareholding as a percentage of salary.

2 Jez Maiden's EDBP and LTIP interests lapsed on 31 December 2014 at cessation of employment.

Please see the appendix on page 83 for more information on outstanding LTIP awards.

Directors' shareholdings – Non-Executive Director interests

Non-Executive Directors are not subject to a shareholding requirement. Details of their interests in shares and those of their connected persons as at 31 December 2014, all of which are held outright with no attaching performance conditions, are shown below:

	At 31 December 2014
Sir John Armitt	6,000
Joaquín Ayuso	0
Jorge Cosmen[1]	88,860,685
Sir Andrew Foster	22,893
Jackie Hunt	5,000
Chris Muntwyler	0
Lee Sander	0
Jane Kingston	0

1 Jorge Cosmen's holding includes shares held by European Express Enterprises Ltd which are shown on page 86 in the list of major shareholdings in the Company.

The Register of Directors' interests maintained by the Company contains full details of the Directors' holdings of shares and options over shares in the Company. The closing price of the Company's ordinary shares at 31 December 2014 was 248.4 pence (2013: 275p) and the range during the year ended 31 December 2014 was 220 pence to 304.9 pence.

Changes since year end

There have been no changes in the shareholdings of the Directors between 31 December 2014 and the date of signing of this Annual Report.

Annual Report on Remuneration continued

History of CEO's pay

The table below sets out the total remuneration delivered to the Chief Executive over the last six years, valued using the methodology applied to the single total figure of remuneration:

Year	2009	2010	2011	2012	2013	2014
Chief Executive	R Bowker[2]	D Finch	D Finch	D Finch	D Finch	D Finch
Total remuneration (£'000)	465	1,356	1,454	1,701	1,553	1,562
Annual bonus payment (% maximum opportunity)	0%	100%	100%	78%	95%	93%
LTIP vesting level achieved[1] (% maximum opportunity)	n/a	n/a	n/a	32.5%	0%	0%

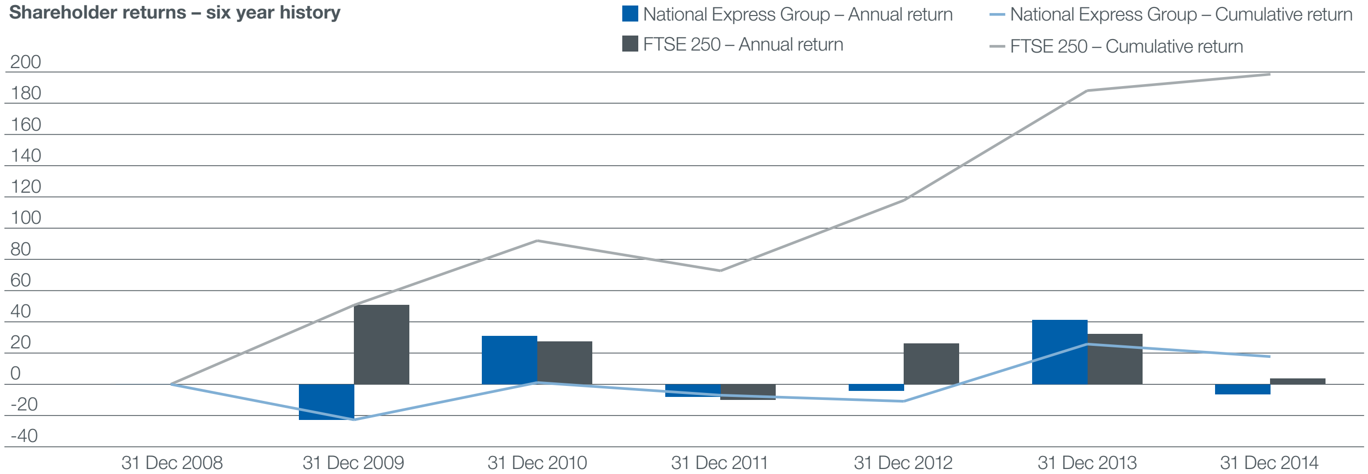
1 The incumbent Chief Executive during each of 2009, 2010 and 2011 did not have entitlement to any LTIP awards with attaching performance conditions whose final year of performance ended during that year.

2 R Bowker resigned as Chief Executive on 10 July 2009.

Comparison of overall performance

The graph below shows a comparison of National Express Group PLC's six-year total cumulative shareholder return against that achieved by the FTSE 250 Index. This index has been selected because the Company is a constituent of this index and the Committee, therefore, feels that this is the most appropriate index with which to represent the Company's relative performance.

Shareholder returns – six year history



The Group has achieved a strong performance during 2014, beating the budgeted profit before tax by over 7%, despite continuing austerity in Spain, adverse weather conditions in North America and continued strong competitive pressure in all markets. Strong focus was brought to all divisions to convert profits to cash and, as a result, the Group's free cash-flow and net debt performance was improved on 2013 and budget for both measures. Significant progress was made in the development of a number of UK and international bids. The Essex Thameside franchise was won which, together with two rail contracts won in Nuremberg, Germany, has secured National Express' presence in rail until 2030. In addition, a competitive tender for new bus operations in Bahrain was awarded providing a platform for further growth in the Middle East.

Group Chief Executive pay increases compared with total remuneration for UK employees
The following table sets out the change in certain elements of the remuneration paid to the Group Chief Executive from 2013 to 2014 compared with the average percentage change for the UK employee population.

The Group uses the UK workforce (who receive taxable benefits and bonus) as an appropriate comparator group as this avoids complicated exchange rate adjustments that would have to be used if we included employees in the Group's overseas operations in the calculation.

The Group Chief Executive's remuneration disclosed in the table below has been calculated to take into account base salary, taxable benefits and annual bonus (including any amount deferred) on the basis used for determining the single figure. The UK employee remuneration is based on the base salary, taxable benefits and annual bonus of those UK employees that received taxable benefits and bonuses.

	Average percentage increase from 2013 to 2014		
	Base salary	Taxable benefits	Performance related bonus
Group Chief Executive	2%	0%	-1%
UK employee remuneration	2%	-2%	-5%

Relative importance of the spend on pay
The table below sets out the total spend on pay in the 2014 financial year and 2013 financial year compared with distributions to shareholders:

	2014 £m	2013 £m	% increase from 2013 to 2014
Overall Group spend on pay including Directors	850.3	856.2	0.7%
Profit distributed by way of dividend[1]	51.6	50.3	2.6%
Profit distributed by way of share buyback	–	–	–

1 2013 figure has been restated.

Statement of voting at 2014 AGM
At the AGM held on 14 May 2014, votes cast by proxy and at the meeting in respect of the Directors' remuneration were as follows:

	For		Against				
Resolution text	Number of votes	% of proxy votes cast	Number of votes	%of proxy votes cast	Total votes cast	% of issued share capital voted[1]	Votes withheld[2]
2. To approve the Directors' Remuneration Policy report	336,786,129	88.50	43,775,411	11.50	380,561,540	74.37	48,452,272
3. To approve the Annual Report on Remuneration	271,319,309	64.04	152,348,719	35.96	423,668,028	82.79	5,315,790

1 The total voting rights in the Company as at the date of the meeting were 511,738,648 ordinary shares of 5 pence each, each carrying one vote on a poll.
2 A vote withheld is not a vote in law and is not counted in the calculation of votes for or against the resolutions.

The Committee was pleased that the majority of shareholders voted in 2014 in favour of the 2013 Remuneration Report and Directors' Remuneration Policy whilst remaining sensitive to those who voted against. Given that a significant proportion of shareholders voted against the approval of the Directors' Remuneration Policy, the Committee has undertaken an extensive review of Executive remuneration during 2014 and 2015. This review has comprised consultations with major shareholders to understand their concerns, a survey of market practice including remuneration benchmarking and a further round of investor consultations to propose new remuneration arrangements. As a result of the review, a number of amendments are proposed in a revised Directors' Remuneration Policy for 2015 and the Committee hopes that shareholders will agree that the changes should be approved.

Annual Report on Remuneration continued

Statement of implementation of Remuneration Policy in 2015

Executive Directors' base salaries

The Committee determined that the salary for the Group Chief Executive should remain unchanged at £561,000 for 2015.

Matthew Ashley was appointed to the role of Group Finance Director on 28 January 2015. His base salary was set at £300,000, which will be increased to median based upon development in role.

Pension entitlements and cash allowances

The Group Chief Executive will receive a 35% salary supplement and the Group Finance Director will receive a 25% salary supplement in lieu of pension contributions.

The Group Chief Executive has agreed to a one year notice period to stop future accrual in respect of the unfunded pension arrangement described on page 69.

Performance related bonus

The annual bonus for the 2015 financial year will operate on a revised basis relative to the arrangements in place during 2014.

The structure of the annual bonus for 2015 will be as follows:

- An increased maximum bonus from 150% to 200% of salary for the Group Chief Executive (the maximum bonus for the Group Finance Director will remain at 150% of salary);
- The proportion of the bonus linked to non-financial measures will reduce to 25% (previously 30% for the Group Chief Executive) based on operational excellence, safety standards and other strategic objectives;
- The remaining 75% of the bonus will be based on achievement of financial targets, namely normalised profit before tax and free cash flow; and
- A greater proportion of bonus earned will be deferred in shares for one year. For 2015, 25% of the bonus earned up to 125% of salary, 50% of the bonus earned from 125% to 150% of salary and, for the Group Chief Executive, 75% of bonus earned above 150% of salary will be deferred.

When setting the bonus target for 2015, the Committee have taken into account:

- stock market consensus for 2015 profit;
- the Directors' commitment to record all bid costs as normalised operating expenses;
- the significant increase in rail franchise premium in c2c compared with 2014; and
- the increased competitive pricing pressure from Renfe in Spain.

The Committee will set calibrated targets for the bonus measures and intends to disclose actual performance against these targets in next year's Directors' Remuneration Report. As a matter of commercial sensitivity, the Committee has decided not to disclose performance targets in advance.

Long term incentives

Long term incentive awards granted in the 2015 financial year will be granted in accordance with the policy detailed in the Remuneration Policy section of this report. Awards will be made worth 200% of salary for the Group Chief Executive and 150% of salary for the Group Finance Director.

No further grants will be made in 2015 of the Chief Executive's Five Year Award or the Matching Shares.

The performance measures, their weightings and targets for the 2015 awards will be as follows:

Measure	Weighting	Performance required	
		Threshold (30% vesting)	Maximum (100% vesting)
Relative Total Shareholder Return – FTSE 250 comparator group	1/6	Median	Upper quintile
Relative Total Shareholder Return – Index of three comparators	1/6	Equal to Index	Equal to Index + 10% pa
Earnings Per Share for 2017	1/3	EPS target to be confirmed in Notice of AGM	
Average Return on Capital Employed	1/3	ROCE target to be confirmed in Notice of AGM	

Straight line vesting will occur between threshold and maximum levels of performance.

Performance will be measured over a three year period and awards will be subject to a two year holding period post vesting.

Non-Executive Directors' fees

With effect from 1 January 2015, it was agreed that there would be no increase in the fees for the Non-Executive Directors or for the Chairman.

The current fees for the Non-Executive Directors with effect from 1 January 2015 are as follows:

Role	Fees (£'000)
Non-Executive Director	47
Chairman	225
Senior Independent Director	5
Chairman of Board Committee	10

In addition, a travel allowance £4,000 is payable to Joaquín Ayuso, Chris Muntwyler and Lee Sander for attendance at Board meetings held outside the continent in which the Non-Executive Director is resident.

Appendix

LTIP Awards to Executive Directors:

	LTIP Share Awards	At 1 January 2014	Granted	Exercised	Expired	At 31 December 2014	Market price on date of award	Market price at date of exercise	Date of award	Date from which exercisable	Expiry date
Dean Finch	Performance Shares	222,672	–	–	222,672	–	247.0p	–	25.02.11	25.02.14	25.08.14
	Matching Shares	267,204	–	–	267,204	–	247.0p	–	25.02.11	25.02.14	25.08.14
	Performance Shares	240,069	–	–	–	240,069	228.4p	–	11.04.12	12.04.15	12.10.15
	Matching Shares	288,080	–	–	–	288,080	228.4p	–	11.04.12	12.04.15	12.10.15
	Performance Shares	280,898	-	–	–	280,898	199.9p	–	10.04.13	11.04.16	11.10.16
	Matching Shares	337,076	-	–	–	337,076	199.9p	–	10.04.13	11.04.16	11.10.16
	Performance Shares	–	204,520	–	–	204,520	279.5p	–	09.04.14	09.04.17	09.04.17
	Matching Shares	–	245,424	–	–	245,424	279.5p	–	09.04.14	09.04.17	09.04.17
	Five Year Award	261,407	–	–	–	261,407	210.4p	–	03.08.12	03.08.17	03.08.18
	Five Year Award	257,973	-	–	–	257,973	210.0p	–	23.05.13	23.05.18	23.05.19
	Five Year Award	–	204,520	–	–	204,520	279.5p	–	09.04.14	09.04.19	09.04.20

1 Details of the performance conditions applicable to the 2014 awards are shown on page 77.

2 The aggregate gain on the shares which were exercised in 2014 was £0.

By order of the Board

Sir Andrew Foster

Remuneration Committee Chair

26 February 2015

Other statutory information

This section contains additional information which the Directors are required by law and regulation to include within the Annual Report and Accounts. This section along with the information from the Chairman's letter on page 4 to the Statement of Directors' Responsibilities on page 88 constitutes the Directors' Report in accordance with the Companies Act 2006.

The information to be included in the Annual Report and Accounts, where applicable, under LR 9.8.4 is set out in this section.

Strategic Report

The Company is required by the Companies Act to include a strategic report in this document. The information that fulfils the requirements of the Strategic Report can be found on pages 1 to 41, which are incorporated in this report by reference.

Company status

The Company (company number: 2590560) was incorporated under the Companies Act 1985 as a limited company on 11 March 1991 and re-registered as a public company on 20 October 1992 as National Express Group PLC. The Company holds a premium listing on the London Stock Exchange's main market for listed securities (LON: NEX) and is a constituent member of the FTSE 250 Index.

Disclaimer

This Annual Report and Accounts is intended to focus on matters which are relevant to the interests of shareholders of the Company. The purpose of this Annual Report and Accounts is to assist shareholders in assessing the strategies adopted and performance delivered by the Company and the potential for those strategies to succeed. It should not be relied on by any other party or for any other purpose.

Forward looking statements are made in good faith, based on a number of assumptions concerning future events and information available to Directors at the time of their approval of this report. These forward looking statements should be treated with caution due to the inherent uncertainties underlying any such forward looking information. The user of this Annual Report and Accounts should not rely unduly on these forward looking statements, which are not a guarantee of performance and which are subject to a number of uncertainties and other facts, many of which are outside the Company's control and could cause actual events to differ materially from those in these statements. No guarantee can be given of future results, levels of activity, performance or achievements.

Branches outside the UK

The Company has branches in Spain.

Results and dividends

The profit on ordinary activities before tax from continuing operations for the year ended 31 December 2014 was £66.5 million (2013: £64.4m) and a profit attributable to equity shareholders of £59.1 million (2013: £56.8m) was transferred to reserves.

The Directors recommend a final dividend for the year of 6.95 pence per ordinary share (2013: 6.75p) which, together with the interim dividend of 3.35 pence per ordinary share (2013: 3.25p), paid on 19 September 2014, gives a total dividend for the year of 10.3 pence per share (2013: 10.0p). Subject to shareholder approval, the final dividend will be paid on 22 May 2015 to ordinary shareholders on the register of members at the close of business on 1 May 2015.

Directors

The Directors of the Company as at the date of the approval of this annual report are listed on pages 44 and 45, together with their biographical details and identification of the Board Committees on which they serve.

On 25 February 2014 Tim Score stepped down from the Board.

On 26 February 2014 Jane Kingston was appointed a Non-Executive Director of the Company.

Jez Maiden served as a Director throughout the year until 31 December 2014 when he stepped down as an Executive Director and Group Finance Director. On 28 January 2015, upon the recommendation of the Nomination Committee, the Board appointed Matthew Ashley as an Executive Director and Group Finance Director. Matthew was formerly the Finance Director of the UK Bus business, having also previously held the position of Group Financial Controller. To ensure continuity and an orderly handover, Matthew fulfilled the role of interim Group Finance Director from October 2014 until the conclusion of the search, led by the Nomination Committee, for a replacement Executive Director as confirmed above.

Powers of the Directors

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

Appointment and replacement of Directors

The rules for the appointment and replacement of Directors of the Company are set out in the Articles of Association, the UK Corporate Governance Code (the 'Code'), the Companies Act 2006 and related legislation. In accordance with the Code, all the Directors will retire at the 2015 AGM and offer themselves for election or re-election with the exception of Sir Andrew Foster who is due to retire from the Board, as explained above, and Jackie Hunt who will also not be seeking re-election after three years on the Board. The Board is satisfied that each of those Directors standing for election or re-election is qualified by virtue of their skills, experience and contribution to the Board.

Directors' conflicts of interest

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

Directors' and Officers' liability insurance

The Company recognises the potential personal liabilities that the Directors are subject to by agreeing to act as a Board member and believes that it is both fair and reasonable to protect them from innocent error or omission. The Company therefore maintains Directors' and Officers' liability insurance in respect of legal action that might be brought against its Directors which operates in certain circumstances. This does not extend to cover the Directors where it is proved they acted fraudulently or dishonestly. Pursuant to the Company's Articles of Association the Company has indemnified its Directors and Officers in accordance with the provisions of Section 233 of the Companies Act 2006. A copy of the Articles of Association is available for inspection at the Company's registered office.

Directors' interests in contracts

Except as stated in note 35 on page 150, no contract existed during the year in relation to the Company's business in which any Director was materially interested.

Directors' interests in shares

The Board of Directors' interests in shares in the Company are detailed on page 79.

Directors' share options

Details of Directors' share options are provided in the Directors' Remuneration Report on page 83.

Directors' indemnities

The Company has entered into deeds of indemnity with each of its Directors, which are qualifying indemnity provisions for the purpose of the Companies Act 2006 and remain in force at the date of this report.

Accountability and audit

Statements of the respective responsibilities of the Directors and auditors are set out on pages 88 to 92.

Corporate governance

A full report on corporate governance can be found in the Governance section of this document and the Company's governance statement is on page 46. Both are incorporated by reference into this report.

Post Balance Sheet events

On 2 February 2015, the Company was awarded two 12-year contracts to operate the whole S-Bahn Nuremberg commuter rail services network. The contracts will commence in December 2018 and are expected to generate revenues in excess of €1.4bn over the 12 year period.

Employment policies

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

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

Employee involvement

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

Employee views are also sought through regular employee satisfaction questionnaires, both within business units and across the Group. Following such surveys, results are shared with employees and action plans are put in place to deal with issues arising. The Group encourages innovation from all levels of employees and has a structured programme to encourage suggestions and to recognise employees through awards. The Group also has a well-developed succession planning process in place and succession plans are reviewed by the Board annually. As a key part of this process, the Company focuses on emerging talent to ensure the Group has the right people being developed to meet our future business needs. Talent management remains an important priority for the Group.

Environmental policy and greenhouse gas emissions

Information on the Group's environmental initiatives, including the mandatory reporting disclosure on greenhouse gas emissions, can be found in the strategic report on pages 20 and 21 and on the Company's website, www.nationalexpressgroup.com.

Political contributions

It is the Group's policy not to make political donations and accordingly none were made in the year. However, the Company did attend party political conferences during the year for which total expenditure was £10,500 (2013: £13,500).

Financial instruments

Details of the use by the Company and its subsidiaries of financial instruments and any related risk management objectives and policies (including hedging policy) and exposure (including price, credit, liquidity or cash flow risk) of the Company in connection with such financial instruments can be found in the notes to the consolidated accounts on pages 98 to 152 and are incorporated by reference into this report.

Major shareholdings

As at 31 December 2014, the Company had been notified of the following interests in its shares which represent 3% or more of the voting rights in the Company. Save where indicated below, the Company had not been notified of any changes to these interests subsequent to 31 December 2014 and prior to 23 February 2015 (being the latest practicable date before publication).

	Ordinary shares	Percentage of share capital*	Nature of holding
European Express Enterprises Ltd	78,795,062	15.4	Direct
Prudential PLC	60,396,081	11.8	Direct
Jupiter Asset Management Ltd	26,288,829	5.1	Direct
Schroders plc	26,547,716	5.2	Direct
BlackRock Inc**	25,587,658	5.0	Indirect

* The holdings for European Express Enterprises Ltd are included in Jorge Cosmen's holdings which are shown in the Directors' Remuneration Report on page 79.

** On 23 February 2015, BlackRock Inc notified the Company that it no longer had a notifiable interest in the Company's shares for the purposes of the Disclosure and Transparency Rules ("DTRs").

Analysis of ordinary shareholdings at 20 February 2015	Number of accounts	Percentage of total number of accounts	Nature of shares	Percentage of ordinary capital
By size of holding				
1-500	5,877	46.67	823,700	0.16
501-1,000	1,553	12.33	1,225,746	0.24
1,001-5,000	3,509	27.86	8,265,391	1.62
5,001-50,000	1,405	11.16	16,948,206	3.31
50,001-1,000,000	190	1.51	47,006,681	9.19
Over 1,000,000	59	0.47	437,468,924	85.48
	12,593	100	511,738,648	100
By investor type				
Individuals	11,593	92.05	23,496,571	4.59
Institutional investors	506	4.02	416,437,892	81.38
Other corporate investors	494	3.93	71,804,185	14.03
	12,593	100	511,738,648	100

Share capital and rights attaching to the Company's shares

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

The Company has one class of ordinary shares with a nominal value of 5 pence. At the date of this annual report, the issued share capital consisted of 511,738,648 ordinary shares of 5 pence each.

At a general meeting of the Company every member has one vote on a show of hands and on a poll one vote for each share held. The Notice of AGM accompanying this document specifies deadlines for exercising voting rights either by proxy or by being present in person in relation to resolutions to be passed at a general meeting. Details of the authorised and issued share capital of the Company and details of shares issued during the year can be found in note 31 on page 140.

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

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

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

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

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

Resolutions will be proposed at the 2015 AGM to authorise the Directors to exercise all powers to allot shares, or grant rights for, or to convert any security into, shares, and approve a limited disapplication of statutory pre-emption rights. Details are set out in the Notice of AGM accompanying this document.

The Company was granted authority at the AGM in 2014 to purchase its own shares up to an aggregate value of 10% of the issued nominal capital. The authority was not used during the year. The authority is renewed annually and approval will be sought at the AGM in 2015 for its renewal. Further details are set out in the Notice of AGM accompanying this document.

Share schemes

First Names (Jersey) Limited is Trustee of the National Express Group Employee Benefit Trust. As at 23 February 2015 the Trust held 541,184 shares (0.11% of the issued share capital) of the Company for employee share schemes. Further details of the Company's employee share schemes, together with dividend waivers in force, can be found in note 7 on page 112 and note 16 on page 161 and are incorporated by reference into this report. The Trustee may vote the shares held by the Trust at its discretion.

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

Articles of Association

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

Annual General Meeting

The AGM will be held at 2.00pm on 6 May 2015 in the Purcell Room at the Queen Elizabeth Hall, Southbank Centre, Belvedere Road, London SE1 8XX. At the Meeting, special resolutions will be proposed to authorise the Directors to issue shares without applying statutory pre-emption rights, to authorise the Company to make market purchases of its own shares and to authorise the calling of general meetings (other than Annual General Meetings) on 14 clear days' notice.

Full details are provided in the Notice of Meeting. If you would like to register any question you may have in advance of the AGM you can do so at agm@nationalexpress.com or you can write to the Company Secretary at National Express Group PLC, National Express House, Birmingham Coach Station, Mill Lane, Digbeth, Birmingham B5 6DD.

Material contracts and change of control agreements

Under the terms of the Company's Revolving Credit Facility, upon a change of control, the Company would have five days to enter into negotiations with the lenders to alter the terms. Following ten days of negotiations, if no agreement has been reached, outstanding balances would become repayable.

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

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

The Company's UK rail subsidiary, NXET Trains Limited, which operates the Essex Thameside franchise, is party to a franchise agreement with the DfT. The franchise agreement contains an event of default on a change in control of the franchisee (which would be triggered on a change in control of the Company) if such change in control is not approved by the DfT, as well as the right for the DfT to charge a facilitation fee on such change in control. Similarly, the licences issued by the Office of Rail Regulation ('ORR') to NXET Trains Limited in connection with the franchise all contain change of control provisions which could result in the licences being revoked if the change in control is not approved by the ORR.

The Group's UK bus business operates the Midland Metro tram service and the UK bus operating subsidiary is party to a contract with Centro governing certain aspects of such operation. The contract with Centro contains an event of default on a change in control of the UK operating subsidiary (which would be triggered on a change in control of the Company) if such change in control is not approved by Centro.

The Group's UK coach business performs a number of coaching and bussing services from or at certain UK airports and the UK coach operating subsidiary is also contracted to provide passenger transport services for certain other third parties. A number of these contracts contain rights for the counterparties to terminate them on a change of control of the relevant subsidiary company party to such contracts (certain of which would be triggered by a change in control of the Company). While no one of these contracts is considered significant in the context of the Group's business as a whole, the impact on the Group if all such contracts were terminated could be significant.

Similarly, the Group's North American business operates school bus services under contracts with school boards as well as transit contracts with transit authorities. Many of those contracts contain termination rights for the benefit of the Board or authority which could be triggered by a change of control in the Company. While no one single school bus contract is considered significant in the context of the Group's business as a whole, the impact on the Group in the event that each school board and each transit authority exercised its termination right on a change of control would be significant.

Directors' and employees' service contracts

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

Risks

A summary of the Company's risk management framework and an overview of its principal risks are detailed on pages 26 and 27 and are incorporated by reference into this report.

Auditors

Resolutions to re-appoint Deloitte LLP as auditors of the Company and to authorise the Directors to determine their remuneration will be proposed at the 2015 AGM.

Disclosure of information to auditors

The Directors confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware and that each Director has taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

By order of the Board

Sandra Forbes
Company Secretary
26 February 2015

Directors' responsibilities statement

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

By order of the Board

Dean Finch

Dean Finch
Group Chief Executive
26 February 2015

Matthew Ashley

Matthew Ashley
Group Finance Director
26 February 2015

Independent Auditor's Report to the members of National Express Group PLC

Opinion on financial statements of National Express Group PLC	In our opinion: • the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2014 and of the Group's profit for the year then ended; • the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; • the parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and • the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. The financial statements comprise the Group Income Statement, the Group Statement of Comprehensive Income, the Group and parent Company Balance Sheets, the Group Statement of Cash Flows, the Group Statement of Changes in Equity, the related notes 1 to 37 to the Group financial statements and the related notes 1 to 21 to the Company financial statements. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).
Going concern	As required by the Listing Rules we have reviewed the Directors' statement on page 52 that the Group is a going concern. We confirm that: • we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and • we have not identified any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.
Our assessment of risks of material misstatement	The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. The risk in respect of the recoverability of Spanish receivables has not been included in the current year given the significant and sustained improvement in cash collections by the Spanish operations, against the backdrop of an improved economic climate in Spain. We have included fuel hedging as a risk given the market volatility prior to year end which has significantly increased the fair value of these forward contracts. Otherwise the risks are consistent with the prior year:

Risk	**How the scope of our audit responded to the risk**
Impairment of goodwill and intangible assets This is included in note 2 as one of the significant accounting judgements and key sources of estimation uncertainty given there are a number of key assumptions used in the assessment of the carrying value of goodwill and intangible assets as described in note 13. The most significant goodwill balances relate to the Spanish division (£665.1 million) and the North American division (£335.0 million). The assumptions include future projected cash flows, the perpetual growth rate and the appropriate discount rate.	Our procedures for challenging management's methodology and assumptions focused on the Group's interests in Spain and North America and included: • assessing the appropriateness of any changes to assumptions since the prior period; • validating the integrity of the impairment models via reperformance of the calculations; • understanding the underlying process used to determine the risk adjusted cash flow projections and challenging them with reference to historical forecasts, actual performance and expected future changes to the business; • working with our valuation specialists to benchmark the discount rates and perpetuity growth rates applied to external macro-economic and market data; • reviewing trading, including post period end trading, to verify that it supported the forecast cash flows used in the impairment testing; and • assessing the appropriateness the disclosures included in the financial statements including the sensitivity analysis provided.

Independent Auditor's Report to the members of National Express Group PLC continued

Claims provisions Given the claims provision of £39.3 million at 31 December 2014 is inherently judgemental, it is included in note 2 as one of the significant accounting judgements and key sources of estimation uncertainty. The measurement of the self-insured claims provision in North America uses actuarial assumptions and is based on an assessment of the expected settlement on known claims together with an estimate of settlements that will be made in respect of incidents occurring prior to the Balance Sheet date but for which claims have not been reported to the Group.	We used our actuarial specialists to challenge the assumptions inherent in the valuation produced by the Group's actuary in North America, which is the territory with the largest potential exposures and most judgement, such as the loss development factor and discount rate, and to re-perform the actuarial calculation to develop a valuation range. We compared the level of provision recorded to the range determined by the Group's actuary and our actuarial specialists to conclude whether the level of provision was appropriate.
Exceptional items Management is required to exercise judgement in order to appropriately determine the items to be presented separately from normalised profit on the basis that they are material and non-recurring in nature and therefore disclosed as exceptional items. The net exceptional items before tax for the year ended 31 December 2014 as detailed in note 5 are £50.3 million and are therefore significant to the statutory profit for the period.	A sample of exceptional items have been agreed to source documentation and challenged by the divisional and Group audit teams as to their nature in order to validate that they are significant non-recurring items which are appropriate to present as exceptional items with reference to the Financial Reporting Council guidance issued in December 2013. We have also considered the appropriateness of the associated narrative disclosure in respect of each type of exceptional item.
Tax provisions Judgement is required in relation to the value of the tax provisions recorded in respect of a number of uncertain tax positions which have not yet been agreed by the tax authorities including ongoing tax audits in Spain and certain elements of the financing structures within the Group. Accordingly tax provisioning is included in note 1 as one of the significant accounting judgements and key sources of estimation uncertainty.	We used our tax specialists to appraise the likely outcome of technical tax treatments based on their experience working with the revenue authorities, and reviewed correspondence with the authorities to challenge the reasonableness of the provisions made, including considering consistency and approach to judgements.
Pension deficit The measurement of the Group's net pension liability of £11.9 million requires management to make judgements on assumptions including price inflation, discount rates, pension increases, mortality rates and earnings growth. As explained in note 2, the significant accounting judgements and key sources of estimation uncertainty, changes in these assumptions could significantly impact the amount of the Group's retirement benefit obligations.	We reviewed the actuarial assumptions used to calculate the net pension liability and our actuarial specialists performed a critical assessment of the key assumptions as described in note 33 with reference to comparable market data.
Fuel hedging It is the Group's policy to hedge fuel price fluctuations in order to provide short term cost certainty. Due to the market volatility prior to year end and associated significant fall in prices, the fair value of the liability in respect of the forward fuel hedge contracts has increased from £0.8 million at 31 December 2013 to £71.3 million at 31 December 2014. The accounting policy is included in note 2 to the financial statements and accounting for fuel commodity contracts is an inherently complex area. The volatility experienced prior to year end has further increased the risk given the increase in scale of the balance and the complexity of the hedge effectiveness testing.	We have worked with our treasury accounting specialists to: • challenge the valuations of a sample of forward fuel hedge contracts by calculating independent fair values; • review the hedge documentation with reference to the requirements of IAS 39 and best practice; and • completed independent effectiveness testing for a sample of hedges.

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee discussed on pages 55 and 56.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

Our application of materiality

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

We determined materiality for the Group to be £8 million (2013: £9 million), which is 5.5% (2013: 6.3%) of normalised pre-tax profit (profit before exceptional items and amortisation), and 1% (2013: 1%) of equity. Normalised profit is one of the key metrics used both externally and internally as excluding exceptional items which are volatile, as well as amortisation costs, facilitates a better understanding of the underlying trading performance.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £160,000 (2013: £180,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative rounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, our Group audit scope focused on the five operating divisions and the Group head office division, all of which were subject to a full scope audit for the year ended 31 December 2014. These six divisions account for 100% of the Group's total assets, revenue and operating profit. Audits of these divisions are performed at lower levels of materiality determined by reference to the relative scale of the business division concerned and no higher than £5.2 million.

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

The Group audit team continued to follow a programme of planned visits that has been designed so that the Senior Statutory Auditor or a senior member of the Group audit team visits each of the six full scope divisions at least once a year. We also include the component audit teams in our team briefing, discuss their risk assessment, and review documentation of the findings from their work.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Independent Auditor's Report to the members of National Express Group PLC continued

Directors' remuneration	Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns. We have nothing to report arising from these matters.
Corporate Governance Statement	Under the Listing Rules we are also required to review the part of the Corporate Governance Statement relating to the Company's compliance with ten provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.
Our duty to read other information in the Annual Report	Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Report is: • materially inconsistent with the information in the audited financial statements; or • apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or • otherwise misleading. In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the Annual Report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.
Respective responsibilities of Directors and auditor	As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews. This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.
Scope of the audit of the financial statements	An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Nigel Mercer (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Birmingham, United Kingdom
26 February 2015

Group Income Statement
For the year ended 31 December 2014

	Note	Total before intangible amortisation and exceptional items 2014 £m	Intangible amortisation and exceptional items 2014 £m	Total 2014 £m	Total before intangible amortisation and exceptional items 2013 £m	Intangible amortisation and exceptional items 2013 £m	Total 2013 £m
Continuing operations							
Revenue	3,5	**1,867.4**	**–**	**1,867.4**	1,891.3	–	1,891.3
Operating costs before intangible amortisation and exceptional items		**(1,674.3)**	**–**	**(1,674.3)**	(1,698.4)	–	(1,698.4)
Intangible amortisation	5,13	**–**	**(28.6)**	**(28.6)**	–	(49.3)	(49.3)
Exceptional items	5	**–**	**(50.3)**	**(50.3)**	–	(25.7)	(25.7)
Total operating costs	6	**(1,674.3)**	**(78.9)**	**(1,753.2)**	(1,698.4)	(75.0)	(1,773.4)
Group operating profit	5	**193.1**	**(78.9)**	**114.2**	192.9	(75.0)	117.9
Loss on disposal of business	18	**–**	**–**	**–**	–	(4.3)	(4.3)
Share of results of associates	17	**0.3**	**–**	**0.3**	0.6	–	0.6
Finance income	3,9	**6.5**	**–**	**6.5**	6.8	–	6.8
Finance costs	9	**(54.5)**	**–**	**(54.5)**	(56.6)	–	(56.6)
Profit before tax		**145.4**	**(78.9)**	**66.5**	143.7	(79.3)	64.4
Tax charge	10	**(27.7)**	**21.8**	**(5.9)**	(32.5)	26.4	(6.1)
Profit for the year		**117.7**	**(57.1)**	**60.6**	111.2	(52.9)	58.3
Profit attributable to equity shareholders		**116.2**	**(57.1)**	**59.1**	109.7	(52.9)	56.8
Profit attributable to non-controlling interests		**1.5**	**–**	**1.5**	1.5	–	1.5
		117.7	**(57.1)**	**60.6**	111.2	(52.9)	58.3
Earnings per share:							
– basic earnings per share	12			**11.6p**			11.1p
– diluted earnings per share	12			**11.5p**			11.1p
Normalised earnings per share:							
– basic earnings per share	12	**22.7p**			21.5p		
– diluted earnings per share	12	**22.7p**			21.4p		

Group Statement of Comprehensive Income
For the year ended 31 December 2014

	Note	2014 £m	2013 £m
Profit for the year		**60.6**	58.3
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gains/(losses) on defined benefit pension plans	33	**10.1**	(19.0)
Deferred tax on actuarial gains/(losses)		**(2.3)**	3.7
		7.8	(15.3)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on retranslation of foreign operations (net of hedging)		**(25.0)**	1.0
Exchange differences on retranslation of non-controlling interests		**(0.8)**	0.2
(Loss)/gain on cash flow hedges		**(80.3)**	2.5
Less: reclassification adjustments for gains or losses included in profit		**12.3**	(3.5)
Tax on exchange differences		**0.1**	2.0
Deferred tax on cash flow hedges		**13.6**	0.3
		(80.1)	2.5
Total comprehensive (expenditure)/income for the year		**(11.7)**	45.5
Total comprehensive (expenditure)/income attributable to:			
Equity shareholders		**(12.4)**	43.8
Non-controlling interests		**0.7**	1.7
		(11.7)	45.5

Group Balance Sheet
At 31 December 2014

	Note	2014 £m	2013 £m
Non-current assets			
Intangible assets	13	**1,177.4**	1,223.5
Property, plant and equipment	14	**729.9**	751.4
Available for sale investments	16	**6.8**	7.4
Derivative financial instruments	16	**26.5**	18.5
Deferred tax assets	26	**29.9**	16.7
Investments accounted for using the equity method	17	**5.4**	5.1
Trade and other receivables	19	**1.8**	4.6
Defined benefit pension asset	33	**40.6**	12.6
		2,018.3	2,039.8
Current assets			
Inventories	20	**21.8**	21.2
Trade and other receivables	21	**199.6**	169.9
Derivative financial instruments	16	**1.5**	3.1
Current tax assets		**1.3**	1.6
Cash and cash equivalents	22	**83.7**	40.9
		307.9	236.7
Total assets		**2,326.2**	2,276.5
Non-current liabilities			
Borrowings	27	**(741.8)**	(750.7)
Derivative financial instruments	27	**(36.1)**	(1.6)
Deferred tax liability	26	**(66.0)**	(75.1)
Other non-current liabilities	24	**(4.1)**	(6.5)
Defined benefit pension liability	33	**(52.5)**	(42.7)
Provisions	25	**(23.5)**	(21.4)
		(924.0)	(898.0)
Current liabilities			
Trade and other payables	23	**(415.7)**	(351.6)
Borrowings	27	**(55.9)**	(76.8)
Derivative financial instruments	27	**(35.8)**	(1.9)
Current tax liabilities		**(23.3)**	(22.9)
Provisions	25	**(35.3)**	(28.0)
		(566.0)	(481.2)
Total liabilities		**(1,490.0)**	(1,379.2)
Net assets		**836.2**	897.3
Shareholders' equity			
Called-up share capital	31	**25.6**	25.6
Share premium account		**532.7**	532.7
Capital redemption reserve		**0.2**	0.2
Own shares		**(1.5)**	(0.8)
Other reserves	32	**(32.8)**	46.5
Retained earnings		**299.3**	282.4
Total shareholders' equity		**823.5**	886.6
Non-controlling interests in equity		**12.7**	10.7
Total equity		**836.2**	897.3

D Finch Group Chief Executive
M Ashley Group Finance Director
26 February 2015

Financial statements

Group Statement of Changes in Equity
For the year ended 31 December 2014

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Own shares (note 31) £m	Other reserves (note 32) £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
At 1 January 2014	**25.6**	**532.7**	**0.2**	**(0.8)**	**46.5**	**282.4**	**886.6**	**10.7**	**897.3**
Shares purchased	**–**	**–**	**–**	**(3.2)**	**–**	**–**	**(3.2)**	**–**	**(3.2)**
Own shares released to satisfy employee share schemes	**–**	**–**	**–**	**2.5**	**–**	**(2.5)**	**–**	**–**	**–**
Total comprehensive income and expenditure	**–**	**–**	**–**	**–**	**(79.3)**	**66.9**	**(12.4)**	**0.7**	**(11.7)**
Share-based payments	**–**	**–**	**–**	**–**	**–**	**3.1**	**3.1**	**–**	**3.1**
Tax on share-based payments	**–**	**–**	**–**	**–**	**–**	**1.0**	**1.0**	**–**	**1.0**
Dividends	**–**	**–**	**–**	**–**	**–**	**(51.6)**	**(51.6)**	**–**	**(51.6)**
Dividends paid to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(0.2)**	**(0.2)**
Contribution from non-controlling interest	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1.5**	**1.5**
At 31 December 2014	**25.6**	**532.7**	**0.2**	**(1.5)**	**(32.8)**	**299.3**	**823.5**	**12.7**	**836.2**

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Own shares (note 31) £m	Other reserves (note 32) £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

Group Statement of Cash Flows
For the year ended 31 December 2014

	Note	2014 £m	2013 £m
Cash generated from operations	36	**245.2**	296.4
Tax paid		**(13.0)**	(16.3)
Net cash from operating activities		**232.2**	280.1
Cash flows from investing activities			
Payments to acquire businesses, net of cash acquired	18(a)	**(5.2)**	(7.2)
Deferred consideration for businesses acquired and disposed	18(a)	**(0.5)**	(3.7)
Proceeds from the disposal of business		**–**	1.4
Purchase of property, plant and equipment		**(55.7)**	(90.7)
Proceeds from disposal of property, plant and equipment		**13.9**	12.1
Payments to acquire intangible assets		**(7.5)**	(3.2)
Payments to acquire associates		**(0.2)**	–
Interest received		**5.9**	5.2
Net cash used in investing activities		**(49.3)**	(86.1)
Cash flows from financing activities			
Purchase of own shares		**(3.2)**	(2.8)
Interest paid		**(49.7)**	(51.0)
Finance lease principal payments		**(28.8)**	(21.3)
Net loans repaid		**(9.7)**	(99.4)
Receipts/(payments) for the maturity of foreign currency contracts		**2.4**	(1.1)
Dividends paid to non-controlling interests		**(0.2)**	(0.5)
Contribution from non-controlling interest		**1.5**	–
Dividends paid to shareholders of the Company		**(51.6)**	(50.3)
Net cash used in financing activities		**(139.3)**	(226.4)
Increase/(decrease) in cash and cash equivalents		**43.6**	(32.4)
Opening cash and cash equivalents		**40.9**	72.8
Increase/(decrease) in cash and cash equivalents		**43.6**	(32.4)
Foreign exchange		**(0.8)**	0.5
Closing cash and cash equivalents	22	**83.7**	40.9

Notes to the Consolidated Accounts For the year ended 31 December 2014

1 Corporate information

The Consolidated Financial Statements of National Express Group PLC and its subsidiaries ('the Group') for the year ended 31 December 2014 were authorised for issue in accordance with a resolution of the Directors on 26 February 2015. National Express Group PLC is a public limited company incorporated in England and Wales whose shares are publicly traded on the London Stock Exchange.

The principal activities of the Group are described in the Strategic Report that accompanies these Financial Statements.

2 Accounting policies

Statement of compliance

These Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC) as adopted by the European Union (EU), and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

Basis of preparation

These Financial Statements have been prepared on the going concern basis (see Governance Report on page 52) under the historical cost convention, except for the recognition of derivative financial instruments and available for sale investments.

These Financial Statements are presented in pounds Sterling and all values are rounded to the nearest one hundred thousand pounds (£0.1m) except where otherwise indicated.

A summary of the Group's accounting policies applied in preparing these Financial Statements for the year ended 31 December 2014 is set out below.

Significant accounting judgements and key sources of estimation uncertainty

The preparation of Financial Statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the Financial Statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge, actual results may ultimately differ from those estimates.

The key accounting estimates and judgements are:

Goodwill impairment

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Details of the assumptions used and key sensitivities are set out in note 13 to these Financial Statements.

Pensions and other post-retirement benefits

Determining the amount of the Group's retirement benefit obligations and the net costs of providing such benefits requires assumptions to be made concerning long term interest rates, inflation, salary and pension increases, investment returns and longevity of current and future pensioners. Changes in these assumptions could significantly impact the amount of the obligations or the cost of providing such benefits.

The Group makes assumptions concerning these matters with the assistance of advice from independent qualified actuaries. Details of the assumptions made are set out in note 33.

Insurance

The estimation of the insurance provisions is based on an assessment of the expected settlement on known claims together with an estimate of settlements that will be made in respect of incidents occurring prior to the Balance Sheet date but for which claims have not been reported to the Group. The Group makes assumptions concerning these judgemental matters with the assistance of advice from independent qualified actuaries.

Tax provisions

Assessing the outcome of uncertain tax positions requires judgements to be made regarding the result of negotiations with and enquiries from tax authorities in a number of jurisdictions. The assessments made are based on advice from independent tax advisors and the status of ongoing discussions with the relevant tax authorities.

2 Accounting policies continued

Basis of consolidation

These Consolidated Financial Statements comprise the Financial Statements of National Express Group PLC and all its subsidiaries drawn up to 31 December each year. Adjustments are made to bring any dissimilar accounting policies that may exist into line with the Group's accounting policies.

On acquisition of a business, the purchase method of accounting is adopted, and the Group Income Statement includes the results of subsidiaries and businesses purchased during the year from the date control is assumed. The purchase consideration is allocated to assets and liabilities on the basis of fair value at the date of acquisition. On the sale of a business, the Group Income Statement includes the results of that business to the date of disposal.

Intra-Group transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated.

Non-controlling interests represent the portion of comprehensive income and equity in subsidiaries that is not attributable to the parent Company shareholders and is presented separately from parent shareholders' equity in the Consolidated Balance Sheet.

Certain comparatives have been reclassified to be consistent with the current year's changes in presentation.

Changes in accounting policies and the adoption of new and revised standards

The accounting policies adopted are consistent with those of the previous financial year except for the following new and revised Standards and Interpretations which have been adopted in the current year. Their adoption has not had any significant impact on the amounts reported in these Financial Statements.

IFRS 10 Consolidated Financial Statements – the standard establishes the principles for the presentation of consolidated accounts when an entity controls one or more other entities.

IFRS 11 Joint Arrangements – the standard determines the type of joint arrangement by assessing the rights and obligations, and accounts for those rights and obligations in accordance with that type of joint arrangement.

IFRS 12 Disclosure of Interests in Other Entities – the standard sets out the requirements to disclose information that enables users of accounts to evaluate the nature of, and risks associated with, its interests in other entities and the effects of these interests on its financial position, financial performance and cash flows.

Interests in joint ventures

The Group has a number of contractual arrangements with other parties to share control of other entities which represent joint ventures.

The Group recognises its interest in the entities' assets and liabilities using the equity method of accounting. The Group Balance Sheet includes the appropriate share of these joint ventures' net assets or liabilities and the Income Statement includes the appropriate share of their results after tax.

Financial Statements of joint ventures are prepared for the same reporting period as the Group. Adjustments are made in the Group's Financial Statements to eliminate the Group's share of unrealised gains and losses on transactions between the Group and its joint ventures. The Group ceases to use the equity method from the date it no longer has joint control over the entity.

Interests in associates

Companies, other than subsidiaries and joint ventures, in which the Group has an investment representing not less than 20% of the voting rights and over which it exerts significant influence are treated as associates. The Consolidated Financial Statements include the appropriate share of these associates' results and net assets based on their latest financial statements under the equity method of accounting.

Income Statement presentation

The Group Income Statement has been presented in a columnar format to enable users of the Financial Statements to view the normalised results of the Group. Normalised results are defined as the statutory results excluding loss on the sale of a business, intangible asset amortisation, exceptional items and tax relief thereon.

Exceptional items

Exceptional items are material items of income or expenditure which, in the opinion of the Directors, due to their nature and infrequency require separate identification on the face of the Income Statement to allow a better understanding of the financial performance in the year, in comparison to prior years.

Revenue recognition

Rendering of services

Revenue comprises income from road passenger transport, train passenger services and related activities in the UK, North America and Europe. Where appropriate, amounts are shown net of rebates and sales tax.

Revenue is recognised by reference to the stage of completion of the customer's travel or services provided under contractual arrangements as a proportion of total services to be provided.

2 Accounting policies continued

Rail revenue includes amounts attributed to the train operating companies (TOCs), based principally on agreed models of route usage by Railway Settlement Plan Limited (which administers the income allocation system within the UK rail industry), in respect of passenger receipts. In addition, net franchise agreement receipts from the Department for Transport Rail Division (DfT Rail) and local Passenger Transport Executives (PTEs) are treated as revenue. Net franchise agreement payments to DfT Rail are recognised in operating costs. UK Coach revenue comprises amounts receivable generated from ticket sales. UK Bus and Spanish Coach and Bus revenue comprises amounts receivable generated from ticket sales and revenue generated from services provided on behalf of local transport authorities, which is recognised as the services are provided. For all the divisions noted above, the relevant share of season ticket or travelcard income is deferred within liabilities and released to the Income Statement over the life of the relevant season ticket or travelcard. North American Bus revenue from school boards and similar contracts is recognised as the services are provided.

Rental income

Rental income is accounted for on a straight-line basis over the lease term.

Finance income

Revenue is recognised using the effective interest method.

Government grants

Government grants relating to property, plant and equipment are included in liabilities as deferred income and are credited to the Income Statement over the expected useful economic life of the assets concerned. Other grants are credited to the Income Statement as the related expenditure is expensed.

Segmental reporting

Each of the Group's business and geographical segments provides services that are subject to risks and returns that are different from those of the other business segments. Due to the nature of the Group's operations the distinct business segments align directly with geographical segments which are operating in separate economic environments.

The Group's segments comprise: UK Bus; UK Coach; Rail; North American Bus; Spanish Coach and Bus; and Central functions. These segments are described in more detail in the Business review accompanying these Financial Statements.

Leases

Leases of property, plant and equipment where substantially all the risks and rewards of ownership of the asset have passed to the Group, are capitalised in the Balance Sheet as property, plant and equipment. Finance leases are capitalised at the lower of the fair value of the leased property and the present value of the minimum lease payments. The capital element of future obligations under hire purchase contracts and finance leases is included as a liability in the Balance Sheet. The interest element of rental obligations is charged to the Income Statement over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding. Property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term.

Leases of property, plant and equipment where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Rentals paid under operating leases are charged to the Income Statement on a straight-line basis over the term of the lease. Incentives received under operating leases and initial direct costs in negotiating the lease are amortised to the Income Statement on a straight-line basis over the term of the lease.

All material arrangements and transactions entered into by the Group are reviewed to check whether they contain elements that meet the accounting definition of a lease, although they may not follow the legal form of a lease.

Borrowing costs

Borrowing costs are recognised as an expense when incurred except where they are directly attributable to the acquisition, construction or production of a qualifying asset, in which case they are capitalised as part of the cost of that asset.

2 Accounting policies continued

Current tax and deferred tax

Current tax is provided on taxable profits earned according to the local tax rates applicable where the profits are earned. Income taxes are recognised in the Income Statement unless they relate to an item accounted for in Other Comprehensive Income or Equity, in which case the tax is recognised directly in Other Comprehensive Income or Equity. The tax rates and tax laws used to compute the current tax are those that are enacted or substantively enacted by the Balance Sheet date.

Deferred tax is provided in full in respect of all material temporary differences at the Balance Sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, apart from the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill;
- where an asset or liability is recognised in a transaction that is not a business combination and that at the time of the transaction affects neither accounting nor taxable profit or loss; and
- in respect of investment in subsidiaries, associates and joint ventures where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is measured on a non-discounted basis at tax rates that are expected to apply in the periods in which the temporary differences reverse based on tax rates and laws enacted or substantively enacted at the Balance Sheet date.

Deferred tax assets are recognised to the extent that it is considered more likely than not that future taxable profits will be available against which the underlying temporary differences can be deducted. Their carrying amount is reviewed at each Balance Sheet date on the same basis.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and when the Group intends to settle its current tax assets and liabilities on a net basis.

Intangible assets

Intangible assets acquired separately that meet the recognition criteria of IAS 38 Intangible Assets, are capitalised at cost and when acquired in a business combination are capitalised at fair value at the date of acquisition. Following initial recognition, finite life assets are amortised on a straight-line basis and indefinite life assets are not amortised. The amortisation expense is taken to the Income Statement through operating costs.

Finite life intangible assets have a residual value of £nil and are amortised over their estimated useful lives as follows:

Customer contracts	– over the life of the contract (between 1 and 33 years)
Contract mobilisation costs	– over the life of the franchise (15 years)
Brands	– over the life of the brand (5 years)

Intangible assets with indefinite lives are tested annually for impairment. The useful lives of finite life intangible assets are examined on an annual basis and adjustments, where applicable, are made on a prospective basis. Finite life assets are reviewed for impairment where indicators of impairment exist.

The Group's only indefinite life intangible asset is goodwill.

Software

Computer software that is not integral to an item of property, plant and equipment is recognised separately as an intangible asset and is carried at cost less accumulated amortisation and accumulated impairment losses. Costs include software licences, consulting costs attributable to the development, design and implementation of the computer software and internal costs directly attributable to the development, design and implementation of the computer software. Costs in respect of training are expensed as incurred. Amortisation is calculated using the straight-line method so as to charge the cost of the computer software to the Income Statement over its estimated useful life (3 to 7 years).

The carrying value of intangibles is reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable.

2 Accounting policies continued

Goodwill

Goodwill on acquisition is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is stated at historic cost less any accumulated impairment. If an acquisition gives rise to an excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously referred to as negative goodwill), this is credited immediately to the Income Statement.

In accordance with IFRS 3, goodwill is not amortised. All goodwill is subject to an annual test of impairment and an impairment charge recognised as required.

Fair value accounting adjustments are made in respect of acquisitions. Fair value adjustments based on provisional estimates are amended within one year of the acquisition if required, with a corresponding adjustment to goodwill, in order to refine adjustments to reflect further evidence gained post-acquisition.

Where goodwill forms part of a cash-generating unit and all or part of that unit is disposed of, the associated goodwill is included in the carrying amount of the operation when determining the gain or loss on the disposal of the operation.

Property, plant and equipment

All property, plant and equipment is stated at historic cost less accumulated depreciation and accumulated impairment losses. Under the transitional arrangements of IFRS 1, the Group elected to deem the fair value of certain revalued assets to be equivalent to cost.

Land and buildings comprise mainly vehicle depots and garages, and offices. Freehold land is not depreciated. Other property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives as follows:

Freehold buildings	– 30 to 50 years
Long leasehold property improvements	– 15 to 40 years
Public service vehicles	– 8 to 15 years
Plant and equipment, fixtures and fittings	– 3 to 15 years

Useful lives and residual values are reviewed annually and adjustments, where applicable, are made on a prospective basis. Repairs and maintenance are charged to the Income Statement during the financial period in which they are incurred.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the derecognition of the asset is included in the Income Statement in the period of derecognition.

Impairment of non-financial assets

All non-current assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, except for indefinite life intangible assets and goodwill which are reviewed annually. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash inflows.

In assessing value in use, the estimated risk adjusted future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money. Impairment losses are recognised in the Income Statement in expense categories consistent with the function of the impaired asset.

Except for goodwill impairments, a review is made at each reporting date of any previous impairment losses to assess whether they no longer exist or may have decreased. If such indication exists, the asset's recoverable amount is estimated and any previously recognised impairment loss is reversed only if there has been a change in the estimates used to assess the recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased, subject to a limit of the asset's net book value had no previous impairment loss been recognised. Such reversal is recognised in the Income Statement. Future depreciation or amortisation is then adjusted to allocate the asset's revised carrying amount over its remaining useful economic life. Impairments to goodwill cannot be reversed.

2 Accounting policies continued

Financial instruments

The Group determines the classification of its financial instruments at initial recognition. The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

Financial assets at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the Income Statement. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the Income Statement within finance costs in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the Balance Sheet date which are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the Balance Sheet.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the Balance Sheet date.

The Group's investments in entities that are not subsidiaries, associates or joint ventures are classified as available-for-sale financial assets. After initial recognition these assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or the investment is determined to be impaired, at which time the previously reported cumulative gain or loss is included in the Income Statement. Where there is no active market for the Group's investments, fair value is determined using valuation techniques including recent commercial transactions and discounted cash flow analyses. In the absence of any other reliable external information, assets are carried at cost or amortised cost as appropriate.

The Group assesses at each Balance Sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the Income Statement. Impairment losses recognised in the Income Statement on equity instruments are not reversed through the Income Statement.

Financial liabilities

When a financial liability is recognised initially, the Group measures it at its fair value. Financial liabilities include trade payables, accruals, other payables, borrowings and derivative financial instruments. In the case of a financial liability not at fair value through profit or loss, an adjustment is made for transaction costs that are directly attributable to the issue of the financial liability. Subsequent measurement depends on its classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities classified as held for trading and derivative liabilities that are not designated as effective hedging instruments are classified as financial liabilities at fair value through profit or loss. These liabilities are carried on the Balance Sheet at fair value with gains or losses being recognised in the Income Statement.

Other

All other financial liabilities not classified as fair value through profit or loss are measured at amortised cost using the effective interest method.

2 Accounting policies continued

Derivative financial instruments

The Group uses derivative financial instruments such as foreign currency forward exchange contracts, fuel derivatives and interest rate derivatives to hedge its risks associated with foreign currency, fuel price and interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value and subsequently remeasured to fair value for the reported Balance Sheet. The fair value of foreign currency forward exchange contracts, interest rate and fuel derivatives is calculated by reference to market exchange rates, interest rates and fuel prices at the period end.

The Group's fuel derivatives are designated as cash flow hedges. The gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in equity, with any material ineffective portion recognised in the Income Statement. The gains or losses deferred in equity in this way are recycled through the Income Statement in the same period in which the hedged underlying transaction or firm commitment is recognised in the Income Statement.

The Group's interest rate derivatives are designated as fair value hedges. The gain or loss on the hedging instrument is recognised immediately in the Income Statement. The carrying amount of the hedged item is adjusted through the Income Statement for the gain or loss on the hedged item attributable to the hedged risk, in this case movements in the risk free interest rate.

Foreign currency derivatives are used to hedge the Group's net investment in foreign currency denominated operations and to the extent they are designated and effective as net investment hedges are matched in equity against foreign exchange exposure in the related assets and liabilities. Gains and losses accumulated in equity are included in the Income Statement when the foreign operation is partially disposed of or sold. Foreign currency forward contracts are also used to hedge transactional exposures. These contracts are not hedge accounted and all gains and losses are taken directly to the Income Statement.

For derivatives that do not qualify for hedge accounting, gains or losses are taken directly to the Income Statement in the period.

Hedge accounting is discontinued when the hedging instrument expires, is sold, terminated, exercised, or no longer qualifies for hedge accounting.

Inventories

Inventories are valued at the lower of cost and net realisable value on a first in-first out basis, after making due allowance for obsolete or slow moving items.

Contract mobilisation costs

Costs associated with securing new rail franchises and other significant non-rail contracts are expensed as incurred up to the point when a bid is awarded. From this point in time, appropriate costs are recognised as an asset and are expensed to the Income Statement over the life of the contract. Costs associated with the commencement of all new contracts other than these contracts are expensed as incurred.

Trade and other receivables

Trade and other receivables are recognised and carried at original invoice amount less an allowance for any uncollectable amounts. Doubtful debts are provided for when collection of the full amount is no longer probable, whilst bad debts are written off when identified.

Cash and cash equivalents

Cash and cash equivalents as defined for the cash flow statement comprise cash in hand, cash held at bank with immediate access, other short term investments and bank deposits with maturities of three months or less from the date of inception and bank overdrafts. In the Consolidated Balance Sheet, cash includes cash and cash equivalents excluding bank overdrafts. Bank overdrafts that have no legal right of set-off against cash and cash equivalents are included within borrowings in current liabilities.

Trade and other payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Interest-bearing borrowings

All loans and borrowings are initially recognised at cost being the net fair value of the consideration received plus transaction costs that are directly attributable to the issue of the financial asset or liability. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

2 Accounting policies continued

Insurance

The Group's policy is to self-insure high frequency claims within the businesses. To provide protection above these types of losses, the Group purchases insurance cover from a selection of proven and financially strong insurers. The insurance provision is based on estimated exposures at the year end principally for claims arising in the UK and North America prior to the year end date, subject to the overall deductible within the Group's insurance arrangements. The majority of provisions will be utilised within five years, and the provisions have been discounted to take account of the expected timing of future cash settlements.

Pensions and other post-employment benefits

The Group has a number of pension schemes, both of a defined benefit and defined contribution nature. Full details are provided in note 33.

The Balance Sheet position in respect of defined benefit schemes comprises the net of the present value of the relevant defined benefit obligation at the Balance Sheet date and the fair value of plan assets. The trustees complete a full actuarial valuation triennially, separately for each plan, but the obligation is updated annually for financial reporting purposes by independent actuaries, using the projected unit credit method. The present value of the obligation is determined by the estimated future cash outflows discounted using interest rates of high quality corporate bonds which have terms to maturity equivalent to the terms of the related liability.

The current service cost and gains and losses on settlements and curtailments are recognised in staff pension costs within operating costs in the Income Statement. Past service costs are included in operating costs where the benefits have vested, otherwise they are amortised on a straight-line basis over the vesting period. Net interest is calculated by applying a discount rate to the net defined benefit liability or asset and is recognised within finance costs. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to Other Comprehensive Income in the period in which they arise.

Our UK TOCs participate in the RPS, a defined benefit scheme which covers the whole of the UK rail industry. This is partitioned into sections and the Group is responsible for the funding of these sections whilst it operates the relevant franchise. In contrast to the pension schemes operated by most businesses, the RPS is a shared cost scheme, which means that costs are formally shared 60% by the employer and 40% by the employee. A liability is recognised in line with other defined benefit schemes in the Group, although this is offset by a franchise adjustment so that the net liability represents the deficit that the Group expects to fund during the franchise term.

The charges in respect of defined contribution schemes are recognised when they are due. The Group has no legal or constructive obligation to pay further contributions into a defined contribution scheme if the fund has insufficient assets to pay all employees benefits relating to employee service in the current and prior periods.

Share-based payment

The Group awards equity-settled share-based payments to certain employees, under which the Group receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted, excluding the impact of any non-market service and performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each Balance Sheet date, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the Income Statement, with a corresponding adjustment to equity.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the Balance Sheet date, and are discounted to present value where the effect is material using a pre-tax discount rate. The amortisation of the discount is recognised as a finance cost.

Contingent liabilities are obligations that arise from past events that are dependent on future events. They are disclosed in the notes to the accounts where the expected future outflow is not probable.

2 Accounting policies continued

Share capital, share premium and dividends

Where either the Company or employee share trusts purchase the Company's equity share capital, the consideration paid, including any transaction costs, is deducted from total shareholders' equity as own shares until they are cancelled or reissued. Any consideration subsequently received on sale or re-issue is included in shareholders' equity.

Dividend distributions to the Company's shareholders are recognised as a liability in the Group's Financial Statements on the date when dividends are approved by the Company's shareholders. Interim dividends are recognised in the period they are paid.

Non-current assets held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use.

A discontinued operation is a component of the Group that has been disposed of, or is classified as held for sale and it either represents a separate major line of business or geographical area; is part of a plan to dispose of a separate major line of business or geographical area; or was an acquired subsidiary intended for resale. The resulting profit or loss from discontinued operations is reported separately in the Income Statement.

Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortised.

Foreign currencies

The trading results of foreign currency denominated subsidiaries, joint ventures and associates are translated into Sterling, the presentation currency of the Group and functional currency of the parent, using average rates of exchange for the year as a reasonable approximation to actual exchange rates at the dates of transactions.

The balance sheets of foreign currency denominated subsidiaries, joint ventures and associates are translated into Sterling at the rates of exchange ruling at the year end and exchange differences arising are taken directly to the translation reserve in equity. On disposal of a foreign currency denominated subsidiary, the deferred cumulative amount recognised in the translation reserve (since 1 January 2004 under the transitional rules of IFRS 1) relating to that entity is recognised in the Income Statement. All other translation differences are taken to the Income Statement, with the exception of differences on foreign currency borrowings and forward foreign currency contracts which are used to provide a hedge against the Group net investments in foreign enterprises. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in the Income Statement.

New standards and interpretations not applied

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective, and have not yet been adopted by the EU:

IFRS 9 Financial Instruments – effective for periods beginning on or after 1 January 2018. The standard deals with the classification, recognition and measurement of financial assets and liabilities.

IFRS 15 Revenue from Contracts with Customers – effective for periods beginning on or after 1 January 2017. The standard establishes the principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Directors assess that IFRS 15 is not likely to have a significant impact on future financial statements, but that IFRS 9 may impact both the measurement and disclosures of the Group's financial instruments.

3 Revenue

	2014 £m	2013 £m
Rendering of services	**1,865.0**	1,888.8
Rental income	**2.4**	2.5
Revenue	**1,867.4**	1,891.3
Finance income	**6.5**	6.8
Total revenue from continuing operations	**1,873.9**	1,898.1

4 Exchange rates

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

	2014 Closing rate	2014 Average rate	2013 Closing rate	2013 Average rate
US dollar	**1.56**	**1.65**	1.66	1.56
Canadian dollar	**1.81**	**1.82**	1.76	1.61
Euro	**1.29**	**1.24**	1.20	1.18

If the results for the year to 31 December 2013 had been retranslated at the average exchange rates for the year to 31 December 2014, North American Bus would have achieved normalised operating profit of £58.9m on revenue of £607m, compared to normalised operating profit of £62.6m on revenue of £645m as reported, and Spanish Coach and Bus would have achieved a normalised operating profit of £77.4m on revenue of £536m, compared to normalised operating profit of £81.5m on revenue of £565m as reported.

5 Segmental analysis

The operating businesses are organised and managed separately according to the nature of the public transport services they provide and the geographical market they operate in. Commentary on the segments is included in the Strategic Report.

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

	External revenue 2014 £m	Inter-segment sales 2014 £m	Segment revenue 2014 £m	External revenue 2013 £m	Inter-segment sales 2013 £m	Segment revenue 2013 £m
UK Bus	**280.8**	**0.2**	**281.0**	273.3	0.1	273.4
UK Coach	**274.6**	**0.6**	**275.2**	263.3	0.2	263.5
North American Bus	**620.2**	**–**	**620.2**	645.0	–	645.0
Spanish Coach and Bus	**538.1**	**–**	**538.1**	564.6	–	564.6
Core non-rail businesses	**1,713.7**	**0.8**	**1,714.5**	1,746.2	0.3	1,746.5
German Coach	**2.1**	**–**	**2.1**	2.1	–	2.1
Non-rail businesses	**1,715.8**	**0.8**	**1,716.6**	1,748.3	0.3	1,748.6
Rail	**151.6**	**–**	**151.6**	143.0	–	143.0
Inter-segment sales elimination	**–**	**(0.8)**	**(0.8)**	–	(0.3)	(0.3)
Total revenue	**1,867.4**	**–**	**1,867.4**	1,891.3	–	1,891.3

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.

5 Segmental analysis continued

Operating profit is analysed by reportable segment as follows:

	Normalised operating profit 2014 £m	Intangible amortisation and exceptional items 2014 £m	Segment result 2014 £m	Normalised operating profit 2013 £m	Intangible amortisation and exceptional items 2013 £m	Segment result 2013 £m
UK Bus	34.0	(7.0)	27.0	31.2	(1.4)	29.8
UK Coach	28.0	(3.5)	24.5	24.5	(1.9)	22.6
North American Bus	59.5	(27.5)	32.0	62.6	(18.1)	44.5
Spanish Coach and Bus	75.8	(7.2)	68.6	81.5	(37.2)	44.3
Central functions	(12.2)	(11.2)	(23.4)	(14.3)	(6.4)	(20.7)
Core non-rail businesses	185.1	(56.4)	128.7	185.5	(65.0)	120.5
German Coach	(1.7)	(2.1)	(3.8)	(2.4)	(0.7)	(3.1)
Non-rail businesses	183.4	(58.5)	124.9	183.1	(65.7)	117.4
Rail	9.7	(20.4)	(10.7)	9.8	(9.3)	0.5
Operating profit from continuing operations	193.1	(78.9)	114.2	192.9	(75.0)	117.9
Loss on disposal of business			–			(4.3)
Share of results of associates			0.3			0.6
Net finance costs			(48.0)			(49.8)
Profit before tax			66.5			64.4
Tax charge			(5.9)			(6.1)
Profit for the year			60.6			58.3

Intangible asset amortisation is analysed by reportable segment as follows:

	2014 £m	2013 £m
UK Coach	0.5	0.3
North American Bus	11.3	13.5
Spanish Coach and Bus	16.3	35.4
German Coach	0.4	–
Central functions	0.1	0.1
Total	28.6	49.3

Exceptional costs/(income) are analysed by reportable segment as follows:

	2014 £m	2013 £m
UK Bus	7.0	1.4
UK Coach	3.0	1.6
Rail	20.4	9.3
North American Bus	16.2	4.6
Spanish Coach and Bus	(9.1)	1.8
German Coach	1.7	0.7
Central functions	11.1	6.3
Total	50.3	25.7

5 Segmental analysis continued

Exceptional costs/(income) are further analysed by type as follows:

	2014 £m	2013 £m
UK rail bids	**17.0**	7.4
Other rail bids	**2.8**	1.9
Other business development	**5.7**	6.4
	25.5	15.7
Restructuring	**25.8**	5.4
Strategic rationalisation	**18.3**	–
Exceptional fuel credits	**(19.3)**	–
North America acquisition and integration	**–**	4.6
	50.3	25.7

In the year to 31 December 2014, exceptional costs of £17.0m (2013: £7.4m) 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, £2.8m (2013: £1.9m) was incurred in bidding for regional rail opportunities in Germany. During the year, the Group secured the 15 year Essex Thameside UK rail franchise, and was recently announced as preferred bidder for two contracts to operate the Nuremberg S-Bahn commuter rail service.

£5.7m (2013: £6.4m) 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. This included costs incurred to win a ten-year contract to operate bus services in the Kingdom of Bahrain.

Exceptional restructuring costs of £25.8m (2013: £5.4m) have been incurred across the Group, including costs to rationalise structural overheads in UK Bus, Spain, North America and Central functions, and onerous contract costs incurred on exit of the German Coach operation.

To improve returns on capital and exit poor performing contracts, the Spanish and North American operations undertook a major exercise in the year to rationalise onerous contracts and to provide against future losses. The cost of this strategic rationalisation exercise was £18.3m (2013: £nil).

Exceptional fuel credits predominantly relate to Spanish fuel duty credits; partly offset by ineffectiveness of £2.5m on the Group's fuel hedges following the exceptional volatility in market prices during the year. In 2014 The Court of Justice of the EU ruled that Spain's tax on the retail sales of hydrocarbons ('fuel duty tax') was contrary to the EU's legal framework regarding taxation and that, accordingly, all fuel duty tax collected from the inception of the tax in 2005 to the cessation of the tax in January 2013 should be repaid. As at year end, the Group's Spanish business had received £6.3m of fuel duty refunds. A further £15.5m has been assessed as virtually certain and therefore recognised as a receivable at year end, bringing the total amount recognised in the year to £21.8m.

Exceptional costs of £nil (2013: £4.6m) were incurred in relation to the acquisition and integration of school bus and transit businesses in North America.

5 Segmental analysis continued

Assets, liabilities and capital expenditure are analysed by reportable segment as follows:

	Assets 2014 £m	Of which non-current assets* 2014 £m	Liabilities 2014 £m	Capital** expenditure 2014 £m	Assets 2013 £m	Of which non-current assets* 2013 £m	Liabilities 2013 £m	Capital** expenditure 2013 £m
UK Bus	156.2	135.8	(144.3)	4.9	153.5	134.7	(118.7)	27.1
UK Coach	50.7	35.9	(39.3)	2.3	59.0	45.0	(36.7)	3.8
Rail	24.1	4.6	(41.9)	2.9	13.4	1.8	(45.7)	–
North American Bus	824.5	738.4	(193.7)	22.7	795.7	722.5	(195.2)	16.1
Spanish Coach and Bus	1,084.4	986.3	(178.0)	21.8	1,148.1	1,065.2	(150.6)	36.4
Central functions	45.1	6.3	(53.1)	1.1	26.2	5.7	(44.2)	1.4
Unallocated	150.5	–	(849.0)	–	89.2	–	(796.7)	–
Intercompany elimination	(9.3)	–	9.3	–	(8.6)	–	8.6	–
Total	2,326.2	1,907.3	(1,490.0)	55.7	2,276.5	1,974.9	(1,379.2)	84.8

* Non-current assets only include intangible assets, property, plant and equipment.

** The net capital expenditure, after allowing for the movements in capital creditors, disposal of fixed assets and payments to acquire intangibles, was £50.5m (2013: £82.6m).

The majority of non-current assets in the Rail segment are located in the UK.

Capital expenditure comprises property, plant and equipment additions as disclosed above and in note 14. In 2014, software intangible assets of £6.0m (2013: £3.4m) were acquired as disclosed in note 13.

Unallocated assets and liabilities comprise the following items:

	Unallocated assets 2014 £m	Unallocated liabilities 2014 £m	Unallocated assets 2013 £m	Unallocated liabilities 2013 £m
Cash and cash equivalents	83.7	–	40.9	–
Other debt receivables	0.8	–	1.0	–
Current tax	1.3	(23.3)	1.6	(22.9)
Available for sale investments	6.8	–	7.4	–
Derivative financial assets/(liabilities)	28.0	(71.9)	21.6	(3.5)
Borrowings, excluding finance leases	–	(687.2)	–	(694.6)
Dividends payable	–	(0.6)	–	(0.6)
Deferred tax	29.9	(66.0)	16.7	(75.1)
Total	150.5	(849.0)	89.2	(796.7)

6 Operating costs

			2014 £m	2013 £m
Cost of inventories recognised in expense			**70.9**	75.2
Staff costs (including exceptional costs of £15.5m (2013: £7.7m))			**850.3**	856.2
Depreciation	– Owned assets (including exceptional costs of £3.4m (2013: £nil))		**86.4**	88.3
	– Leased assets		**18.5**	19.1
Amortisation of fixed asset grants			**(0.8)**	(1.1)
Operating lease charges		Rolling stock: capital element	**29.0**	27.5
		Public service vehicles	**9.1**	6.0
		Other	**9.8**	8.1
	– Plant and equipment		**47.9**	41.6
		Fixed track access	**7.2**	13.6
		Other	**22.5**	23.6
	– Land and buildings		**29.7**	37.2
Foreign exchange differences			**(0.5)**	(0.9)
Other charges (including exceptional expense of £31.4m (2013: £18.0m))			**622.2**	608.5
Operating costs before intangible asset amortisation			**1,724.6**	1,724.1
Intangible asset amortisation			**28.6**	49.3
Total operating costs			**1,753.2**	1,773.4

The TOCs have fixed track access contracts with Network Rail Infrastructure Limited for access to the railway infrastructure (tracks, stations and depots). The TOCs also have contracts under which rolling stock is leased. The capital element of the rolling stock lease charge is based on the purchase price, capital funded refurbishments and modifications. The non-capital element of the lease charge includes heavy maintenance charges and charges based on mileage.

An analysis of fees paid to the Group's auditors is provided below:

	2014 £m	2013 £m
Fees payable to the Company's auditors for the audit of the consolidated and parent Company accounts	**0.3**	0.3
Fees payable to the Company's auditors and its associates for other services:		
The audit of the Company's subsidiaries	**0.7**	0.6
Other services	**0.2**	0.1
	1.2	1.0

7 Employee benefit costs

(a) Staff costs

	2014 £m	2013 £m
Wages and salaries	733.6	738.4
Social security costs	103.7	104.8
Pension costs (note 33)	9.9	9.9
Share-based payment (note 8)	3.1	3.1
	850.3	856.2

The average number of employees, including Executive Directors, during the year was as follows:

	2014	2013
Managerial and administrative	3,869	3,941
Operational	38,058	38,321
	41,927	42,262

Included in the above costs are the following costs related to the Group's key management personnel who comprise the Directors of the parent Company:

	2014 £m	2013 £m
Basic salaries	1.0	1.0
Benefits	0.4	0.3
Performance-related bonuses	1.4	1.4
Share-based payment	1.1	1.0
	3.9	3.7

(b) Share schemes

Details of options or awards outstanding as at 31 December 2014 under the Group's share schemes are as follows:

	Number of share options 2014	Number of share options 2013	Exercise price	Future exercise periods
Executive Share Option Plan	–	16,286	–	–
Long Term Incentive Plan	10,062,870	10,498,399	nil	2015-2020
Share Matching Plan	360,233	724,494	nil	2015
Deferred Annual Share Bonus Plan	478,820	846,474	nil	2015
WMT Long Service Option Scheme	258,525	262,171	129p-599p	2015-2024
Executive Deferred Bonus Plan	134,598	142,504	nil	2015
	11,295,046	12,490,328		

(i) Executive Share Option Plan

The Company operated tax approved and unapproved executive share option schemes open to Group employees in senior management positions. Options granted by this Plan had a maximum term of ten years. The options vested after three years subject to the satisfaction of certain performance criteria based on the achievement of a target growth in earnings per share. From 2005, executive share option grants were replaced by awards made under the Long Term Incentive Plan, as described in (ii).

(ii) Long Term Incentive Plan (LTIP)

The LTIP was introduced in 2005 on the recommendation of the Remuneration Committee to replace the annual award under the Executive Share Option Plan to Executive Directors and to certain senior employees. Under the LTIP, a Performance Award to acquire a specified number of free shares may be made to the employee or Director. In addition, a Matching Award may be made, as described in (iii). Performance conditions are attached to the vesting of Performance and Matching Awards based on both the achievement of target growth in earnings per share and the relative total shareholder return (TSR) of the Company against a comparator group of companies. If the performance conditions are met, Performance and Matching Awards vest on the third anniversary of the grant date and remain exercisable for a period of up to six months following the vesting date. There are no cash settlement alternatives at present.

7 Employee benefit costs continued

(b) Share schemes continued

Since 2011, HMRC approved share option plans were added as an appendix to the LTIP ('Approved Plan'). A participant can only hold an option under the Approved Plan over shares with a market value of up to £30,000 at the grant date. Options under the Approved Plan are granted in tandem with the usual options under the LTIP. The options are structured such that on exercise, the proportion of the gain in respect of the first £30,000 worth of shares (as measured at the date of grant) will be delivered under the Approved Option and the LTIP option shall be scaled back to deliver the remaining gross gain that would have been delivered had the option been granted alone. The excess shares under the LTIP will be forfeited such that both awards will never become fully vested.

Since 2012, a supplementary five-year long term incentive award was granted to the Chief Executive subject to targets linked to the Group's five-year plan. This comprised a Performance Award (with no matching element). If performance conditions are met, the Performance award will vest on the fifth anniversary of the grant date and remain exercisable for a period of up to twelve months following the vesting date. There are no cash settlement alternatives at present.

(iii) Share Matching Plan (the 'Plan')

The Share Matching Plan was introduced in 2005 as part of the new LTIP arrangements described in (ii). Under the Plan, a Matching Award to acquire a specified number of shares for free may be made if the employee pledges a number of shares as investment shares which are then matched by the Company on up to a 4:1 basis with the number of shares that could have been purchased with the gross-tax equivalent of the amount invested. The Matching Awards vest on the third anniversary of the grant date and remain exercisable for a period of up to six months following the vesting date. There are no cash settlement alternatives at present.

(iv) Deferred Annual Share Bonus Plan

The Deferred Annual Share Bonus Plan is a discretionary scheme which forms part of the bonus arrangements for certain senior employees. Under the scheme, part of any bonus may be received in cash whilst the remainder is used to make an award of nil cost options which vest three years after the award date. The options must be exercised within six months of vesting. There are no cash settlement alternatives at present.

(v) West Midlands Travel Ltd (WMT) Long Service Option Scheme

The WMT Long Service Option Scheme utilises a fixed amount of shares set aside for this purpose following the acquisition of WMT in 1995 and is open to all WMT employees who have been in service for more than 25 years. The options are exercisable between three and ten years following the grant date. There are no cash settlement alternatives.

(vi) TWM Share Incentive Plan (the 'SIP')

The TWM SIP exists for the benefit of WMT employees. At the end of the year, 1,079 (2013: 1,079) National Express Group PLC shares were held for the benefit of the Trustee. Dividends on shares held in the SIP forfeited shares account are waived. There are no cash settlement alternatives.

(vii) Executive Deferred Bonus Plan

As detailed in the Directors' Remuneration Report, the Committee considered it appropriate for bonuses awarded in respect of the calendar year to be deferred for a period of one year and that these would vest, subject to the terms of the award and the relevant Director's continuing employment. The deferred forfeitable ordinary shares are awarded under the terms of The National Express Group Executive Deferred Bonus Plan which was adopted by the Board of the Company on 10 March 2009.

The principal terms of awards under the Executive Deferred Bonus Plan are summarised below:

- awards under the Plan may be cash awards, conditional awards or forfeitable shares awards;
- awards normally vest one year from the date of grant, subject to the relevant Director's continued employment with the Company;
- the Committee may decide that participants shall be entitled to receive a benefit determined by reference to the value of the dividends that would have been paid on the vested shares in respect of dividend record dates occurring during the period between the grant date and the date of vesting; and
- the awards will normally lapse on cessation of employment save in certain compassionate 'good leaver' circumstances (eg death or disability).

In the event of a variation of the share capital of the Company, the Committee may make such adjustments to the awards as it considers appropriate.

8 Share-based payments

The charge in respect of share-based payment transactions included in the Group's Income Statement for the year is as follows:

	2014 £m	2013 £m
Expense arising from share and share option plans – continuing operations	**3.1**	3.1

There were exceptional costs included within the charge during the year of £0.7m (2013: £0.1m).

During the year ended 31 December 2014, the Group had seven share-based payment arrangements, which are described in note 7(b).

For the following disclosure, share options with a nil exercise price have been disclosed separately to avoid distorting the weighted average exercise prices. The number of share options in existence during the year was as follows:

	2014 Number of share options	**2014 Weighted average exercise price p**	2013 Number of share options	2013 Weighted average exercise price p
Options without a nil exercise price:				
At 1 January	**278,457**	**380**	319,136	368
Granted during the year	**31,876**	**280**	14,840	252
Forfeited during the year	**(9,120)**	**354**	(5,892)	377
Exercised during the year	**(10,721)**	**192**	(10,501)	196
Expired during the year	**(31,967)**	**359**	(39,126)	276
Outstanding at 31 December	**258,525**	**379**	278,457	380
Exercisable at 31 December	**188,470**	**422**	225,895	411
Options with a nil exercise price:				
At 1 January	**12,211,871**	**nil**	9,528,570	nil
Granted during the year	**3,985,698**	**nil**	5,106,185	nil
Forfeited during the year	**(1,657,616)**	**nil**	(209,721)	nil
Exercised during the year	**(962,147)**	**nil**	(1,426,737)	nil
Expired during the year	**(2,541,285)**	**nil**	(786,426)	nil
Outstanding at 31 December	**11,036,521**	**nil**	12,211,871	nil
Exercisable at 31 December	**58,755**	**nil**	–	nil
Total outstanding at 31 December	**11,295,046**		12,490,328	
Total exercisable at 31 December	**247,225**		225,895	

The options outstanding at 31 December 2014 had exercise prices that were between 129p and 599p (2013: between 129p and 599p) excluding options with a nil exercise price. The range of exercise prices for options was as follows:

Exercise price (p)	**2014**	2013
0-350	**118,916**	104,166
351-650	**139,609**	174,291
	258,525	278,457

The options have a weighted average contractual life of one year (2013: one year). Options were exercised regularly throughout the year and the weighted average share price at exercise was 280p (2013: 201p).

8 Share-based payments continued

The weighted average fair value of the share options granted during the year was calculated using a stochastic model, with the following assumptions and inputs:

	Share options without nil exercise price		Share options with nil exercise price	
	2014	2013	**2014**	2013
Risk free interest rate	**1.73%**	1.19%	**1.13%-1.81%**	0.35%-0.84%
Expected volatility	**30.0%**	38.1%	**30.0%**	29.2%-44.2%
Peer group volatility	**–**	–	**28.0%-30.0%**	36.8%-44.3%
Expected option life in years	**5 years**	7 years	**3-5 years**	3-5 years
Expected dividend yield	**3.64%**	4.73%	**3.58%**	4.64%-4.88%
Weighted average share price at grant date	**275p**	206p	**280p**	201p
Weighted average exercise price at grant date	**280p**	252p	**nil**	nil
Weighted average fair value of options at grant date	**51p**	32p	**194p**	128p

Experience to date has shown that approximately 24% (2013: 24%) of options are exercised early, principally due to leavers. This has been incorporated into the calculation of the expected option life for the share options without nil exercise price.

Expected volatility in the table above was determined from historical volatility over the last eight years, adjusted for one-off events that were not considered to be reflective of the volatility of the share price going forward. The expected dividend yield represents the dividends declared in the 12 months preceding the date of the grant divided by the average share price in the month preceding the date of the grant.

For share options granted during the year under the LTIP, the TSR targets have been reflected in the calculation of the fair value of the options above.

9 Net finance costs

	2014 £m	2013 £m
Bond and bank interest payable	**(47.5)**	(50.2)
Finance lease interest payable	**(4.2)**	(4.4)
Other interest payable	**(0.5)**	(0.2)
Unwind of provision discounting	**(1.2)**	(1.3)
Net interest cost on defined benefit pension obligations	**(1.1)**	(0.5)
Finance costs	**(54.5)**	(56.6)
Other financial income	**6.5**	6.8
Net finance costs	**(48.0)**	(49.8)
Of which, from financial instruments:		
Cash and cash equivalents	**(2.3)**	(2.7)
Financial liabilities measured at amortised cost	**(46.7)**	(48.7)
Derivatives used for hedging	**5.8**	5.9
Loan fee amortisation	**(2.1)**	(2.4)

10 Taxation

(a) Analysis of taxation charge in the year

	2014 £m	2013 £m
Current taxation:		
UK corporation tax	(0.6)	3.9
Overseas taxation	14.3	14.4
Current income tax charge	13.7	18.3
Adjustments with respect to prior years – UK and overseas	0.9	–
Total current income tax charge	14.6	18.3
Deferred taxation (note 26):		
Origination and reversal of temporary differences – continuing operations	(11.3)	(11.8)
Adjustments with respect to prior years – UK and overseas	2.6	(0.4)
Deferred tax credit	(8.7)	(12.2)
Total tax charge	5.9	6.1
The tax charge is disclosed as follows:		
Tax charge on profit before intangible asset amortisation and exceptional items	27.7	32.5
Tax credit on intangible asset amortisation and exceptional items	(21.8)	(26.4)
	5.9	6.1
Tax credit on intangible asset amortisation and exceptional items is analysed as follows:		
Tax credit on intangible asset amortisation	(10.9)	(17.4)
Tax credit on exceptional items	(10.9)	(6.8)
Tax credit on loss on disposal of business	–	(2.2)
	(21.8)	(26.4)

(b) Tax on items recognised in Other Comprehensive Income or Equity

	2014 £m	2013 £m
Current taxation:		
Charge on exchange movements offset in reserves	–	(0.1)
	–	(0.1)
Deferred taxation:		
Deferred tax (charge)/credit on actuarial losses	(2.3)	3.7
Deferred tax credit on cash flow hedges	13.6	0.3
Deferred tax credit on foreign exchange differences	0.1	2.1
Deferred tax credit/(charge) on share-based payments	1.0	(0.1)
	12.4	6.0

10 Taxation continued

(c) Reconciliation of the total tax charge

	2014 £m	2013 £m
Profit before income tax	**66.5**	64.4
Notional charge at UK corporation tax rate of 21.50% (2013: 23.25%)	**14.3**	15.0
Non-deductible goodwill impairment and intangible amortisation	**(1.0)**	1.8
Recognition of a deferred tax asset for previously unrecognised tax losses	**0.5**	(0.1)
Effect of reduction in tax rates (note 10(g))	**(4.9)**	(0.1)
Prior year adjustments within current and deferred tax	**3.5**	(0.4)
European reinvestment relief and other tax credits	**(2.3)**	(1.2)
Effect of overseas tax rates	**9.4**	5.2
Tax on European goodwill and intangibles	**(5.3)**	(6.1)
Overseas financing deductions	**(7.8)**	(6.8)
Non-deductible expenditure	**(0.5)**	(1.2)
Total tax charge reported in the Income Statement (note 10(a))	**5.9**	6.1

(d) Temporary differences associated with Group investments

No deferred tax (2013: £nil) is recognised on the unremitted earnings of subsidiaries, associates and joint ventures, as the Group has determined that these undistributed profits will not be distributed in the near future. As a result of changes to tax legislation in 2009, overseas dividends received on or after 1 July 2009 are generally exempt from UK corporation tax, but may be subject to withholding tax. There are no temporary differences (2013: £nil) associated with investments in subsidiaries, associates and joint ventures, for which a deferred tax liability has not been recognised but for which a tax liability may arise.

(e) Unrecognised tax losses

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit against future taxable profits is probable. UK and overseas deferred tax assets that the Group has not recognised in the Financial Statements amount to £18.7m (2013: £11.1m), which arise in tax jurisdictions where the Group does not expect to generate sufficient suitable future taxable profits. In addition, there are capital losses of £1.1m (2013: £3.1m) which have not been recognised, recoverability of which is dependent on capital gains arising.

The £1.1m (2013: £3.1m) of unrecognised capital losses will expire at various dates from 2015 through to 2018, as follows:

	£m
2015	**0.8**
2016	**0.1**
2017	**0.1**
2018	**0.1**
	1.1

(f) Deferred tax included in the Income Statement

	2014 £m	2013 £m
Accelerated capital allowances	**(11.1)**	(6.8)
Other short term temporary differences	**(0.4)**	(11.0)
Utilisation of losses	**2.8**	5.6
Deferred tax credit	**(8.7)**	(12.2)

Details on the Balance Sheet position of deferred tax are included in note 26.

(g) Factors that may affect future tax charges

On 21 March 2012, the UK Chancellor of the Exchequer announced a 1% reduction in the UK corporation tax rate to 24% effective from 1 April 2012, along with two subsequent reductions to 23% from 1 April 2013 and 22% from 1 April 2014. On 20 March 2013, in the Chancellor's 2013 Budget Statement, further reductions to 21% on 1 April 2014 and 20% on 1 April 2015 were announced.

At the Balance Sheet date, a rate of 20% (2013: 21%) was substantively enacted. The change in rate from 21% to 20% has resulted in a tax charge of £0.3m to the Income Statement.

In June 2014 the Spanish Government announced a tax rate reduction from 30% to 28% during 2015 and then from 28% to 25% in 2016. At the Balance Sheet date, a rate of 28% was recognised. The change in rate from 30% to 28% has resulted in a £2.7m credit to the Income Statement.

11 Dividends paid and proposed

	2014 £m	2013 £m
Declared and paid during the year		
Ordinary final dividend for 2013 paid of 6.75p per share (2012: 6.60p)	**34.5**	33.7
Ordinary interim dividend for 2014 of 3.35p per share (2013: 3.25p)	**17.1**	16.6
	51.6	50.3
Proposed for approval (not recognised as a liability at 31 December)		
Ordinary final dividend for 2014 of 6.95p per share (2013: 6.75p per share)	**35.5**	34.5

12 Earnings per share

	2014	2013
Basic earnings per share	**11.6p**	11.1p
Normalised basic earnings per share	**22.7p**	21.5p
Diluted earnings per share	**11.5p**	11.1p
Normalised diluted earnings per share	**22.7p**	21.4p

Basic earnings per share is calculated by dividing the earnings attributable to equity shareholders of £59.1m (2013: £56.8m) by the weighted average number of ordinary shares in issue during the year, excluding those held by the Group's employee benefit trust (note 31) which are 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:

	2014	2013
Basic weighted average shares	**511,125,312**	511,114,989
Adjustment for dilutive potential ordinary shares	**970,374**	1,425,106
Diluted weighted average shares	**512,095,686**	512,540,095

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:

	2014			2013		
	£m	Basic EPS p	Diluted EPS p	£m	Basic EPS p	Diluted EPS p
Profit attributable to equity shareholders	**59.1**	**11.6**	**11.5**	56.8	11.1	11.1
Intangible amortisation	**28.6**	**5.6**	**5.6**	49.3	9.7	9.6
Exceptional items	**50.3**	**9.8**	**9.8**	25.7	5.0	5.0
Loss on disposal of business	**–**	**–**	**–**	4.3	0.8	0.8
Tax relief on the above items	**(21.8)**	**(4.3)**	**(4.2)**	(26.4)	(5.1)	(5.1)
Normalised profit from continuing operations and attributable to equity shareholders	**116.2**	**22.7**	**22.7**	109.7	21.5	21.4

13 Intangible assets

	Customer contracts £m	Brand £m	Software £m	Contract mobilisation costs £m	Total finite life assets £m	Goodwill £m	Total £m
Cost:							
At 1 January 2014	525.2	2.3	33.0	–	560.5	1,127.1	1,687.6
Acquisitions	4.2	–	–	–	4.2	1.6	5.8
Additions	0.7	–	6.0	1.6	8.3	1.0	9.3
Reclassifications	4.0	(2.3)	7.3	–	9.0	–	9.0
Disposals	–	–	(0.5)	–	(0.5)	–	(0.5)
Foreign exchange	(21.0)	–	1.2	–	(19.8)	(34.5)	(54.3)
At 31 December 2014	513.1	–	47.0	1.6	561.7	1,095.2	1,656.9
Amortisation and impairment:							
At 1 January 2014	360.1	0.8	19.0	–	379.9	84.2	464.1
Charge for year	22.7	–	5.9	–	28.6	–	28.6
Disposals	–	–	(0.5)	–	(0.5)	–	(0.5)
Reclassifications	1.6	(0.8)	7.2	–	8.0	–	8.0
Foreign exchange	(19.2)	–	0.8	–	(18.4)	(2.3)	(20.7)
At 31 December 2014	365.2	–	32.4	–	397.6	81.9	479.5
Net book value:							
At 31 December 2014	147.9	–	14.6	1.6	164.1	1,013.3	1,177.4
At 1 January 2014	165.1	1.5	14.0	–	180.6	1,042.9	1,223.5

13 Intangible assets continued

	Customer contracts £m	Brand £m	Software £m	Total finite life assets £m	Goodwill £m	Total £m
Cost:						
At 1 January 2013	518.8	2.3	31.9	553.0	1,121.3	1,674.3
Acquisitions	3.7	–	–	3.7	3.9	7.6
Additions	3.5	–	3.4	6.9	(3.4)	3.5
Transfer to property, plant and equipment	(3.3)	–	(0.2)	(3.5)	3.3	(0.2)
Disposals	–	–	(0.3)	(0.3)	–	(0.3)
Companies divested	(2.2)	–	(0.4)	(2.6)	(3.6)	(6.2)
Foreign exchange	4.7	–	(1.4)	3.3	5.6	8.9
At 31 December 2013	525.2	2.3	33.0	560.5	1,127.1	1,687.6
Amortisation and impairment:						
At 1 January 2013	312.0	0.3	15.7	328.0	83.4	411.4
Charge for year	44.3	0.5	4.5	49.3	–	49.3
Disposals	–	–	(0.1)	(0.1)	–	(0.1)
Companies divested	(0.2)	–	(0.2)	(0.4)	–	(0.4)
Transfer to property, plant and equipment	–	–	(0.1)	(0.1)	–	(0.1)
Foreign exchange	4.0	–	(0.8)	3.2	0.8	4.0
At 31 December 2013	360.1	0.8	19.0	379.9	84.2	464.1
Net book value:						
At 31 December 2013	165.1	1.5	14.0	180.6	1,042.9	1,223.5
At 1 January 2013	206.8	2.0	16.2	225.0	1,037.9	1,262.9

Goodwill has been allocated to individual cash-generating units for annual impairment testing on the basis of the Group's business operations. The carrying value by cash-generating unit is as follows:

	2014 £m	2013 £m
UK Coach	**13.2**	13.2
North American Bus	**335.0**	319.9
Spanish Coach and Bus	**665.1**	709.8
	1,013.3	1,042.9

The recoverable amount of indefinite life intangible assets has been determined based on a value in use calculation using cash flow projections based on financial budgets and forecasts approved by senior management covering a five-year period. The assumptions, including growth rates and operating margins, are based on historical experience and detailed budget plans as well as management's assessment of current market and economic conditions. Growth has then been extrapolated forward from the end of the forecasts.

13 Intangible assets continued

The calculation of value in use for each group of cash-generating units is most sensitive to the assumptions over discount rates and the growth rate used to extrapolate cash flows beyond the three-year period of the management plan.

The key assumptions used for the cash-generating units are as follows:

	Pre-tax discount rate applied to cash flow projections		Growth rate used to extrapolate cash flows beyond five-year period of management plan	
	2014	2013	**2014**	2013
UK Coach	**8.5%**	9.4%	**2.0%**	2.0%
North American Bus	**8.6%**	9.1%	**2.5%**	2.5%
Spanish Coach and Bus	**8.5%**	8.6%	**2.0%**	2.0%

The value in use of the North American Bus division exceeds its carrying amount by £169.4m (2013: £161.1m). Sensitivity analysis has been completed on each key assumption in isolation, and this indicates that the value in use of the division will be equal to its carrying amount following an increase in the pre-tax discount rate of 140 basis points (2013: 150 basis points) or a reduction in the growth rates used to extrapolate cash flows beyond the three-year period of the management plan of 160 basis points (2013: 150 basis points).

The value in use of the Spanish Coach and Bus division exceeds its carrying amount by £107.1m (2013: £212.9m). Sensitivity analysis has been completed on each key assumption in isolation, and this indicates that the value in use of the division will be equal to its carrying amount following an increase in the pre-tax discount rate of 70 basis points (2013: 140 basis points) or a reduction in growth rates used to extrapolate cash flows beyond the three-year period of the management plan of 70 basis points (2013: 150 basis points).

The headroom has decreased for Spanish Coach and Bus, reflecting a cautious approach in forecasting revenue and profit based on an assessment of the bidding and contract renewal environment, and the response to increased levels of competition. North America has improved headroom, as an increase in the asset base is more than offset by future profit projections.

It is believed that any reasonably possible movement on key assumptions will not lead to an impairment of goodwill allocated to UK Coach.

Sensitivities to other assumptions

In North American Bus, a reduction in operating profit margin of 160 basis points (2013: 170 basis points) will result in the value in use of the division being equal to its carrying amount. In Spanish Coach and Bus, a reduction in operating profit margin of 110 basis points (2013: 200 basis points) will also result in the value in use of the division being equal to its carrying amount.

The Directors consider the assumptions used to be consistent with the historical performance of each cash-generating unit and to be realistically achievable in light of economic and industry measures and forecasts.

14 Property, plant and equipment

	Freehold land and buildings £m	Long leasehold property improvements £m	Public service vehicles £m	Plant and equipment, fixtures and fittings £m	Total £m
Cost:					
At 1 January 2014	100.8	4.8	1,178.5	174.1	1,458.2
Additions	2.2	0.4	83.8	12.8	99.2
Acquisitions	–	–	1.5	–	1.5
Disposals	(1.9)	(0.4)	(21.2)	(6.2)	(29.7)
Reclassifications	–	(0.1)	0.2	(9.4)	(9.3)
Foreign exchange	(4.4)	0.4	5.1	(2.4)	(1.3)
At 31 December 2014	96.7	5.1	1,247.9	168.9	1,518.6
Depreciation:					
At 1 January 2014	17.2	2.7	547.9	139.0	706.8
Charge for the year	2.4	0.7	91.6	10.2	104.9
Disposals	(1.0)	(0.4)	(10.5)	(4.8)	(16.7)
Reclassifications	(0.1)	0.1	(0.4)	(7.0)	(7.4)
Foreign exchange	(0.4)	0.3	3.2	(2.0)	1.1
At 31 December 2014	18.1	3.4	631.8	135.4	788.7
Net book value:					
At 31 December 2014	78.6	1.7	616.1	33.5	729.9
At 1 January 2014	83.6	2.1	630.6	35.1	751.4

14 Property, plant and equipment continued

	Freehold land and buildings £m	Long leasehold property improvements £m	Public service vehicles £m	Plant and equipment, fixtures and fittings £m	Total £m
Cost:					
At 1 January 2013	98.5	4.1	1,139.9	164.3	1,406.8
Additions	2.2	0.9	70.0	11.7	84.8
Acquisitions	–	–	2.5	–	2.5
Disposals	(1.3)	–	(20.6)	(2.2)	(24.1)
Companies divested	–	–	(0.6)	–	(0.6)
Transfer from intangible assets	–	–	–	0.2	0.2
Foreign exchange	1.4	(0.2)	(12.7)	0.1	(11.4)
At 31 December 2013	100.8	4.8	1,178.5	174.1	1,458.2
Depreciation:					
At 1 January 2013	15.4	2.3	473.6	128.1	619.4
Charge for the year	2.5	0.7	91.7	12.5	107.4
Disposals	(0.7)	–	(9.0)	(1.7)	(11.4)
Companies divested	–	–	(0.3)	–	(0.3)
Transfer from intangible assets	–	–	–	0.1	0.1
Foreign exchange	–	(0.3)	(8.1)	–	(8.4)
At 31 December 2013	17.2	2.7	547.9	139.0	706.8
Net book value:					
At 31 December 2013	83.6	2.1	630.6	35.1	751.4
At 1 January 2013	83.1	1.8	666.3	36.2	787.4

Property, plant and equipment held under finance lease agreements are analysed as follows:

		2014 £m	2013 £m
Long leasehold property	– cost	**–**	0.8
	– depreciation	**–**	–
Net long leasehold property		**–**	0.8
Public service vehicles	– cost	**257.5**	256.5
	– depreciation	**(102.6)**	(85.2)
Net public service vehicles		**154.9**	171.3
Plant and equipment	– cost	**–**	0.2
	– depreciation	**–**	(0.1)
Net plant and equipment		**–**	0.1
Total net book value		**154.9**	172.2

Finance leased assets and assets under hire purchase contracts are pledged as security for the related finance lease and hire purchase liabilities.

15 Subsidiaries

The companies listed below include all those which principally affect the results and net assets of the Group. A full list of subsidiaries, joint ventures and associates will be annexed to the next Annual Return to Companies House. The principal country of operation in respect of the companies below is the country in which they are incorporated.

National Express Group PLC is the beneficial owner of all the equity share capital, either itself or through subsidiaries, of the companies.

The Group's train passenger services in the UK are operated through franchises awarded by DfT Rail, as delegated by the UK Government.

Incorporated in England and Wales	
National Express Limited	Administration and marketing of express coach services in Great Britain
Eurolines (UK) Limited	Administration and marketing of express coach services to Europe
Airlinks Airport Services Limited	Operation of coach services
The Kings Ferry Limited	Operation of coach services
West Midlands Travel Limited	Operation of bus services
NXET Trains Limited	Operation of train passenger services

Incorporated in Scotland	
Tayside Public Transport Co Limited (trading as Travel Dundee)	Operation of bus services

Incorporated in the US	
Durham School Services LP	Operation of school bus services
Petermann LLC	Operation of school bus services
National Express Transit Corporation	Operation of transit bus services
National Express Transit Services Corporation	Operation of transit bus services

Incorporated in Canada	
Stock Transportation Limited	Operation of school bus services

Incorporated in Spain	
NEX Continental Holdings SL*	Holding company for operating companies
Tury Express SA*	Holding company for operating companies
General Tecnica Industrial SLU*	Holding company for operating companies

Incorporated in Morocco	
GAT Groupe Alsa Transport SA (Marrakech)	Operation of bus services
TVAM Transport de Voyageurs en Autocar Maroc SA (Marrakech)	Operation of bus services
Alsa Tanger SA	Operation of bus services
ACA Alsa City Agadir SA	Operation of bus services

* The main holding companies of the ALSA Group.

The Group has no material non-controlling interests that require separate disclosure.

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16 Derivative financial assets and available for sale investments

	2014 £m	2013 £m
Available for sale investments – Unlisted ordinary shares	**6.8**	7.4
Derivative financial instruments – Interest rate derivatives	**26.5**	17.6
Derivative financial instruments – Fuel derivatives	**–**	0.9
Derivative financial instruments included in non-current assets	**26.5**	18.5
Derivative financial instruments – Fuel derivatives	**–**	0.9
Derivative financial instruments – Foreign exchange derivatives	**1.5**	2.2
Derivative financial instruments included in current assets	**1.5**	3.1

Further information on the Group's use of fuel, interest rate and foreign exchange derivatives is included in note 30.

Available for sale investments

	2014 £m	2013 £m
Cost or valuation and net book value:		
At 1 January	**7.4**	7.1
Additions	**–**	0.1
Provided in the year	**(0.1)**	–
Foreign exchange	**(0.5)**	0.2
At 31 December	**6.8**	7.4

The principal available for sale investments are as follows:

Name	Country of registration	Class of share	2014 Proportion held %	2013 Proportion held %
Metros Ligeros de Madrid, S.A. (MLM)	Spain	Ordinary shares	**15**	15
Various investments within ALSA and Continental Auto	Spain	Ordinary shares	**1-16**	1-16

17 Investments accounted for using the equity method

Investments accounted for using the equity method are as follows:

	2014 £m	2013 £m
Joint ventures	2.7	2.4
Associates	2.7	2.7
Total investments accounted for under the equity method	5.4	5.1

The Group's share of post-tax results from associates and joint ventures accounted for using the equity method is as follows:

	2014 £m	2013 £m
Share of joint ventures' profit	0.2	0.2
Share of associates' profit	0.1	0.4
Total share of results from associates and joint ventures	0.3	0.6

(a) Investments in joint ventures

The Group's interests in joint ventures are as follows:

Name	Country of registration	Activity	Proportion held %
Ibero-Eurosur S.L.	Spain	Holding company of Deutsche Touring	20
Bahrain Public Transport Company W.L.L.	Kingdom of Bahrain	Operation of bus services	50

During the year the Group formed a joint venture entity, Bahrain Public Transport Company W.L.L., to operate a ten-year bus services contract in the Kingdom of Bahrain, commencing in 2015. The Group's share of the investment in the joint venture at year end was £0.2m.

The financial information of Ibero-Eurosur S.L. is summarised below:

	Ibero-Eurosur S.L.	
Share of the joint venture's balance sheet and results	2014 £m	2013 £m
Non-current assets	3.3	3.5
Current assets	–	0.1
Share of gross assets	3.3	3.6
Non-current liabilities	(0.5)	(0.7)
Current liabilities	(0.3)	(0.5)
Share of gross liabilities	(0.8)	(1.2)
Net assets	2.5	2.4
Revenue	0.2	0.3
Operating profit	0.2	0.2
Profit for the year and total comprehensive income	0.2	0.2
Dividends received from the joint venture during the year	–	–

A reconciliation of the above summarised financial information to the carrying amount in the consolidated financial statements is as follows:

	Ibero-Eurosur S.L	
	2014 £m	2013 £m
Net assets of the joint venture	12.3	12.1
Proportion of interest belonging to joint venture partners	(9.8)	(9.7)
Group share of net assets	2.5	2.4

17 Investments accounted for using the equity method continued

(b) Investments in associates

The Group's interests in associates are as follows:

Name	Country of registration	Proportion held %
Spanish Coach and Bus associates	Spain	20-50

Spanish Coach and Bus's associates are generally involved in the operation of coach and bus services, management of bus stations and similar operations.

The aggregate amounts related to associates (of which none are individually material) are summarised below:

	2014 £m	2013 £m
Share of operating profit	**0.1**	0.4
Share of profit for the year and total comprehensive income	**0.1**	0.4
Group share of net assets	**2.7**	2.7

The carrying amount of the investment in associates matches the Group's share of the net assets.

18 Business combinations

(a) Acquisitions

On 28 February 2014, in the United States, the Group acquired certain trade and assets of Atlantic Express Transportation Corp. and its subsidiaries, which operates school bus transportation services in the city of Philadelphia. The fair value of net assets acquired was £3.6m. Consideration was £5.2m, resulting in provisional goodwill of £1.6m. There was £nil cash acquired in the business, therefore the net cash outflow for the Group was £5.2m.

There were no other material acquisitions during 2014.

In 2013 the Group acquired a number of small school bus businesses in North America. Details of these acquisitions are disclosed in the Group's 2013 Annual Report and Accounts. No changes were made to the fair values during 2014.

Deferred consideration of £0.5m (2013: £3.7m) was paid in the year relating to acquisitions in North America in earlier years.

(b) Disposals

There were no material business disposals during 2014.

On 23 August 2013 the Group disposed of YCN Transportation Inc., which provided special education transportation services to certain school districts in the State of Massachusetts. The loss incurred on disposal was £4.3m. Further details are disclosed in the Group's 2013 Annual Report and Accounts.

19 Non-current assets – trade and other receivables

	2014 £m	2013 £m
Trade receivables	**–**	1.1
Prepayments	**0.1**	0.8
Other receivables	**1.7**	2.7
	1.8	4.6

20 Inventories

	2014 £m	2013 £m
Raw materials and consumables	**21.8**	21.2

The movement on the provision for slow moving and obsolete inventory is immaterial.

21 Current assets – trade and other receivables

	2014 £m	2013 £m
Trade receivables	116.8	110.3
Less: provision for impairment of receivables	(11.2)	(11.3)
Trade receivables – net	105.6	99.0
Amounts due from associates and joint ventures (note 35)	1.2	1.1
Amounts due from other related parties (note 35)	0.7	1.0
Other receivables	56.2	34.4
Prepayments	23.7	18.4
Accrued income	12.2	16.0
	199.6	169.9

An analysis of the provision for impairment of receivables is provided below:

	2014 £m	2013 £m
At 1 January	(11.3)	(10.1)
Utilised/(provided) in the year	0.1	(1.2)
At 31 December	(11.2)	(11.3)

Amounts included within trade receivables which are past due at the reporting date are shown in note 29. The Directors believe that based on the ongoing contractual relationships with predominantly government bodies these amounts will be collected.

22 Cash and cash equivalents

	2014 £m	2013 £m
Cash at bank and in hand	36.3	37.7
Overnight deposits	6.9	–
Other short term deposits	40.5	3.2
Cash and cash equivalents	83.7	40.9

Cash and cash equivalents include restricted balances of £2.8m (2013: £2.9m) held by the Rail subsidiaries (TOCs). Under the terms of the train franchise agreements, cash can only be distributed by the TOCs either up to the value of retained profits or the amount determined by prescribed liquidity ratios. The restricted cash represents the balance that is either not available for distribution or the amount required to satisfy the liquidity ratio at the Balance Sheet date.

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates. Short term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group and earn interest at the agreed short term floating deposit rate. The fair value of cash and cash equivalents is equal to the carrying value.

23 Current liabilities – trade and other payables

	2014 £m	2013 £m
Trade payables	144.2	129.7
Amounts owed to associates and joint ventures (note 35)	0.9	0.8
Amounts owed to other related parties (note 35)	0.7	0.9
Other tax and social security payable	27.4	26.8
Accruals and deferred income	115.6	112.9
Other payables	126.9	80.5
	415.7	351.6

Trade payables are non-interest bearing and are normally settled on 30 day terms and other payables are non-interest bearing and have an average term of two months. Included within other payables are deferred fixed asset grants from government or other public bodies of £1.1m (2013: £0.9m).

24 Other non-current liabilities

	2014 £m	2013 £m
Deferred fixed asset grants	3.4	4.7
Other liabilities	0.7	1.8
	4.1	6.5

25 Provisions

	Claims provision[1] £m	Other[2] £m	Total £m
At 1 January 2014	45.0	4.4	49.4
Charged to the Income Statement	22.4	17.4	39.8
Utilised in the year	(32.5)	(2.4)	(34.9)
Unwinding of discount	1.2	–	1.2
Acquired in business combinations	1.9	–	1.9
Exchange difference	1.3	0.1	1.4
At 31 December 2014	39.3	19.5	58.8
Current 31 December 2014	23.2	12.1	35.3
Non-current 31 December 2014	16.1	7.4	23.5
	39.3	19.5	58.8
Current 31 December 2013	23.6	4.4	28.0
Non-current 31 December 2013	21.4	–	21.4
	45.0	4.4	49.4

1 The claims provision arises from estimated exposures at the year end for auto and general liability, workers' compensation and environmental claims, the majority of which will be utilised in the next five years. It comprises provisions for claims arising in the UK and North America.

2 Other includes amounts provided for restructuring activities across the Group, loss making contracts and dilapidation provisions in Rail.

When the effect is material, the provisions are discounted to their net present value.

26 Deferred tax

	2014 £m	2013 £m
Net deferred tax liability at 1 January	(58.4)	(77.0)
Credit to Income Statement	8.7	12.2
Credit to Other Comprehensive Income or Equity	12.4	6.1
Exchange differences	0.3	(0.4)
Acquired in business combinations	0.9	0.7
Net deferred tax liability at 31 December	(36.1)	(58.4)

Based on current capital investment plans, the Group expects to be able to claim capital allowances in excess of depreciation in future years at a similar level to the current year.

Deferred tax assets and liabilities within the same jurisdiction have been offset.

26 Deferred tax continued

Deferred tax assets	2014 £m	2013 £m
Accelerated tax depreciation	**3.9**	0.7
Losses carried forward	**6.4**	8.9
Other short term temporary differences	**19.6**	7.1
Total	**29.9**	16.7

Deferred tax liabilities	2014 £m	2013 £m
Accelerated tax depreciation	**(150.0)**	(158.5)
Losses carried forward	**42.1**	36.4
Other short term temporary differences	**41.9**	47.0
Total	**(66.0)**	(75.1)

27 Borrowings and derivative financial liabilities

	2014 £m	2013 £m
Non-current		
Bank loans	**2.6**	5.2
Bonds	**585.3**	579.5
Finance lease obligations	**87.6**	100.7
Other debt payable	**66.3**	65.3
Non-current borrowings	**741.8**	750.7
Fuel derivatives	**36.1**	1.1
Interest rate derivatives	**–**	0.5
Non-current derivative financial instruments	**36.1**	1.6
Non-current borrowings and derivative financial liabilities	**777.9**	752.3
Current		
Bank loans	**2.6**	14.1
Bonds – accrued interest	**29.2**	29.2
Finance lease obligations	**22.9**	32.2
Other debt payable	**1.2**	1.3
Current borrowings	**55.9**	76.8
Fuel derivatives	**35.2**	1.5
Foreign exchange derivatives	**0.6**	0.4
Current derivative financial instruments	**35.8**	1.9
Current borrowings and derivative financial liabilities	**91.7**	78.7

An analysis of interest-bearing loans and borrowings is provided in note 28. Further information on derivative financial instruments is provided in note 30.

28 Interest-bearing borrowings

The effective interest rates on loans and borrowings at the Balance Sheet date were as follows:

	2014 £m	Maturity	Effective interest rate	2013 £m	Maturity	Effective interest rate
Seven-year Sterling bond	**353.0**	**January 2017**	**6.54%**	352.0	January 2017	6.54%
Ten-year Sterling bond	**232.3**	**January 2020**	**6.85%**	227.5	June 2020	6.85%
Bonds	**585.3**			579.5		
Accrued interest – bonds	**29.2**			29.2		
European bank loans	**–**	**November 2019[1]**	**LIBOR + 0.60%**	13.0	July 2018	LIBOR + 1.10%
European bank loans	**3.6**	**2015-2016**	**4.25%**	5.7	2014-2016	5.08%
European bank loans	**3.0**	**2015-2017**	**EURIBOR + 1.91%**	0.6	2014-2016	EURIBOR + 2.87%
US bank loans	**2.0**		**1.15%**	–		–
Bank loans	**8.6**			19.3		
US dollar finance leases at fixed rate	**93.1**	**2015-2020**	**2.04%**	112.4	2014-2020	2.21%
European finance leases at fixed rate	**2.0**	**2015-2017**	**5.41%**	4.2	2014-2017	5.68%
European finance leases at floating rate	**5.2**	**2015-2022**	**EURIBOR + 1.06%**	3.1	2014-2017	EURIBOR + 1.31%
Sterling finance leases at fixed rate	**10.2**	**2015-2018**	**5.61%**	13.2	2014-2018	4.76%
Finance leases	**110.5**			132.9		
Euro Private Placement	**65.6**	**August 2021**	**4.55%**	64.5	August 2021	4.55%
Accrued interest – Private Placement	**1.1**			1.1		
Euro loans	**0.8**	**2026**		1.0	2014-2017	
Other debt payable	**67.5**			66.6		
Total	**801.1**			827.5		

1 This date is the ultimate maturity date of the syndicated credit facility. There was £nil drawn down at year end.

In November 2014, the Group amended and extended its committed unsecured revolving bank facility, increasing it from a £410m to a £416m facility with an extension from July 2018 to November 2019. The Group amended the facility in order to take advantage of favourable movements in bank loan margins and fees. At 31 December 2014 there was €nil (2013: €20m) drawn down on the facility, with £3.4m of capitalised deal fees remaining.

Under the terms of the £1bn EMTN programme, there is a change in control put option such that, upon a change of control event, any holder of any MTN may require the Company to redeem or purchase that MTN.

Details of the Group's interest rate risk management strategy and associated interest rate derivatives are included in notes 29 and 30.

The Group is subject to a number of financial covenants in relation to its syndicated credit facilities which, if contravened, could result in its borrowings under the facility becoming immediately repayable. These covenants specify maximum net debt to EBITDA and minimum EBITDA to net interest payable.

28 Interest-bearing borrowings continued

The following table sets out the carrying amount, by maturity of the Group's interest-bearing borrowings and deposits:

As at 31 December 2014	< 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	> 5 years £m	Total £m
Fixed rate							
Bank loans	(3.0)	(0.5)	–	–	–	–	(3.5)
Bonds	–	–	(353.0)	–	–	(232.3)	(585.3)
Finance leases	(21.1)	(19.8)	(33.5)	(18.5)	(10.8)	(1.5)	(105.2)
Other debt payable	(1.2)	(0.1)	(0.5)	–	–	(65.7)	(67.5)
Floating rate							
Cash assets	83.7	–	–	–	–	–	83.7
Bank loans	0.4	–	(2.1)	–	–	–	(1.7)
Finance leases	(1.8)	(1.2)	(0.9)	(0.4)	(0.4)	(0.6)	(5.3)

As at 31 December 2013	< 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	> 5 years £m	Total £m
Fixed rate							
Bank loans	(0.9)	(4.7)	(0.1)	–	–	–	(5.7)
Bonds	–	–	–	(352.0)	–	(227.5)	(579.5)
Finance leases	(31.0)	(20.3)	(18.7)	(31.2)	(17.2)	(11.4)	(129.8)
Other debt payable	(1.3)	(0.1)	(0.2)	(0.2)	(0.1)	(64.7)	(66.6)
Floating rate							
Cash assets	40.9	–	–	–	–	–	40.9
Bank loans	(13.2)	(0.3)	(0.1)	–	–	–	(13.6)
Finance leases	(1.2)	(1.2)	(0.5)	(0.2)	–	–	(3.1)

29 Financial risk management objectives and policies

Financial risk factors and management

The Group's multinational operations and debt levels expose it to a variety of financial risks, of which the most material are market risks relating to fuel prices, foreign currency exchange rates, interest rates and the availability of funding at reasonable margins. The Group has in place a risk management programme that seeks to manage the impact of these risks on the financial performance of the Group by using financial instruments including borrowings, committed facilities and forward foreign exchange, fuel and interest rate derivatives.

The Board of Directors has delegated the responsibility for implementing the financial risk management policies laid down by the Board to the Group Finance Director and the Director of Capital Markets. The policies are implemented by the Group Treasury department with regular reporting to the Group Finance Director and the Audit Committee on its activities.

29 Financial risk management objectives and policies continued

Foreign currency

The Group has major foreign operations in the US, Canada and Spain and as a result is exposed to the movements in foreign currency exchange rates on the translation of these foreign currency denominated net assets and earnings. These movements can have a significant impact on the Group's reported results. The Group seeks to manage this foreign currency exchange movements risk by aligning its foreign currency denominated liabilities with the EBIT generated in each currency, such that some protection is afforded to the net debt: EBITDA covenant within the Group's core borrowing facility. This is achieved by a combination of foreign currency borrowings and finance leases, and entering into derivative financial instruments such as interest rate swaps and foreign exchange swaps. At the year end, the Group had outstanding foreign exchange derivatives of €170.0m and US$130.0m; swaps of US$73.0m, €79.0m and C$35.3m and finance leases of US$144.9m and €9.3m.

Derivative financial instruments are designated as net investment hedges of foreign currency assets. The effective portion of the gain or loss on the hedge is recognised in the Group Statement of Comprehensive Income and recycled to the Income Statement at the same time as the underlying hedged net assets affect the Income Statement. Any material ineffectiveness is taken to the Income Statement.

The table below demonstrates the sensitivity of the Group's financial instruments to a reasonably possible change in foreign exchange rates, with all other variables held constant. This would affect the Group's profit before tax and translation reserve. The effect on the translation reserve represents the movement in the translated value of the foreign currency denominated loans and change in fair value of cross-currency swap contracts. These movements would be offset by an opposite movement in the translated value of the Group's overseas net investments. It is estimated that a 10% change in the corresponding exchange rates would result in an exchange gain or loss in the translation reserve of £7.6m.

		2014		2013	
As at 31 December	Strengthening/ (weakening) in currency	**Effect on profit before tax £m**	**Effect on translation reserve £m**	Effect on profit before tax £m	Effect on translation reserve £m
US dollar	10%	**–**	**(0.2)**	–	(2.6)
Euro	10%	**–**	**7.7**	0.1	5.9
Canadian dollar	10%	**0.3**	**0.1**	0.2	0.2
US dollar	(10)%	**–**	**0.2**	–	2.6
Euro	(10)%	**–**	**(7.7)**	(0.1)	(5.9)
Canadian dollar	(10)%	**(0.3)**	**(0.1)**	(0.2)	(0.2)

Interest rate risk

The Group is exposed to movements in interest rates on both interest-bearing assets and liabilities. It is the Group's policy to maintain an appropriate balance between fixed and floating interest rates on borrowings in order to provide a level of certainty to interest expense in the short term and to reduce the year on year impact of interest rate fluctuations over the medium term. To achieve the desired fixed/floating ratio, the Group has entered into a series of interest rate swaps that have the effect of converting fixed rate debt to floating rate debt. The net effect of these transactions was that as at 31 December 2014 the proportion of Group net debt at floating rates was 28% (2013: 33%).

The following table demonstrates the sensitivity of the Group's financial instruments to a reasonably possible change in interest rates, with all other variables held constant, on the Group's profit before tax and on the Group's hedging reserve.

The sensitivity analysis covers all floating rate financial instruments, including the interest rate swaps. If the interest rates applicable to floating rate instruments denominated in Sterling were increased by 100bps, it is estimated that the Group's profit before taxation would decrease by approximately £1.4m. If the interest rates applicable to floating rate instruments denominated in US$ were increased by 50bps, it is estimated that the Group's profit before taxation would remain unchanged. If the interest rates applicable to floating rate instruments denominated in Euro were increased by 75bps, it is estimated that the Group's profit before taxation would reduce by £0.4m. The analysis assumes that the amount and mix of floating rate debt, including finance leases, remains unchanged from that in place at 31 December 2014.

29 Financial risk management objectives and policies continued

Interest rate risk continued

As at 31 December	Increase/ (decrease) in basis points	2014 Effect on profit before tax £m	2014 Effect on hedging reserve £m	2013 Effect on profit before tax £m	2013 Effect on hedging reserve £m
Sterling	100	**(1.4)**	**–**	(1.8)	–
US dollar	50	**–**	**–**	–	–
Euro	75	**(0.4)**	**–**	(0.5)	–
Sterling	(100)	**1.4**	**–**	1.8	–
US dollar	(50)	**–**	**–**	–	–
Euro	(75)	**0.4**	**–**	0.5	–

Commodity prices

The Group is exposed to movements in commodity prices as a result of its fuel usage. It is the Group's policy to hedge this exposure in order to provide a level of certainty as to its cost in the short term and to reduce the year on year impact of price fluctuations over the medium term. This is achieved by entering into fuel derivatives. At 31 December 2014, the Group had hedged approximately 100% of its 2015 expected usage, 96% of its expected usage in 2016 and 81% of its expected usage in 2017 (see the Group Finance Director's review for further details).

The table below demonstrates the effect of a reasonably possible variation in fuel prices, with all other variables held constant, on the fair value of the Group's financial instruments and accordingly on the Group's profit before tax and on the Group's hedging reserve.

The sensitivity analysis includes all fuel derivatives. The effect on the hedging reserve arises through movements on the fair value of the Group's fuel derivatives. For these derivative contracts the sensitivity of the net fair value to an immediate 20% increase or decrease in all prices would have been £38.9m at 31 December 2014. The figure does not include any corresponding economic advantage or disadvantage that would arise from the natural business exposure which would be expected to offset the gain or loss on the derivatives.

As at 31 December	Increase/ (decrease) in price	2014 Effect on profit before tax £m	2014 Effect on hedging reserve £m	2013 Effect on profit before tax £m	2013 Effect on hedging reserve £m
Sterling denominated ULSD	20%	**–**	**14.1**	–	15.8
US dollar denominated heating oil/diesel	20%	**–**	**9.6**	–	8.6
Euro denominated ULSD	20%	**–**	**15.2**	–	16.8
Sterling denominated ULSD	(20)%	**–**	**(14.1)**	–	(15.8)
US dollar denominated heating oil/diesel	(20)%	**–**	**(9.6)**	–	(8.6)
Euro denominated ULSD	(20)%	**–**	**(15.2)**	–	(16.8)

Credit risk

The maximum credit risk exposure of the Group is the gross carrying value of each of its financial assets. This risk is mitigated by a number of factors. Many of the Group's principal customers, suppliers and financial institutions with which it conducts business are public (or quasi-public) bodies, both national (DfT Rail and Network Rail in the UK) and local (school boards in North America, municipal authorities in Spain and Morocco, Transport for London and Centro in the UK). The Group does not consider these counterparties to pose a significant credit risk. Outside of this, the Group does not consider it has significant concentrations of credit risk. The Group has implemented policies that require appropriate credit checks on potential customers before sales commence.

The only elements of the Group's financial assets which are not impaired but are past due are certain trade receivable items. An ageing of the assets which are past due is included in the following table. In terms of trade receivables that are neither impaired nor past due, there are no indications as at the year end reporting date that the debtors will not meet their payment obligations (see Risk and risk management section for details of how management manages this process).

29 Financial risk management objectives and policies continued

Credit risk continued

	Carrying amount £m	Of which: neither impaired nor past due £m	Of which: not impaired and past due in the following periods: Less than 30 days £m	Between 30 and 60 days £m	Between 61 and 90 days £m	Over 90 days £m
Trade receivables at 31 December 2014	**105.6**	**79.3**	**11.2**	**4.7**	**2.5**	**7.9**
Trade receivables at 31 December 2013	100.1	60.2	17.1	7.5	3.5	11.8

Liquidity risk

The Group's liquidity risk is managed centrally by the Group Treasury department with operating units forecasting their cash requirements. The Group actively maintains a mixture of long term and medium term committed facilities that are designed to ensure the Group has sufficient available funds to meet current and forecast funding requirements. In managing the liquidity risk, the Group has access to a range of funding sources through the banking and capital markets.

In November 2014, the Group amended its committed unsecured revolving bank facility, increasing it from a £410m to a £416m facility with an extension of maturity from July 2018 to November 2019. The Group amended the facility in order to take advantage of favourable movements in bank loan margins and fees. At 31 December 2014, £416m of this facility remained unused (2013: £393.4m).

At 31 December 2014, the Group had committed bank borrowing and finance lease facilities of £526.5m (2013: £542.9m).

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2014 based on the contractual undiscounted cash flows including interest cash flows. As such, the amounts in this table will not agree to the carrying amounts disclosed in the Balance Sheet or other notes. The table includes cash flows associated with derivative hedging instruments. Their amounts reflect the maturity profile of the fair value liability where the instrument will be settled net, and the gross settlement amount where the pay leg of a derivative will be settled separately to the receive leg.

Year ended 31 December 2014	**On demand £m**	**Less than 1 year £m**	**1-5 years £m**	**> 5 years £m**	**Total £m**
Bank loans	**–**	**5.9**	**2.8**	**–**	**8.7**
Bonds	**–**	**36.8**	**453.4**	**239.9**	**730.1**
Finance lease obligations	**–**	**26.4**	**93.8**	**2.0**	**122.2**
Other debt payable	**–**	**2.9**	**11.1**	**71.7**	**85.7**
Trade and other payables	**–**	**414.6**	**0.7**	**–**	**415.3**
	–	**486.6**	**561.8**	**313.6**	**1,362.0**
Foreign exchange derivatives	**–**	**0.9**	**–**	**–**	**0.9**
Interest rate derivatives	**–**	**(5.8)**	**(16.3)**	**(5.0)**	**(27.1)**
Fuel derivatives	**–**	**33.4**	**37.6**	**–**	**71.0**
	–	**28.5**	**21.3**	**(5.0)**	**44.8**

Year ended 31 December 2013	On demand £m	Less than 1 year £m	1-5 years £m	> 5 years £m	Total £m
Bank loans	–	18.0	5.0	–	23.0
Bonds	–	36.8	475.3	254.8	766.9
Finance lease obligations	–	36.7	101.8	11.5	150.0
Other debt payable	–	4.0	11.9	73.4	89.3
Trade and other payables	–	350.7	1.8	–	352.5
	–	446.2	595.8	339.7	1,381.7
Foreign exchange derivatives	–	1.8	–	–	1.8
Interest rate derivatives	–	(6.0)	(10.8)	(0.6)	(17.4)
Fuel derivatives	–	(0.6)	(1.9)	–	(2.5)
	–	(4.8)	(12.7)	(0.6)	(18.1)

29 Financial risk management objectives and policies continued

Capital risk management

The Group seeks to adopt efficient financing structures that enable it to use its Balance Sheet strength to achieve the Group's objectives without putting shareholder value at risk. The Group's capital structure comprises its equity (refer to the Group Statement of Changes in Equity) and its net debt (refer to note 36).

The decrease in the Group's net debt from £746.1m to £664.3m (excluding accrued interest) is explained in the Finance Director's review. Information about the financial covenants in relation to the Group's borrowing facilities is included in note 28.

30 Financial instruments (including cash, trade receivables and payables)

Fair values

The table below illustrates the fair values of all financial assets and liabilities held by the Group at 31 December 2014.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are measured at amortised cost using the effective interest rate method and the carrying value in all cases approximates to the fair value.

Available for sale investments are non-derivative assets that are either designated as available for sale, or are not classified as loans and receivables or held to maturity investments. The Group's available for sale investments have no active market, and in the absence of any other reliable external information are carried at cost or amortised cost which approximates to the fair value.

The fair value of derivatives is either determined by the third-party financial institution with which the Group holds the instrument, in line with the market value of similar financial instruments or by use of valuation techniques using market data. Derivatives, other than those designated as effective hedging instruments, are classified as fair value through profit or loss and are carried on the Balance Sheet at their fair value with gains or losses recognised in the Income Statement. Derivatives designated as hedging instruments in an effective hedge are carried on the Balance Sheet at their fair value. For cash flow hedges and hedges of net investments in foreign operations, the effective portion of the gain or loss on the hedging instrument is recognised directly in Other Comprehensive Income, while the ineffective portion is recognised in the Income Statement. Amounts taken to Other Comprehensive Income are transferred to the Income Statement when the hedged transaction affects profit or loss or when the foreign operation is sold or partially disposed. For fair value hedges, all gains or losses are recognised in the Income Statement.

Derivatives are the only instrument which the Group holds at fair value. The fair value measurement of these instruments is categorised within Level 2 (ie the fair values are derived based on observable market inputs). The Group has no financial instruments with fair values that are determined by reference to significant unobservable inputs ie those that would be classified as Level 3 in the fair value hierarchy, nor have there been any transfers of assets or liabilities between levels of the fair value hierarchy. There are no non-recurring fair value movements.

The Group's bonds are held at a hybrid amortised cost with a fair value adjustment. After initial recognition at fair value, the bonds are measured at amortised cost using the effective interest rate method. A portion of the bonds are designated as the hedged item in an effective fair value hedging relationship. As such, the carrying value of this portion is adjusted for changes in fair value attributable to the risk being hedged. This net carrying value will differ to the fair value depending on movements in the Group's credit risk, movements in interest rates on the un-hedged portion and unamortised fees.

All other liabilities including finance leases, bank loans, trade and other payables and other debt payable are held at amortised cost. After initial fair value recognition, these instruments are measured at amortised cost using the effective interest rate method. The carrying value of these liabilities approximates to the fair value.

30 Financial instruments (including cash, trade receivables and payables) continued

Fair values continued

Classification of financial instruments As at 31 December 2014	**Loans and receivables £m**	**Available-for-sale assets £m**	**Derivatives used for hedging £m**	**Liabilities measured at amortised cost £m**	**At fair value through profit or loss £m**	**Total £m**
Assets						
Investments	–	6.8	–	–	–	6.8
Foreign exchange derivatives	–	–	1.5	–	–	1.5
Interest rate derivatives	–	–	26.5	–	–	26.5
Cash and cash equivalents	83.7	–	–	–	–	83.7
Trade and other receivables	165.2	–	–	–	–	165.2
	248.9	6.8	28.0	–	–	283.7
Liabilities						
Bank loans	–	–	–	(5.2)	–	(5.2)
Bonds including accrued interest	–	–	–	(614.5)	–	(614.5)
Finance lease obligations	–	–	–	(110.5)	–	(110.5)
Other debt payable	–	–	–	(67.5)	–	(67.5)
Fuel derivatives	–	–	(71.3)	–	–	(71.3)
Foreign exchange derivatives	–	–	(0.6)	–	–	(0.6)
Trade and other payables	–	–	–	(415.3)	–	(415.3)
	–	–	(71.9)	(1,213.0)	–	(1,284.9)

Classification of financial instruments As at 31 December 2013	Loans and receivables £m	Available-for-sale assets £m	Derivatives used for hedging £m	Liabilities measured at amortised cost £m	At fair value through profit or loss £m	Total £m
Assets						
Investments	–	7.4	–	–	–	7.4
Fuel derivatives	–	–	1.8	–	–	1.8
Foreign exchange derivatives	–	–	2.2	–	–	2.2
Interest rate derivatives	–	–	17.6	–	–	17.6
Cash and cash equivalents	40.9	–	–	–	–	40.9
Trade and other receivables	139.3	–	–	–	–	139.3
	180.2	7.4	21.6	–	–	209.2
Liabilities						
Bank loans	–	–	–	(19.3)	–	(19.3)
Bonds including accrued interest	–	–	–	(608.7)	–	(608.7)
Finance lease obligations	–	–	–	(132.9)	–	(132.9)
Other debt payable	–	–	–	(66.6)	–	(66.6)
Fuel derivatives	–	–	(2.6)	–	–	(2.6)
Interest rate derivatives	–	–	(0.5)	–	–	(0.5)
Foreign exchange derivatives	–	–	(0.4)	–	–	(0.4)
Trade and other payables	–	–	–	(352.5)	–	(352.5)
	–	–	(3.5)	(1,180.0)	–	(1,183.5)

Other receivables and other payables are to be settled in cash in the currency they are held in.

In accordance with IAS 39 Financial Instruments: Recognition and Measurement, the Group has reviewed all contracts for embedded derivatives that are required to be separately accounted for. No embedded derivatives have been identified.

30 Financial instruments (including cash, trade receivables and payables) continued

Fair values continued

The Group assesses at each year end reporting date whether a financial asset or group of financial assets is impaired. In the financial year 2014 there was no objective evidence that would have necessitated the impairment of loans and receivables or available-for-sale assets except the provision for impairment of receivables (see note 21).

Hedging activities

The Group uses derivative financial instruments to manage exposures to market risk, such as movements in foreign exchange rates, fuel prices and interest rates. Such derivative financial instruments are initially recognised at fair value and are subsequently re-measured at fair value. In line with IAS 39 the Group classifies hedges as (a) fair value hedges used to hedge exposure to changes in the fair value of a recognised asset or liability, (b) cash flow hedges used to hedge exposure to variability in cash flows associated with a recognised asset or liability or a highly probable forecast transaction, and (c) hedges of a net investment in a foreign operation.

In 2014 the Group applied cash flow hedge accounting for hedging floating fuel price risks in highly probable forecast purchase transactions and for hedging net investments in US dollar and Euro foreign operations. The Group applied fair value hedge accounting for the fair value interest rate risk on £200m of the Group's fixed rate bonds and €78.5m Private Placement.

The movement on derivative financial instruments is detailed below:

	Interest rate swaps £m	**Foreign exchange forward contracts £m**	**Fuel swaps £m**	**Total £m**
Net asset/(liability) at 1 January 2014	**17.1**	**1.8**	**(0.8)**	**18.1**
Transfers to the Income Statement on cash flow hedges	**–**	**–**	**9.8**	**9.8**
Cash settlements/(accrual)	**(0.1)**	**(2.5)**	**–**	**(2.6)**
Revaluation through Income Statement	**9.5**	**–**	**–**	**9.5**
Revaluation through Other Comprehensive Income	**–**	**–**	**(80.3)**	**(80.3)**
Exchange differences	**–**	**1.6**	**–**	**1.6**
Net asset/(liability) at 31 December 2014	**26.5**	**0.9**	**(71.3)**	**(43.9)**

	Interest rate swaps £m	Foreign exchange forward contracts £m	Fuel swaps £m	Total £m
Net asset/(liability) at 1 January 2013	31.0	(0.4)	–	30.6
Transfers to the Income Statement on cash flow hedges	–	–	(3.5)	(3.5)
Cash settlements/(accrual)	0.4	1.1	–	1.5
Revaluation through Income Statement	(14.3)	–	–	(14.3)
Revaluation through Other Comprehensive Income	–	–	2.7	2.7
Exchange differences	–	1.1	–	1.1
Net asset/(liability) at 31 December 2013	17.1	1.8	(0.8)	18.1

The movement on the hedging reserve is detailed below:

	2014 £m	2013 £m
At 1 January	**2.1**	2.8
Transferred to Income Statement	**12.3**	(3.5)
Revaluation through Other Comprehensive Income	**(80.3)**	2.7
Exchange differences	**–**	(0.2)
Tax on revaluation	**13.6**	0.3
At 31 December	**(52.3)**	2.1

30 Financial instruments (including cash, trade receivables and payables) continued

Hedge of net investments in foreign entities

The Group uses foreign currency borrowings and derivative financial instruments to hedge the net investment in material foreign currency net assets of the Group which are used to reduce the exposure to foreign exchange rate movements. At 31 December 2014, the Group had designated €170m of synthetic debt in the form of foreign exchange derivatives and €78.5m Private Placement as net investment hedges of the net assets of its Spanish subsidiaries. Similarly, $130m of synthetic debt in the form of foreign exchange derivatives were designated as a hedge of the net assets of the Group's US subsidiaries. No ineffectiveness was recognised in relation to these hedges.

Fuel derivatives

The Group has a number of fuel derivatives in place to hedge the different types of fuel used in each division. Ultra low sulphur diesel is used in the UK Bus, UK Coach and Spanish Coach and Bus divisions and is hedged by swaps in the same type of fuel. Diesel used in the North American Bus division is hedged using the diesel market. The timing of the swap cash flows match underlying fuel purchases from 2015 through to 2017.

During the year £80.3m of fair value losses (2013: £2.7m gains) have been transferred to the hedging reserve due to movements in market fuel prices. A fair value loss of £9.8m (2013: £3.5m gain) has been transferred from the hedging reserve to the Income Statement following settlement of fuel trades, of which £0.6m was recognised in the hedging reserve at 1 January 2014 and the remainder was generated during the year due to the movement in market fuel prices. In addition, a loss of £2.5m was recognised in the Income Statement for hedge ineffectiveness during the year (2013: £nil).

Fuel derivatives can be analysed as follows:

	31 December 2014 Fair value £m	31 December 2013 Fair value £m	**31 December 2014 Volume million litres**	31 December 2013 Volume million litres
Hedge fuel derivatives				
Sterling denominated – UK Bus, UK Coach and Rail	**(14.4)**	(0.7)	**86.0**	83.5
US dollar denominated – North American Bus	**(8.7)**	0.8	**54.9**	69.2
Euro denominated – Spanish Coach and Bus	**(12.1)**	(0.7)	**89.5**	93.0
Fuel derivatives included in current assets/(liabilities)	**(35.2)**	(0.6)	**230.4**	245.7
Sterling denominated – UK Bus, UK Coach and Rail	**(13.9)**	(0.8)	**136.0**	86.0
US dollar denominated – North American Bus	**(10.1)**	0.7	**93.5**	54.9
Euro denominated – Spanish Coach and Bus	**(12.1)**	(0.1)	**170.5**	89.5
Fuel derivatives included in non-current assets/(liabilities)	**(36.1)**	(0.2)	**400.0**	230.4
Total hedge fuel derivatives	**(71.3)**	(0.8)	**630.4**	476.1

30 Financial instruments (including cash, trade receivables and payables) continued

Interest rate swaps at fair value through profit or loss

In July 2010 the Group entered into four £50m denominated interest rate swaps on a total of £200m of the Group's Sterling bonds. These interest rate swaps all pay floating interest (LIBOR + a margin) semi-annually, receive fixed interest annually with maturities matching the Group's Sterling bonds (two swaps with total notional value £100m mature in January 2017, two swaps with notional value £100m mature in June 2020) and are designated as a fair value hedge of the interest rate risk on £200m of these bonds. These swaps are measured at fair value through profit or loss, with any gains or losses being taken immediately to the Income Statement to offset any fair value gains or losses due to changes in the risk free interest rate on the swapped portion of the bonds. As at 31 December 2014 a total fair value gain of £4.2m was recognised in the Income Statement in relation to these swaps. This is offset by a fair value loss of £4.2m on the underlying hedged item, in this case changes in fair value on the £200m of the Group's bonds due to changes in the risk free interest rate.

In September 2012, the Group entered into two €39.25m denominated interest rate swaps equal in value to the Euro Private Placement. These interest rate swaps all pay floating interest (EURIBOR + a margin) semi-annually, receive fixed interest annually with maturities matching the Euro Private Placement and are designated as a fair value hedge of the interest rate risk on the Private Placement. These swaps are measured at fair value through profit and loss, with any gains or losses being taken immediately to the Income Statement to offset any fair value gains or losses due to changes in the risk free rate on the Euro Private Placement. As at 31 December 2014 a total fair value gain of £5.2m was recognised in the Income Statement in relation to these swaps. This is offset by a fair value loss of £5.2m on the underlying hedged item, in this case changes in fair value of the Euro Private Placement due to changes in the risk free interest rate.

31 Called-up share capital

	2014 £m	2013 £m
At 31 December:		
Authorised:		
800,000,000 (2013: 800,000,000) ordinary shares of 5p each	**40.0**	40.0
Issued called-up and fully paid:		
511,738,648 (2013: 511,738,648) ordinary shares of 5p each	**25.6**	25.6

The total number of share options exercised in the year by employees of the Group was 972,868 (2013: 1,431,193) of which 882,000 (2013: 1,431,193) exercises were satisfied by transferring shares from the National Express Employee Benefit Trust. The remaining exercises were settled via a direct purchase of shares from the open market.

Own shares

Own shares comprises 553,268 (2013: 426,630) ordinary shares in the Company that have been purchased by the trustees of the National Express Employee Benefit Trust (the 'Trust'). During the year, the Trust purchased 1,033,000 (2013: 1,322,165) shares and 882,000 (2013:1,431,193) shares were used to satisfy options granted under a number of the Company's share schemes. 24,362 (2013: nil) shares were sold during the year to the open market.

The market value of the shares held by the Trust at 31 December 2014 was £1.4m (2013: £1.2m). The dividends payable on these shares have been waived.

32 Other reserves

	Merger reserve £m	Hedging reserve £m	Translation reserve £m	Total £m
At 1 January 2014	**15.4**	**2.1**	**29.0**	**46.5**
Hedge movements, net of tax	**–**	**(54.4)**	**–**	**(54.4)**
Exchange differences, net of tax	**–**	**–**	**(24.9)**	**(24.9)**
At 31 December 2014	**15.4**	**(52.3)**	**4.1**	**(32.8)**

	Merger reserve £m	Hedging reserve £m	Translation reserve £m	Total £m
At 1 January 2013	15.4	2.8	26.0	44.2
Hedge movements, net of tax	–	(0.7)	–	(0.7)
Exchange differences, net of tax	–	–	3.0	3.0
At 31 December 2013	15.4	2.1	29.0	46.5

The nature and purpose of the other reserves are as follows:

- the merger reserve includes the premium on shares issued to satisfy the purchase of Prism Rail PLC in 2000;
- the hedging reserve records the movements on designated hedging items, offset by any movements recognised in equity on underlying hedged items; and
- the translation reserve records exchange differences arising from the translation of the accounts of foreign currency denominated subsidiaries offset by the movements on loans and derivatives used to hedge the net investment in foreign subsidiaries.

33 Pensions and other post-employment benefits

(a) Summary of pension benefits and assumptions

The UK Bus and UK Coach divisions operate both funded defined benefit schemes and a defined contribution scheme. The majority of employees of the Rail companies are members of the appropriate shared-cost section of the Railways Pension Scheme (RPS), a funded defined benefit scheme. The assets of all schemes are held separately from those of the Group. Contributions to the schemes are determined by independent professionally qualified actuaries.

Subsidiaries in North America contribute to a number of defined contribution plans. The Group also provides certain additional unfunded post-employment benefits to employees in North America and Spain, which are disclosed in section (c) in the ‘Other’ category.

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

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 Integrated 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 £9.9m (2013: £9.9m), of which £3.7m (2013: £3.2m) relates to the defined contribution schemes.

33 Pensions and other post-employment benefits continued

(a) Summary of pension benefits and assumptions continued

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

	2014 £m	2013 £m
UK Bus	(50.6)	(40.8)
UK Coach	30.6	12.6
Rail	10.0	(0.4)
Other	(1.9)	(1.5)
Total	(11.9)	(30.1)

The valuations conducted for financial reporting purposes are based on the triennial actuarial valuations. A summary of the latest triennial actuarial valuations, and assumptions made, is as follows:

	UK Bus		UK Coach	Rail
Date of actuarial valuation	Tayside 31 March 2011	Travel West Midlands 31 March 2013	5 April 2013	31 December 2013
Actuarial method used	Attained age*	Attained age*	Projected unit	Projected unit
Rate of investment returns per annum	4.3%-6.9%	3.5%-5.5%	4.1%	5.0%-7.3%
Increase in earnings per annum	5.0%	2.6%	–	4.2%
Scheme assets taken at market value	£45.5m	£448.9m	£77.3m	£82.4m
Funding level	97%	84%	82%	84%-100%

* Amounts included in the Income Statement, Other Comprehensive Income and the Balance Sheet are calculated using the projected unit method.

The most recent triennial valuations are then updated by independent professionally qualified actuaries for financial reporting purposes, in accordance with IAS 19. The main actuarial assumptions underlying the IAS 19 valuations are:

	2014 UK Bus	2014 UK Coach	2014 Rail	2013 UK Bus	2013 UK Coach	2013 Rail
Rate of increase in salaries	2.5%	2.5%	2.4%	2.5%	2.5%	2.9%
Rate of increase of pensions	1.9%	2.9%	1.9%	2.4%	3.4%	2.4%
Discount rate	3.6%	3.6%	3.6%	4.6%	4.6%	4.6%
Inflation assumption (RPI)	2.9%	2.9%	2.9%	3.4%	3.4%	3.4%
Inflation assumption (CPI)	1.9%	1.9%	1.9%	2.4%	2.4%	2.4%
Post-retirement mortality in years:						
Current pensioners at 65 – male	21.2	24.2		21.4	24.2	
Current pensioners at 65 – male, pension under £10,300 pa or pensionable pay under £35,000 pa			20.9			20.7
Current pensioners at 65 – male – others			23.2			22.9
Current pensioners at 65 – female	24.0	26.7		24.1	26.7	
Current pensioners at 65 – female, pension under £3,700 pa or pensionable pay under £35,000 pa			22.7			22.6
Current pensioners at 65 – female – others			24.5			25.0
Future pensioners at 65 – male	22.6	26.0		22.7	26.0	
Future pensioners at 65 – male, pension under £10,300 pa or pensionable pay under £35,000 pa			23.2			23.1
Future pensioners at 65 – male – others			25.5			25.1
Future pensioners at 65 – female	25.5	28.7		25.6	28.7	
Future pensioners at 65 – female, pension under £3,700 pa or pensionable pay under £35,000 pa			25.1			25.1
Future pensioners at 65 – female – others			26.8			27.4

33 Pensions and other post-employment benefits continued

(a) Summary of pension benefits and assumptions continued

The demographic assumptions reflect those adopted in the most recent triennial actuarial valuation. For the Rail scheme, mortality assumptions have been set by reference to the recent experience of the scheme. Mortality is assumed to improve in the future in line with the 'core projection' model published by the actuarial profession's Continuous Mortality Investigation, incorporating a long term improvement rate of 1.5% pa.

The Directors regard the assumption around the discount rate to be the key assumption in the IAS 19 valuation, and the following table provides an approximate sensitivity analysis of the impact of a 0.1% change in the discount rate assumption.

	UK Bus £m	UK Coach £m	Rail £m
Defined benefit pension (liability)/asset at 31 December 2014	(50.6)	30.6	10.0
Effect of a 0.1% increase in the discount rate	8.2	1.6	(2.0)
Current service cost for the year ended 31 December 2014	(3.3)	–	(2.4)
Effect of a 0.1% increase in the discount rate	0.1	–	–

Scheme assets are stated at their market values at the respective balance sheet dates. The expected rate of return on scheme assets is determined based on market returns on each category of scheme assets.

(b) Accounting for the Railways Pension Scheme

The majority of employees of the Rail companies are members of the appropriate section of the RPS, a funded defined benefit scheme. The RPS is a shared cost scheme, which means that costs are formally shared 60% employer and 40% employee. To date, the Group has experienced 11 changes of Rail franchise ownership where the current owner has funded the scheme during the franchise term and the pension deficit at franchise exit has transferred to the new owner, without cash settlement. By entering into the franchise contract, the TOC becomes the designated employer for the term of the contract and under the rules of the RPS must fund its share of the pension liability in accordance with the schedule of contributions agreed with the Scheme trustees and actuaries.

In determining the appropriate accounting policy for the RPS to ensure that the Group's accounts present fairly its financial position, financial performance and cash flows, management has consulted with TOC industry peers and has concluded that the Group's constructive obligations should be accounted for in accordance with IAS 19. This accounting policy, which in all other respects is consistent with that set out in this note for the Group's other defined benefit schemes, means that the Group's accounts reflect that element of the deficits anticipated to be settled by the Group during the franchise term and will prevent gains arising on transfer of the existing RPS deficits to a new owner at franchise exit.

In calculating the Group's constructive obligations in respect of the RPS, the Group has calculated the total pension deficits in each of the RPS sections in accordance with IAS 19 and the assumptions set out above. These deficits are reduced by a 'franchise adjustment' which is that portion of the deficit projected to exist at the end of the franchise and which the Group will not be required to fund. The franchise adjustment, which has been calculated by the Group's actuaries, is offset against the present value of the RPS liabilities so as to fairly present the financial performance, position and cash flows of the Group's obligations.

The franchise adjustment increased from £15.5m at 31 December 2013 to £30.8m at 31 December 2014. The principal reason for the increase was the renewal of the Essex Thameside franchise (previously c2c) that increased the franchise adjustment by £10.7m. In addition, the adjustment increased due to interest on the franchise adjustment of £0.7m and other net actuarial movements of £3.9m. In the prior year, the franchise adjustment decreased from £18.1m at 31 December 2012 to £15.5m at 31 December 2013. The principal reason for the decrease was the interest on the franchise adjustment of £0.7m and other net actuarial movements of £1.8m.

33 Pensions and other post-employment benefits continued

(c) Financial results for pension benefits

The amounts charged to the Group Income Statement and Group Statement of Comprehensive Income for the years ended 31 December 2014 and 2013 are set out in the following tables:

Group Income Statement	UK Bus 2014 £m	UK Coach 2014 £m	Rail 2014 £m	Other 2014 £m	Total 2014 £m
Amounts (charged)/credited:					
Current service cost	(3.3)	–	(2.4)	(0.5)	(6.2)
Curtailment	0.6	–	–	–	0.6
Net interest (expense)/income	(1.7)	0.7	(0.7)	(0.1)	(1.8)
Interest on franchise adjustment	–	–	0.7	–	0.7
Total (charge)/credit to Income Statement	(4.4)	0.7	(2.4)	(0.6)	(6.7)

During the year £0.6m (2013: £0.5m) of administrative expenses were incurred.

The net interest expense together with the interest on franchise adjustment has been included within Finance Costs (see note 9).

Group Statement of Comprehensive Income	UK Bus 2014 £m	UK Coach 2014 £m	Rail 2014 £m	Total 2014 £m
Actuarial (loss)/gain during the period	(47.4)	(8.5)	7.6	(48.3)
Expected return on plan assets greater/less than discount rate	32.7	22.6	3.1	58.4
Net actuarial gains/(losses)	(14.7)	14.1	10.7	10.1

Group Income Statement	UK Bus 2013 £m	UK Coach 2013 £m	Rail 2013 £m	Other 2013 £m	Total 2013 £m
Amounts (charged)/credited:					
Current service cost	(3.4)	–	(2.3)	(0.5)	(6.2)
Net interest (expense)/income	(1.3)	0.8	(0.7)	–	(1.2)
Interest on franchise adjustment	–	–	0.7	–	0.7
Total (charge)/credit to Income Statement	(4.7)	0.8	(2.3)	(0.5)	(6.7)

Group Statement of Comprehensive Income	UK Bus 2013 £m	UK Coach 2013 £m	Rail 2013 £m	Total 2013 £m
Actuarial loss during the period	(14.3)	(5.1)	(0.2)	(19.6)
Expected return on plan assets greater/less than discount rate	1.4	(2.8)	2.0	0.6
Net actuarial (losses)/gains	(12.9)	(7.9)	1.8	(19.0)

33 Pensions and other post-employment benefits continued

(c) Financial results for pension benefits continued

The amounts recognised in the Balance Sheet at 31 December are:

As at 31 December 2014	UK Bus 2014 £m	UK Coach 2014 £m	Rail 2014 £m	Other 2014 £m	Total 2014 £m
Equities	**103.7**	**–**	**79.6**	**–**	**183.3**
Bonds	**65.7**	**123.9**	**4.4**	**–**	**194.0**
Property	**4.3**	**–**	**–**	**–**	**4.3**
Insurance policy	**241.7**	**–**	**–**	**–**	**241.7**
Diversified growth fund	**72.9**	**–**	**–**	**–**	**72.9**
Other	**5.1**	**(22.1)**	**0.4**	**–**	**(16.6)**
Fair value of scheme assets	**493.4**	**101.8**	**84.4**	**–**	**679.6**
Present value of scheme liabilities	**(544.0)**	**(71.2)**	**(118.5)**	**(1.9)**	**(735.6)**
Franchise adjustment	**–**	**–**	**30.8**	**–**	**30.8**
Defined benefit obligation	**(544.0)**	**(71.2)**	**(87.7)**	**(1.9)**	**(704.8)**
Members' share of deficit	**–**	**–**	**13.3**	**–**	**13.3**
Defined benefit pension (deficit)/surplus	**(50.6)**	**30.6**	**10.0**	**(1.9)**	**(11.9)**

As at 31 December 2013	UK Bus 2013 £m	UK Coach 2013 £m	Rail 2013 £m	Other 2013 £m	Total 2013 £m
Equities	100.5	–	70.7	–	171.2
Bonds	56.9	99.2	3.9	–	160.0
Property	3.8	–	–	–	3.8
Insurance policy	226.7	–	–	–	226.7
Diversified growth fund	62.1	–	–	–	62.1
Other	6.4	(24.6)	0.4	–	(17.8)
Fair value of scheme assets	456.4	74.6	75.0	–	606.0
Present value of scheme liabilities	(497.2)	(62.0)	(101.3)	(1.5)	(662.0)
Franchise adjustment	–	–	15.5	–	15.5
Defined benefit obligation	(497.2)	(62.0)	(85.8)	(1.5)	(646.5)
Members' share of deficit	–	–	10.4	–	10.4
Defined benefit pension (deficit)/surplus	(40.8)	12.6	(0.4)	(1.5)	(30.1)

The movement in the present value of the defined benefit obligation in the year is as stated below. For Rail, the RPS is a shared cost scheme, which means that costs are formally shared 60% employer and 40% employee.

The Group's defined benefit obligation comprises £702.9m (2013: £645.0m) (including the members' share of the deficit) arising from plans that are wholly or partly funded and £1.9m (2013: £1.5m) from unfunded plans.

	UK Bus £m	UK Coach £m	Rail £m	Other £m	Total £m
Defined benefit obligation at 1 January 2014	**(497.2)**	**(62.0)**	**(85.8)**	**(1.5)**	**(646.5)**
Current service cost	**(3.3)**	**–**	**(2.4)**	**(0.5)**	**(6.2)**
Curtailment	**0.6**	**–**	**–**	**–**	**0.6**
Benefits paid	**26.7**	**2.1**	**2.5**	**0.2**	**31.5**
Contributions by employees	**(1.1)**	**–**	**(1.5)**	**–**	**(2.6)**
Finance charge	**(22.3)**	**(2.8)**	**(2.8)**	**(0.1)**	**(28.0)**
Interest on franchise adjustment	**–**	**–**	**0.7**	**–**	**0.7**
Members' share of movement on liabilities	**–**	**–**	**(6.0)**	**–**	**(6.0)**
Actuarial loss arising from changes in financial assumptions	**(43.6)**	**(8.5)**	**4.3**	**–**	**(47.8)**
Actuarial gain arising from changes in demographics	**0.7**	**–**	**(0.2)**	**–**	**0.5**
Actuarial loss arising from experience adjustments	**(4.5)**	**–**	**3.5**	**–**	**(1.0)**
Defined benefit obligation at 31 December 2014	**(544.0)**	**(71.2)**	**(87.7)**	**(1.9)**	**(704.8)**

33 Pensions and other post-employment benefits continued

(c) Financial results for pension benefits continued

	UK Bus £m	UK Coach £m	Rail £m	Other £m	Total £m
Defined benefit obligation at 1 January 2013	(480.9)	(56.5)	(81.2)	(1.2)	(619.8)
Current service cost	(3.4)	–	(2.3)	(0.5)	(6.2)
Benefits paid	23.3	2.0	1.4	0.2	26.9
Contributions by employees	(1.2)	–	(1.4)	–	(2.6)
Finance charge	(20.7)	(2.4)	(2.5)	–	(25.6)
Interest on franchise adjustment	–	–	0.7	–	0.7
Members' share of movement on liabilities	–	–	(0.3)	–	(0.3)
Actuarial loss arising from changes in financial assumptions	(11.4)	(2.8)	(0.1)	–	(14.3)
Actuarial gain arising from changes in demographics	–	1.5	–	–	1.5
Actuarial loss arising from experience adjustments	(2.9)	(3.8)	(0.1)	–	(6.8)
Defined benefit obligation at 31 December 2013	(497.2)	(62.0)	(85.8)	(1.5)	(646.5)

The movement in the fair value of scheme assets is as follows:

	UK Bus £m	**UK Coach £m**	**Rail £m**	**Total £m**
Fair value of scheme assets at 1 January 2014	**456.4**	**74.6**	**75.0**	**606.0**
Expected return on plan assets	**20.6**	**3.5**	**2.1**	**26.2**
Expected return on plan assets greater/less than discount rate	**32.7**	**22.6**	**3.1**	**58.4**
Cash contributions – employer	**9.6**	**3.2**	**2.3**	**15.1**
Administrative expenses	**(0.3)**	**–**	**(0.3)**	**(0.6)**
Cash contributions – employee	**1.1**	**–**	**1.5**	**2.6**
Benefits paid	**(26.7)**	**(2.1)**	**(2.5)**	**(31.3)**
Members' share of return on assets	**–**	**–**	**3.2**	**3.2**
Fair value of scheme assets at 31 December 2014	**493.4**	**101.8**	**84.4**	**679.6**

	UK Bus £m	UK Coach £m	Rail £m	Total £m
Fair value of scheme assets at 1 January 2013	448.0	73.1	67.1	588.2
Expected return on plan assets	19.4	3.2	1.8	24.4
Expected return on plan assets greater/less than discount rate	1.4	(2.8)	2.0	0.6
Cash contributions – employer	9.8	3.1	2.2	15.1
Administrative expenses	(0.2)	–	(0.5)	(0.7)
Cash contributions – employee	1.2	–	1.4	2.6
Benefits paid	(23.2)	(2.0)	(1.4)	(26.6)
Members' share of return on assets	–	–	2.4	2.4
Fair value of scheme assets at 31 December 2013	456.4	74.6	75.0	606.0

33 Pensions and other post-employment benefits continued

(c) Financial results for pension benefits continued

The Group expects to contribute £16.4m to its defined benefit pension plans in 2015.

History of experience gains and losses:	2014 £m	2013 £m	2012 £m	2011 £m	2010 £m
UK Bus					
Fair value of scheme assets	**493.4**	456.4	448.0	431.9	429.5
Present value of defined benefit obligation	**(544.0)**	(497.2)	(480.9)	(448.7)	(434.8)
Deficit in the scheme	**(50.6)**	(40.8)	(32.9)	(16.8)	(5.3)
Experience adjustments arising on liabilities	**(4.5)**	(2.9)	5.0	(23.3)	(0.1)
Experience adjustments arising on assets	**32.7**	1.4	8.6	(7.3)	21.3
UK Coach					
Fair value of scheme assets	**101.8**	74.6	73.1	67.9	59.6
Present value of defined benefit obligation	**(71.2)**	(62.0)	(56.5)	(49.3)	(59.6)
Surplus/(deficit) in the scheme	**30.6**	12.6	16.6	18.6	–
Experience adjustments arising on liabilities	**–**	(3.8)	–	0.1	2.7
Experience adjustments arising on assets	**22.6**	(2.8)	0.5	9.7	2.3
Rail					
Fair value of scheme assets	**84.4**	75.0	67.1	321.0	318.3
Present value of defined benefit obligation	**(87.7)**	(85.8)	(81.2)	(363.7)	(372.8)
Members' share of deficit	**13.3**	10.4	12.3	40.5	50.8
Deficit in the scheme	**10.0**	(0.4)	(1.8)	(2.2)	(3.7)
Experience adjustments arising on liabilities	**3.5**	(0.1)	2.7	(8.5)	12.2
Experience adjustments arising on assets	**3.1**	2.0	8.0	13.4	6.1
Other					
Fair value of scheme assets	**–**	–	–	–	–
Present value of defined benefit obligation	**(1.9)**	(1.5)	(1.2)	(1.4)	(1.4)
Deficit in the scheme	**(1.9)**	(1.5)	(1.2)	(1.4)	(1.4)
Experience adjustments arising on liabilities	**–**	–	–	–	–

The cumulative amount of actuarial gains and losses recognised in the Statement of Comprehensive Income since 1 January 2004 is £59.2m loss (2013: £69.3m loss). The Directors are unable to determine how much of the pension scheme deficit recognised on transition to IFRSs and taken directly to equity of £51.9m is attributable to actuarial gains and losses since inception of those pension schemes. Consequently the Directors are unable to determine the amount of actuarial gains and losses that would have been recognised in the Statement of Comprehensive Income before 1 January 2004.

34 Commitments and contingencies

Operating lease commitments

The Group's total operating lease commitments are as follows:

		2014 £m	2013 £m
Future minimum rentals payable under non-cancellable operating leases:			
Within one year:	Land and buildings	20.6	28.9
	Plant and equipment	42.3	33.7
		62.9	62.6
After one year but not more than five years:	Land and buildings	55.5	30.9
	Plant and equipment	139.0	47.1
		194.5	78.0
More than five years:	Land and buildings	102.8	47.9
	Plant and equipment	243.2	3.3
		346.0	51.2
		603.4	191.8

Rail lease commitments

Rail division companies have contracts with Network Rail Infrastructure Limited for access to the railway infrastructure (tracks, stations and depots). They also have contracts under which rolling stock is leased. The TOCs' obligations to fulfil these commitments exist only as part of their franchise agreement. The table below reflects the commitments up to the current franchise end dates unless an extension or new franchise agreement has been signed. The commitments are based on charges advised by the Rail Regulator for the period starting on 1 April 2010. Commitments for future minimum rental payments under these contracts are shown below:

		Land and buildings		Plant and equipment	
Rail division commitments		2014 £m	2013 £m	2014 £m	2013 £m
Future minimum rentals payable under non-cancellable operating leases:					
Within one year:	Fixed track access	4.0	10.4	–	–
	Rolling stock	–	–	24.2	16.7
	Other	1.7	3.5	0.1	0.5
		5.7	13.9	24.3	17.2
After one year but not more than five years:	Fixed track access	15.9	–	–	–
	Rolling stock	–	–	96.9	–
	Other	6.6	–	0.2	–
		22.5	–	97.1	–
Over five years:	Fixed track access	39.7	–	–	–
	Rolling stock	–	–	242.2	–
	Other	16.5	–	0.5	–
		56.2	–	242.7	–
		84.4	13.9	364.1	17.2

Fixed track access agreements have an average remaining life of 15.0 years (2013: 0.7 years) and other land and buildings have an average duration of 15.0 years (2013: 0.7 years). Rolling stock agreements have an average life of 15.0 years (2013: 0.7 years) and other plant and equipment 12.7 years (2013: 0.7 years).

34 Commitments and contingencies continued

Other lease commitments

Outside of the Rail division the Group has entered into operating leases on certain properties, public service vehicles and various items of plant and equipment. Commitments for future minimum rental payments under non-cancellable operating leases are shown below:

	Land and buildings		Public service vehicles		Other	
Other divisions' commitments	**2014 £m**	2013 £m	**2014 £m**	2013 £m	**2014 £m**	2013 £m
Within one year	**14.9**	15.0	**17.9**	16.3	**0.1**	0.2
After one year but not more than five years	**33.0**	30.9	**41.7**	46.8	**0.2**	0.3
More than five years	**46.6**	47.9	**0.5**	3.2	**–**	0.1
	94.5	93.8	**60.1**	66.3	**0.3**	0.6

The average remaining life of operating lease commitments in the other divisions is 6.7 years (2013: 6.3 years) for land and buildings, 3.4 years (2013: 4.1 years) for public service vehicles and 2.6 years (2013: 2.4 years) for other plant and equipment.

Operating lease agreements where the Group is the lessor

The Group receives rent on properties as follows:

	2014 £m	2013 £m
Future minimum rentals receivable under non-cancellable operating leases:		
Within one year	**0.1**	0.1
After one year but not more than five years	**1.5**	–
Over five years	**2.4**	–
	4.0	0.1

The leases have an average unexpired duration of 6.4 years (2013: 0.7 years).

Finance lease commitments

The Group has finance leases for public service vehicles and various items of plant and equipment. These leases have terms of renewal but no purchase options and escalation clauses. Renewals are at the option of the specific entity that holds the lease.

	2014		2013	
	Minimum payments £m	**Present value of payments £m**	Minimum payments £m	Present value of payments £m
Within one year	**25.5**	**22.9**	35.4	32.2
After one year but not more than five years	**89.5**	**85.6**	96.0	89.3
More than five years	**2.0**	**2.0**	11.6	11.4
Total minimum lease payments	**117.0**	**110.5**	143.0	132.9
Less future financing charges	**(6.5)**	**–**	(10.1)	–
Present value of minimum lease payments	**110.5**	**110.5**	132.9	132.9

Capital commitments

	2014 £m	2013 £m
Contracted	**77.0**	19.0

The Group is committed to vehicle purchases and various land and buildings improvements. The commitments include orders for vehicles placed by the UK Bus division and orders for capital items placed with suppliers for the new National Express Essex Thameside franchise within the Rail division.

Contingent liabilities and assets

Guarantees

The Group has guaranteed credit facilities totalling £2.9m (2013:£nil) of certain joint ventures.

Bonds and letters of credit

In the ordinary course of business, the Group is required to issue counter-indemnities in support of its operations. As at 31 December 2014 there were Rail performance bonds of £61.3m (2013: £9.4m) and Rail season ticket bonds of £21.6m (2013: £21.2m). The Group has other performance bonds which include performance bonds in respect of businesses in the US of £114.5m (2013: £105.1m) and the rest of Europe of £32.1m (2013: £26.2m). Letters of credit have been issued to support insurance retentions of £65.7m (2013: £48.8m).

34 Commitments and contingencies continued

Contingent liabilities and assets continued

Spanish fuel duty credits

As disclosed in note 5, during the year the Group recognised £21.8m in relation to Spanish fuel duty credits which have either been received or are considered to be virtually certain.

Additional claims are subject to assessment and approval and have therefore not yet been recognised.

35 Related party transactions

	Amount of transactions		Amounts due from related parties		Amounts due to related parties	
	2014 £m	2013 £m	**2014 £m**	2013 £m	**2014 £m**	2013 £m
Associates						
Spain associates	**2.1**	1.8	**1.2**	1.1	**(0.9)**	(0.8)
Trade investments						
Spain trade investments	**3.9**	4.4	**0.4**	0.5	**(0.4)**	(0.7)
Property transactions						
North America	**0.4**	0.1	**–**	–		–
Spain	**3.3**	6.5	**0.3**	0.5	**(0.3)**	(0.2)
Total other related parties	**7.6**	11.0	**0.7**	1.0	**(0.7)**	(0.9)
Total	**9.7**	12.8	**1.9**	2.1	**(1.6)**	(1.7)

A number of Spanish companies have leased properties from companies related to the Cosmen family. Jorge Cosmen is a Non-Executive Director of the Group and was appointed as Deputy Chairman in October 2008. These leases were in place before the Group's acquisition of ALSA and are for appropriate market rates.

The details of the post-employment benefit plans operated for the benefit of employees of the Group are disclosed in note 33.

Compensation of key management personnel of the Group

	2014 £m	2013 £m
Total compensation paid to key management personnel (note 7)	**3.9**	3.7

36 Cash flow statement

The net cash inflows from operating activities include outflows of £44.7m (2013: £22.9m) from continuing operations which are related to exceptional costs.

(a) Reconciliation of Group profit before tax to cash generated from operations

Total operations	2014 £m	2013 £m
Net cash inflow from operating activities		
Profit before tax	66.5	64.4
Net finance costs	48.0	49.8
Share of post-tax results under the equity method	(0.3)	(0.6)
Depreciation of property, plant and equipment	104.9	107.3
Intangible asset amortisation	28.6	49.3
Amortisation of fixed asset grants	(0.8)	(1.1)
Profit on disposal of property, plant and equipment	(1.7)	(1.1)
Loss on disposal of business	–	4.3
Share-based payments	3.1	3.1
Increase in inventories	(0.6)	(2.2)
(Increase)/decrease in receivables	(26.9)	21.9
Increase in payables	26.8	13.9
Decrease in provisions	(2.4)	(12.6)
Cash generated from operations	245.2	296.4

(b) Analysis of changes in net debt

	At 1 January 2014 £m	Cash flow £m	Exchange differences £m	Other movements £m	At 31 December 2014 £m
Cash	37.7	(0.6)	(0.8)	–	36.3
Overnight deposits	–	6.9	–	–	6.9
Other short term deposits	3.2	37.3	–	–	40.5
Cash and cash equivalents	40.9	43.6	(0.8)	–	83.7
Other debt receivables	1.0	(0.2)	–	–	0.8
Borrowings:					
Bank and other loans	(19.3)	9.6	5.2	(0.7)	(5.2)
Bonds	(579.5)	–	–	(5.8)	(585.3)
Fair value of hedging derivatives	9.2	–	–	9.4	18.6
Finance lease obligations	(132.9)	28.8	(5.2)	(1.2)	(110.5)
Other debt payable	(65.5)	0.1	4.2	(5.2)	(66.4)
Total borrowings	(788.0)	38.5	4.2	(3.5)	(748.8)
Net debt*	(746.1)	81.9	3.4	(3.5)	(664.3)

* 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 £741.8m (2013: £750.7m) as disclosed in note 27.

Other non-cash movements in net debt represent finance lease additions of £1.2m (2013: £0.8m) and a £2.3m reduction in loan and bond arrangement fees (2013: £2.6m). The £9.4m increase to the fair value of the hedging derivative is offset by equal and opposite movements in the fair value of the related hedged borrowings. This comprises a £4.2m fair value movement in bonds and a £5.2m fair value movement in other debt payable.

36 Cash flow statement continued

(b) Analysis of changes in net debt continued

	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.

(c) Reconciliation of net cash flow to movement in net debt

	2014 £m	2013 £m
Increase/(decrease) in cash and cash equivalents in the year	**43.6**	(32.4)
Cash outflow from movement in other debt receivables	**(0.2)**	–
Cash inflow from movement in debt and finance leases	**38.5**	120.7
Change in net debt resulting from cash flows	**81.9**	88.3
Change in net debt resulting from non-cash movements	**(0.1)**	(6.2)
Movement in net debt in the year	**81.8**	82.1
Opening net debt	**(746.1)**	(828.2)
Net debt	**(664.3)**	(746.1)

37 Post Balance Sheet events

On 2 February 2015, the Group was awarded two 12-year contracts to operate the whole S-Bahn Nuremberg commuter rail services network. The contracts will commence in December 2018 and are expected to generate revenues in excess of €1.4bn over the 12-year period.

Company Balance Sheet
At 31 December 2014

	Note	2014 £m	2013 £m
Fixed assets			
Intangible assets	4	**0.2**	0.3
Tangible assets	5	**0.2**	0.2
Investments	6	**1,736.7**	1,117.2
Derivative financial instruments	7	**26.5**	17.6
		1,763.6	1,135.3
Current assets			
Debtors	8	**71.8**	711.7
Derivative financial instruments	7	**1.5**	2.2
Cash at bank and in hand	9	**130.2**	27.6
		203.5	741.5
Creditors: amounts falling due within one year	10	**(323.1)**	(273.6)
Derivative financial instruments	7	**(0.6)**	(0.4)
Provisions for liabilities and charges	12	**(2.7)**	(0.2)
Net current (liabilities)/assets		**(122.9)**	467.3
Total assets less current liabilities		**1,640.7**	1,602.6
Creditors: amounts falling due after more than one year	11	**(650.9)**	(644.0)
Derivatives more than one year	7	**–**	(0.5)
Net assets		**989.8**	958.1
Shareholders' equity			
Called-up share capital	15	**25.6**	25.6
Share premium account	16	**532.7**	532.7
Capital redemption reserve	16	**0.2**	0.2
Own shares	16	**(1.5)**	(0.8)
Profit and loss account	16	**432.8**	400.4
Shareholders' equity		**989.8**	958.1

D Finch Group Chief Executive
M Ashley Group Finance Director
26 February 2015

Company Number 2590560

Notes to the Company Accounts
For the year ended 31 December 2014

1 Accounting policies

Basis of preparation

The separate accounts of the parent Company are presented as required by the Companies Act 2006. The accounts have been prepared on the going concern basis and under the historic cost convention, except for the recognition of derivative financial instruments and available for sale investments detailed below, and in accordance with applicable accounting standards in the United Kingdom.

In applying these policies, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the accounts and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Certain comparatives have been reclassified to be consistent with the current year's changes in presentation.

No profit and loss account is presented by the Company as permitted by Section 408 of the Companies Act 2006.

The profit of the Company for the year is £84.9m (2013: £200.4m).

For the year ending 31 December 2015 the Company intends to transition to reporting under FRS 101 as issued by the Financial Reporting Council and intends to take advantage of the disclosure exemptions available under that standard. Any shareholder who objects to this proposal should write to the Company Secretary at the Registered Office as set out at the back of the Annual Report and Accounts 2014.

Leases

Leases of tangible fixed assets where substantially all the risks and rewards of ownership of the asset have passed to the Company are classified as finance leases and the assets are capitalised in the Balance Sheet as plant and equipment. Finance leases are capitalised at the present value of the minimum lease payments. The capital element of future obligations under hire purchase contracts and finance leases is included as a liability in the Balance Sheet. The interest element of rental obligations is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding. Assets acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

Leases of assets where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Rentals paid under operating leases are charged to the profit and loss account on a straight-line basis over the term of the lease. Incentives received under operating leases and initial direct costs in negotiating the lease are amortised to the profit and loss account on a straight-line basis over the term of the lease, or to the first review if shorter.

Tangible fixed assets

Tangible fixed assets are stated at historic cost less accumulated depreciation and any impairment. Tangible fixed assets are depreciated on a straight-line basis over their estimated useful lives as follows:

Plant and equipment	– 3 to 5 years

The carrying value of fixed assets is reviewed for impairment if events or changes in circumstances indicate that the current carrying value may not be recoverable, and are written down immediately to their recoverable amount. Repairs and maintenance are charged to the profit and loss account during the financial period in which they are incurred.

Software

Computer software that is not integral to an item of property, plant and equipment is recognised separately as an intangible asset and is carried at cost less accumulated amortisation and accumulated impairment losses. Costs include software licences, consulting costs attributable to the development, design and implementation of the computer software and internal costs directly attributable to the development, design and implementation of the computer software. Costs in respect of training are expensed as incurred. Amortisation is calculated using the straight-line method so as to charge the cost of the computer software to the Income Statement over its estimated useful life (3 to 7 years).

The carrying value of intangibles is reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable.

Investments in subsidiaries

Investments are held at historic cost less any provision for impairment.

Available for sale investments

Available for sale financial assets are non-derivative financial assets that are designated as such, or that are not classified as a loan or receivable, held to maturity or at fair value through profit or loss. After initial recognition these assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or the investment is determined to be impaired, at which time the previously reported cumulative gain or loss is included in the Income Statement.

Interest-bearing loans and borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of issue costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Hedge accounting is adopted where derivatives such as fixed to floating interest rate swaps are held as fair value hedges against fixed interest rate borrowings. Under fair value hedge accounting, fixed interest rate borrowings are revalued at each Balance Sheet date by the change in fair value attributable to the interest rate being hedged.

1 Accounting policies continued

Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Company expects a provision to be reimbursed the reimbursement is recognised as a separate asset but only when reimbursement is virtually certain.

Pensions

The Company participates in both the National Express Group multi-employer funded defined benefit scheme and a defined contribution scheme. The Company is unable to identify its share of the underlying assets and liabilities of the multi-employer scheme on a consistent and reasonable basis, and therefore has accounted for the scheme as if it were a defined contribution scheme under the requirements of FRS 17 Retirement Benefits.

Share-based payment

The Company awards equity-settled share-based payment to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant by an external valuer using a stochastic model. Non-market-based performance-related vesting conditions are not taken into account when estimating the fair value; instead those non-market conditions are taken into account in calculating the current best estimate of the number of shares that will eventually vest and at each Balance Sheet date before vesting. The cumulative expense is calculated based on that estimate. Market-based performance conditions are taken into account when determining the fair value and at each Balance Sheet date before vesting, the cumulative expense is calculated irrespective of whether or not the market conditions are satisfied, provided that all other performance conditions are met.

Deferred tax

Deferred tax is recognised in respect of all material timing differences that have originated, but not reversed, by the Balance Sheet date. Deferred tax is measured on a non-discounted basis at tax rates that are expected to apply in the periods in which the timing differences reverse based on tax rates and laws enacted or substantively enacted at the Balance Sheet date. Deferred tax assets are recognised where it is more likely than not that there will be suitable taxable profits from which the future reversal of underlying timing differences can be deducted.

Foreign currencies

Foreign currency assets and liabilities are translated into Sterling at the rates of exchange ruling at the year end. Foreign currency transactions arising during the year are translated into Sterling at the rate of exchange ruling on the date of the transaction. Any exchange differences so arising are dealt with through the profit and loss account.

Derivative financial instruments

The Company uses derivative financial instruments such as foreign currency contracts and interest rate swaps to hedge its risks associated with foreign currency and interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value and subsequently remeasured to fair value for the reported Balance Sheet. The fair value of forward exchange contracts and interest rate swaps is calculated by reference to market exchange rates and interest rates at the period end.

In relation to cash flow hedges which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity, and the ineffective portion in the profit and loss account. The gains or losses deferred in equity in this way are recycled through the profit and loss account in the same period in which the hedged underlying transaction or firm commitment is recognised in the profit and loss account.

For derivatives that do not qualify for hedge accounting, including the foreign currency contracts, gains or losses are taken directly to the profit and loss account in the period.

Hedge accounting is discontinued when the hedging instrument expires, is sold, terminated or exercised, or no longer qualifies for hedge accounting.

The Company has taken advantage of the exemption under FRS 29 for parent Company accounts. The disclosures are included within the consolidated accounts.

Notes to the Company Accounts continued
For the year ended 31 December 2014

2 Exchange rates

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

	2014		2013	
	Closing rate	**Average rate**	Closing rate	Average rate
US dollar	**1.56**	**1.65**	1.66	1.56
Canadian dollar	**1.81**	**1.82**	1.76	1.61
Euro	**1.29**	**1.24**	1.20	1.18

3 Directors' emoluments

Detailed information concerning Directors' emoluments, shareholdings and options is shown in the Directors' Remuneration Report.

4 Intangible fixed assets

	Software £m
Cost:	
At 1 January and 31 December 2014	**0.4**
Amortisation:	
At 1 January 2014	0.1
Charge in the year	0.1
At 31 December 2014	**0.2**
Net book value:	
At 31 December 2014	**0.2**
At 31 December 2013	0.3

5 Tangible fixed assets

	Plant and equipment £m
Cost:	
At 1 January 2014	2.4
Disposals	(2.1)
At 31 December 2014	**0.3**
Depreciation:	
At 1 January 2014	2.2
Disposals	(2.1)
At 31 December 2014	**0.1**
Net book value:	
At 31 December 2014	**0.2**
At 31 December 2013	0.2

6 Financial assets: investments

	Investments in subsidiaries £m
Cost or valuation:	
At 1 January 2014	2,123.0
Additions	656.2
Disposals	(90.4)
At 31 December 2014	**2,688.8**
Provisions:	
At 1 January 2014	(1,005.8)
Charge in the year	(0.4)
Disposals	54.1
At 31 December 2014	**(952.1)**
Net carrying amount:	
At 31 December 2014	**1,736.7**
At 31 December 2013	1,117.2

The information provided below is given for the Company's principal subsidiaries. A full list of subsidiaries and investments will be annexed to the next Annual Return to Companies House. The principal country of operation in respect of the companies below is the country in which they are incorporated.

The Group's train passenger services in the UK are operated through franchises awarded by DfT Rail, as delegated by the UK Government.

The following holdings are 100% held directly by the Company:

Incorporated in England and Wales	
National Express Intermediate Holdings Limited	Holding company for all Group operating companies except Rail
National Express Trains Limited	Holding company for Rail operating companies
National Express Finance Company Limited	Finance company for Group fuel derivative arrangements

Incorporated in Guernsey	
National Express Guernsey Limited	Insurance captive

7 Derivative financial instruments

	2014 £m	2013 £m
Interest rate derivatives	26.5	17.6
Derivative financial assets due over one year	26.5	17.6
Foreign exchange forward contracts	1.5	2.2
Derivative financial assets due under one year	1.5	2.2
Interest rate derivatives	–	(0.5)
Derivative financial liabilities due over one year	–	(0.5)
Foreign exchange forward contracts	(0.6)	(0.4)
Derivative financial liabilities due under one year	(0.6)	(0.4)

Full details of the Group's financial risk management objectives and policies can be found in note 29 to the consolidated accounts. As the holding company for the Group, the Company faces similar risks over foreign currency and interest rate movements.

The Company has taken advantage of the exemption under FRS 29 for parent company accounts. The disclosures are included within the consolidated accounts.

8 Debtors

	2014 £m	2013 £m
Amounts falling due within one year:		
Amounts owed by subsidiary undertakings	57.0	700.1
Corporation tax recoverable	2.2	1.9
Other debtors	2.1	3.4
Prepayments	3.6	0.3
	64.9	705.7
Deferred tax asset: amounts falling due after more than one year (see note 13)	6.9	6.0
	71.8	711.7

9 Cash at bank and in hand

	2014 £m	2013 £m
Short term deposits	40.0	–
Cash at bank	90.2	27.6
	130.2	27.6

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates. Short term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Company, and earn interest at the respective short term deposit rates. The fair value of cash equals the carrying value.

10 Creditors: amounts falling due within one year

	2014 £m	2013 £m
Bank overdraft	43.0	46.1
Bank loans	–	13.0
Trade creditors	5.0	0.4
Amounts owed to subsidiary undertakings	231.7	166.8
Accruals and deferred income	13.1	17.0
Bonds – accrued interest	29.2	29.2
Other debt payable	1.1	1.1
	323.1	273.6

Trade creditors are non-interest bearing and are normally settled on 30 day terms and other creditors are non-interest bearing and have an average term of six months.

11 Creditors: amounts falling due after more than one year

	2014 £m	2013 £m
Bonds	**585.3**	579.5
Other debt payable	**65.6**	64.5
	650.9	644.0

12 Provisions for liabilities and charges

	Claims provision £m
At 1 January 2014	**0.2**
Charged to profit and loss	**2.5**
At 31 December 2014	**2.7**

13 Deferred tax

The major components of the provision for deferred taxation are as follows:

	2014 £m	2013 £m
Accelerated capital allowances	**0.2**	0.2
Other timing differences	**0.1**	0.1
Losses carried forward	**6.6**	5.7
Net deferred tax asset	**6.9**	6.0

The reconciliation of deferred tax balances is as follows:

	£m
Deferred tax asset at 1 January 2014	**6.0**
Charged to profit and loss	**0.9**
Deferred tax asset at 31 December 2014	**6.9**

Timing differences associated with Group investments

No deferred tax (2013: £nil) is recognised on the unremitted earnings of subsidiaries and associates, as no dividends have been accrued as receivable, and no binding agreement to distribute the past earnings in future has been entered into by the subsidiaries.

Unrecognised tax losses

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit against future taxable profits is probable. Deferred tax assets that the Company has not recognised in the accounts amount to £4.3m (2013: £2.6m), which arise where the Company does not expect to generate sufficient suitable future profits.

14 Interest-bearing loans and borrowings

The effective interest rates at the Balance Sheet date were as follows:

	2014 £m	Maturity	Effective interest rate	2013 £m	Maturity	Effective interest rate
Current						
Bank overdraft	43.0			46.1	On demand	LIBOR + 1%
European bank loans	–	November 2019[1]	LIBOR + 0.60%	13.0	July 2018	LIBOR +1.10%
Bank loans	–			13.0		
Accrued interest	30.3			30.3		
Total current	73.3			89.4		
Non-current						
Seven-year Sterling bond	353.0	January 2017	6.54%	352.0	January 2017	6.54%
Ten-year Sterling bond	232.3	January 2020	6.85%	227.5	June 2020	6.85%
Bonds	585.3			579.5		
Euro Private Placement	65.6	August 2021	4.55%	64.5	August 2021	4.55%
Other debt payable	65.6			64.5		
Total non-current	650.9			644.0		

1 This date is the ultimate maturity date of the syndicated credit facility. There was £nil drawn down at year end.

Details of the Company's interest rate management strategy and interest rate swaps are included in note 29 and note 30 to the consolidated accounts.

15 Called-up share capital

	2014 £m	2013 £m
At 31 December:		
Authorised:		
800,000,000 (2013: 800,000,000) ordinary shares of 5p each	40.0	40.0
Issued called-up and fully paid:		
511,738,648 (2013: 511,738,648) ordinary shares of 5p each	25.6	25.6

The total number of share options exercised in the year by employees of the Group was 972,868 (2013: 1,431,193) of which 882,000 (2013: 1,431,193) exercises were satisfied by transferring shares from the National Express Employee Benefit Trust. The remaining exercises were settled via a direct purchase of shares from the open market.

16 Shareholders' funds and statement of changes in shareholders' equity

	Share capital £m	Share premium £m	Capital redemption reserve £m	Own shares £m	Profit and loss account £m	Total £m
At 1 January 2014	**25.6**	**532.7**	**0.2**	**(0.8)**	**400.4**	**958.1**
Shares purchased	**–**	**–**	**–**	**(3.2)**	**–**	**(3.2)**
Own shares released to satisfy employee share schemes	**–**	**–**	**–**	**2.5**	**(2.5)**	**–**
Share-based payments	**–**	**–**	**–**	**–**	**1.6**	**1.6**
Profit for the year	**–**	**–**	**–**	**–**	**84.9**	**84.9**
Dividends	**–**	**–**	**–**	**–**	**(51.6)**	**(51.6)**
At 31 December 2014	**25.6**	**532.7**	**0.2**	**(1.5)**	**432.8**	**989.8**

Own shares

Own shares comprises 553,268 (2013: 426,630) ordinary shares in the Company that have been purchased by the trustees of the National Express Employee Benefit Trust (the 'Trust'). During the year, the Trust purchased 1,033,000 (2013: 1,322,165) shares and 882,000 (2013:1,431,193) shares were used to satisfy options granted under a number of the Company's share schemes. 24,362 (2013: nil) shares were sold during the year to the open market.

The market value of the shares held by the Trust at 31 December 2014 was £1.4m (2013: £1.2m). The dividends payable on these shares have been waived.

	Share capital £m	Share premium £m	Capital redemption reserve £m	Own shares £m	Profit and loss account £m	Total £m
At 1 January 2013	25.6	532.7	0.2	(0.5)	251.5	809.5
Shares purchased	–	–	–	(2.8)	–	(2.8)
Own shares released to satisfy employee share schemes	–	–	–	2.5	(2.5)	–
Share-based payments	–	–	–	–	1.3	1.3
Profit for the year	–	–	–	–	200.4	200.4
Dividends	–	–	–	–	(50.3)	(50.3)
At 31 December 2013	25.6	532.7	0.2	(0.8)	400.4	958.1

17 Retirement benefits

The Company participates in both the National Express Group Staff Pension Fund (a multi-employer funded defined benefit scheme) and a defined contribution scheme. The Company is unable to identify its share of the underlying assets and liabilities of the multi-employer scheme on a consistent and reasonable basis, and therefore has accounted for the scheme as if it were a defined contribution scheme under the requirements of FRS 17 Retirement Benefits. Contributions to this scheme are determined by independent professionally qualified actuaries. The details of the latest actuarial valuation are detailed in note 33 to the consolidated accounts.

The total defined benefit pension charge for the year, including contributions to the defined benefit scheme above the normal charge, amounted to £3.2m (2013: £3.1m).

18 Share-based payment

During the year ended 31 December 2014, the Company had the following share-based payment arrangements, which are described in note 7(b) to the consolidated accounts.

The number of share options in existence during the year was as follows:

	2014		2013	
	Number of share options	**Weighted average exercise price (p)**	Number of share options	Weighted average exercise price (p)
Options with a nil exercise price:				
At 1 January	**7,172,135**	**nil**	5,469,047	nil
Granted during the year	**2,495,876**	**nil**	3,036,117	nil
Forfeited during the year	**(1,335,165)**	**nil**	(48,431)	nil
Group transfers during the year	**336,563**	**nil**	–	nil
Exercised during the year	**(304,079)**	**nil**	(741,976)	nil
Expired during the year	**(1,623,102)**	**nil**	(542,622)	nil
Total outstanding at 31 December	**6,742,228**	**nil**	7,172,135	nil
Total exercisable at 31 December	**58,755**	**nil**	–	nil

There were 58,755 options outstanding at 31 December 2014 (2013: none).

The options have a weighted average contractual life of one year (2013: one year). Options were exercised throughout the year and the weighted average share price at exercise was 280p (2013: 200p).

The weighted average fair value of the remaining share options granted during the year was calculated using a stochastic model, with the following assumptions and inputs:

	Share options with nil exercise price	
	2014	2013
Risk free interest rate	**1.13%-1.81%**	0.35%-0.84%
Expected volatility	**30.0%**	29.2%-44.2%
Peer group volatility	**28.0%-30.0%**	36.8%-44.3%
Expected option life in years	**3-5 years**	3-5 years
Expected dividend yield	**3.58%**	4.64%-4.88%
Weighted average share price at grant date	**280p**	202p
Weighted average exercise price at grant date	**nil**	nil
Weighted average fair value of options at grant date	**196p**	130p

Experience to date has shown that approximately 24% (2013: 24%) of options are exercised early, principally due to leavers. This has been incorporated into the calculation of the expected option life for the share options without nil exercise price.

Expected volatility in the table above was determined from historic volatility over the last nine years, adjusted for one-off events that were not considered to be reflective of the volatility of the share price going forward. The expected dividend yield represents the dividends declared in the 12 months preceding the date of the grant divided by the average share price in the month preceding the date of the grant.

For share options granted during the year under the LTIP, the TSR targets have been reflected in the calculation of the fair value of the options above.

19 Commitments and contingencies

Operating lease commitments

The Company has entered into operating leases on certain properties. Annual commitments under non-cancellable operating leases are as follows:

	Land and buildings	
	2014 £m	2013 £m
Operating leases which expire:		
Within two to five years	**0.1**	0.1

Contingent liabilities

(a) Guarantees

The Company has guaranteed credit facilities totalling £163m (2013: £190m) of certain subsidiaries.

(b) Bonds and letters of credit

In the ordinary course of business, the Company is required to issue counter-indemnities in support of its operations. Letters of credit have been issued to support insurance retentions of £65.7m (2013: £48.8m).

20 Related party transactions

The Company has taken advantage of the exemption in paragraph 3c of FRS 8 Related Party Disclosures from disclosing transactions with wholly owned subsidiaries.

21 Post Balance Sheet events

There are no post Balance Sheet events.

Shareholder information

Registrars' details

All matters relating to the administration of shareholdings in National Express Group PLC, such as the loss of a share certificate, dividend payments or a change of address, should be directed to our Registrars, Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA; shareholder helpline number 0871 384 2152* or +44 121 415 7047 from overseas. If you are registered for online shareholder communications you can contact the Registrars via www.shareview.co.uk.

Shareholder electronic communications

National Express encourages shareholders to use our online communications service. By registering for electronic communications, this provides a faster way to receive information and helps us to reduce print, paper and postage costs.

Log on to www.shareview.co.uk if you would like to:

- register your email so that you are able to access future shareholder information, including the Annual Report and Accounts, electronically;
- check the balance of your shareholding;
- set up a dividend mandate online;
- change your registered postal address or your dividend mandate details; or
- submit your vote online prior to a general meeting.

To sign up for the first time you should click on 'Register' and follow the simple instructions – you will need your shareholder reference number from your share certificate or dividend voucher or any other correspondence sent to you by Equiniti Limited.

If you have any queries, contact our Registrars, Equiniti Limited, on the shareholder helpline number 0871 384 2152* or +44 121 415 7047 from overseas.

Dividends paid direct to your bank account

Having dividends paid direct to your bank account has the following advantages:

- avoids the risk of cheques being lost and incurring a replacement fee;
- saves you time in presenting the cheque for payment; and
- the dividend is credited to your account on the payment date.

Consolidated Tax Vouchers

The Company now issues a Consolidated Tax Voucher (CTV) once a year to all shareholders save for corporate and institutional shareholders. A CTV is included with the 2015 AGM mailing.

To set up a new dividend mandate please log on to shareview.co.uk or contact our Registrars, Equiniti Limited, on the shareholder helpline number 0871 384 2152* or +44 121 415 7047 from overseas.

Share dealing service

A telephone and internet share dealing service, which provides a simple way to buy and sell shares, is available through our Registrars, Equiniti. For further information log on to shareview.co.uk/dealing or telephone 0845 603 7037 (calls to this number are charged by BT at the local rate) or +44 121 415 7560 from overseas.

Company website

The Company website at www.nationalexpressgroup.com has information about the Group, including press releases, share price data and copies of the half-year results and Annual Report and Accounts as well as corporate responsibility reporting. The Company no longer publishes the half-year results in hard copy. These will continue to be available via the website.

ShareGift

ShareGift is an independent charity share donation scheme administered by the Orr Mackintosh Foundation (registered charity number 1052686). Those shareholders who hold only a small number of shares, the value of which makes it uneconomic to sell them, can donate the shares to ShareGift who will sell them and donate the proceeds to a wide range of charities. Further information about ShareGift can be obtained from its website at sharegift.org and a ShareGift transfer form can be downloaded from www.nationalexpressgroup.com.

Unclaimed Assets Register

The Company participates in the Unclaimed Assets Register (UAR) which provides a search facility for shareholdings and other financial assets that may have been forgotten. For further information contact UAR by email at uarenquiries@uk.experian.com, Tel: 0844 481 8180 or visit www.uar.co.uk.

Unsolicited mail

We are legally obliged to make our register of members available, subject to a proper purpose test, to the public. As a consequence of this some shareholders might receive unsolicited mail. Shareholders wishing to limit the amount of such mail should write to the Mailing Preference Service, FREEPOST 29 LON20771, London W1E 0ZT. Shareholders can also register online at www.mpsonline.org.uk or request an application form by calling from within the UK: 0845 703 4599 or by email to mps@dma.org.uk.

Warning about share fraud

Share fraud includes scams where investors are called out of the blue and offered shares that often turn out to be worthless or non-existent, or an inflated price for shares they own. These calls come from fraudsters operating in 'boiler rooms' that are mostly based abroad.

While high profits are promised, those who buy or sell shares in this way usually lose their money.

The Financial Conduct Authority (FCA) and Prudential Regulatory Authority (PRA), which replaced the Financial Services Authority on 1 April 2013, have found most share fraud victims are experienced investors who lose an average of £20,000, with around £200m lost in the UK each year.

How to avoid share fraud

If you are offered unsolicited investment advice, discounted shares, a premium price for shares you own, or free company or research reports, you should take these steps before handing over any money:

1. Get the name of the person and organisation contacting you.
2. Check the FCA Register at www.fca.org.uk/register to ensure they are authorised.
3. Use the details on the FCA Register to contact the firm.
4. Call the FCA Consumer Helpline on 0800 111 6768 (freephone) or +44 20 7066 1000 from overseas if there are no contact details on the Register or you are told they are out of date.
5. Search the FCA's list of unauthorised firms and individuals to avoid doing business with.
6. REMEMBER: if it sounds too good to be true, it probably is!

If you use an unauthorised firm to buy or sell shares or other investments, you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme (FSCS) if things go wrong.

Report a scam

If you are approached by fraudsters, please tell the FCA using the share fraud reporting form at www.fca.org.uk/scams, where you can find out more about investment scams, or call the FCA Consumer Helpline on 0800 111 6768.

If you have already paid money to share fraudsters you should contact ActionFraud on 0300 123 2040.

* Calls to this number cost 8p per minute plus network extras. Lines open 8.30am to 5.30pm, Monday to Friday.

Dividends and financial calendar

Final dividend ex dividend date	30 April 2015
Final dividend record date	1 May 2015
Annual General Meeting	6 May 2015
Final dividend payment date	22 May 2015
Half Year Results announced	29 July 2015*
Interim dividend ex dividend date	3 September 2015*
Interim dividend record date	4 September 2015*
Interim dividend payment date	25 September 2015*

* Provisional dates.

Glossary

AGM	Annual General Meeting
Bps	Basis points
BSOG	Bus Service Operators Grant
Code	The UK Corporate Governance Code published by the Financial Reporting Council in June 2010
The Company	National Express Group PLC
CPI	Consumer Price Index
CTV	Consolidated Tax Voucher
DfT	Department for Transport
DTRs	Disclosure and Transparency Rules
EBIT	Earnings Before Interest and Tax
EBITDA	Earnings Before Interest and Tax plus Depreciation and Amortisation. It is calculated by taking normalised operating profit and adding back depreciation, fixed asset grant amortisation, normalised profit on disposal of non-current assets and share-based payments
EFQM	European Foundation for Quality Management
EPS	Earnings per share – the profit for the year attributable to shareholders, divided by the weighted average number of shares in issue, excluding those held by the Employee Benefit Trust which are treated as cancelled
EU	European Union
EURIBOR	Euro Interbank Offered Rate
Gearing ratio	is calculated as net debt, divided by EBITDA
The Group	The Company and its subsidiaries
HMRC	Her Majesty's Revenue and Customs
IAS	International Accounting Standards
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
KPI	Key Performance Indicator
LIBOR	London Interbank Offered Rate
LTIP	Long Term Incentive Plan
Net capital expenditure	The increase in net debt arising on the purchase of property, plant and equipment and intangible assets less proceeds from disposals of property, plant and equipment. It excludes capital expenditure arising from UK rail franchise entry and exits and discontinued operations, which are included in these headings. Growth capital expenditure is calculated as investment in fleet for new contracts and concessions, after deducting fleet released from contracts and concessions lost and fleet re-used in new contracts and concessions
Net debt	is defined as cash and cash equivalents (cash overnight deposits, other short term deposits), and other debt receivables, offset by borrowings (loan notes, bank loans and finance lease obligations) and other debt payable (excluding accrued interest)
Net interest expense	is finance costs less finance income

Normalised earnings per share	Earnings per share, excluding the loss on sale of a business, intangible asset amortisation, exceptional items and tax relief thereon
Normalised operating profit	Statutory operating profit excluding intangible asset amortisation and exceptional items. The Board believes that the normalised profit gives a better indication of the underlying performance of the Group
Normalised result	The statutory result excluding loss on the sale of a business, intangible asset amortisation, exceptional items and tax relief thereon
Operating cash flow	is intended to be the cash flow equivalent of normalised operating profit
Operating margin	is normalised profit divided by revenue, expressed as a percentage
ORR	Office of Rail Regulation
RCF	Revolving Credit Facility
Return on assets (ROA)	is normalised operating profit divided by tangible assets
Return on capital employed (ROCE)	is normalised operating profit divided by tangible and intangible assets
RPI	Retail Prices Index
RPS	Railways Pension Scheme
SPAD	Signal Passed at Danger
TOC	Train Operating Company
TSR	Total Shareholder Return – the growth in value of a shareholding over a specified period assuming that dividends are reinvested to purchase additional shares
ULSD	Ultra low sulphur diesel
Underlying revenue	compares the current year with the prior year on a consistent basis, after adjusting for the impact of currency, acquisitions, disposals and rail franchises no longer operated

Five Year Summary

	2014 £m	2013 £m	2012 £m	2011 £m	2010 £m
Bus and Coach (Core non-rail)					
Revenue	**1,713.7**	1,746.2	1,636.1	1,549.7	1,488.4
Normalised operating profit	**185.1**	185.5	185.2	181.8	170.4
Return on capital (pre tax)	**11.7%**	11.1%	10.6%	10.6%	10.2%
Basic earnings per share	**21.2p**	20.1p	21.6p	20.7p	18.8p
Group normalised					
Revenue	**1,867.4**	1,891.3	1,831.2	2,238.0	2,125.9
Normalised operating profit	**193.1**	192.9	211.9	225.2	204.2
Return on capital (pre tax)	**12.4%**	11.7%	12.2%	14.1%	13.2%
Diluted earnings per share	**22.7p**	21.4p	25.4p	26.9p	23.5p
IFRS					
Revenue	**1,867.4**	1,891.3	1,831.2	2,238.0	2,125.9
Operating profit	**114.2**	117.9	117.6	174.4	85.9
Profit before tax	**66.5**	64.4	69.8	129.4	40.2
Basic earnings per share	**11.6p**	11.1p	11.8p	19.9p	12.0p
Dividends per share – declared	**10.30p**	10.00p	9.75p	9.50p	6.00p
Net (debt)/funds					
Cash at bank and in hand	**83.7**	40.9	72.8	92.5	128.8
Other debt receivable	**0.8**	1.0	1.0	0.7	0.7
Bonds	**(585.3)**	(579.5)	(590.0)	(583.4)	(565.6)
Bank and other loans	**(5.2)**	(19.3)	(114.6)	(7.9)	(39.8)
Fair value of bond hedging derivatives	**18.6**	9.2	23.4	16.4	(1.1)
Finance lease obligations	**(110.5)**	(132.9)	(154.7)	(151.3)	(131.6)
Other debt payable	**(66.4)**	(65.5)	(66.1)	(0.7)	(1.8)
Net debt	**(664.3)**	(746.1)	(828.2)	(633.7)	(610.4)
Gearing ratio	**2.25x**	2.5x	2.5x	1.9x	2.1x

Corporate information

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* Calls to this number cost 8p per minute plus network extras. Lines open 8.30am to 5.30pm, Monday to Friday.

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Cautionary statement
This Annual Report and Accounts is intended to focus on matters which are relevant to the interests of shareholders of the Company. The purpose of this Annual Report and Accounts is to assist shareholders in assessing the strategies adopted and performance delivered by the Company and the potential for those strategies to succeed. It should not be relied on by any other party or for any other purpose.

Forward looking statements are made in good faith, based on a number of assumptions concerning future events and information available to Directors at the time of their approval of this report. These forward looking statements should be treated with caution due to the inherent uncertainties underlying any such forward looking information. The user of this Annual Report and Accounts should not rely unduly on these forward looking statements, which are not a guarantee of performance and which are subject to a number of uncertainties and other facts, many of which are outside the Company's control and could cause actual events to differ materially from those in these statements. No guarantee can be given of future results, levels of activity, performance or achievements.

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