national express

Building for the future

Annual Report and Accounts 2013

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

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

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Additional Information

Unless otherwise stated, all operating margin and EPS data refer to normalised results, which can be found on the face of the Group Income Statement in the first column. The definition of normalised profit is as follows: IFRS result found in the third column, excluding intangible asset amortisation, loss on disposal of business, exceptional items and tax relief thereon. The Board believes that the normalised result gives a better indication of the underlying performance of the Group.

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

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

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

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

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

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

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

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

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

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

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

EBITDA is 'Earnings Before Interest, Tax, 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. It is defined in line with the Group's banking documentation.

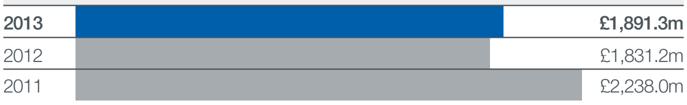
Strategic Report:

Financial Highlights

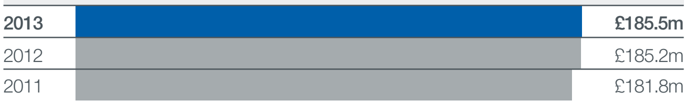
A strong performance in 2013

- Group revenue increased 3% to £1.89 billion (2012: £1.83 billion), with 7% growth in total non-rail revenue
- Normalised operating profit from core non-rail businesses reached a record £185.5 million
- Group operating margin of 10.2% reflects lower rail profits and headwinds in Spain and the UK
- Full year proposed dividend of 10.0 pence, up 3% year-on-year
- Free cash flow of £182.8 million, over £30 million ahead of target
- Core non-rail ROCE increased to 11.1% through focus on capital deployment and targeted investment

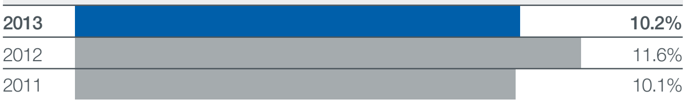
Group revenue
£1,891.3m



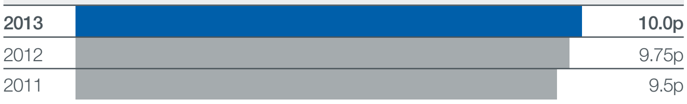
Core non-rail operating profit
£185.5m



Operating margin
10.2%

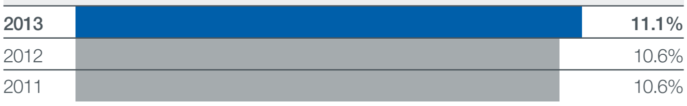


Dividend per share
10.0p



Free cash flow
£182.8m

Core non-rail ROCE
11.1%



Summary of results 2013

	Normalised Basis		IFRS Basis	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Revenue	**1,891.3**	1,831.2	**1,891.3**	1,831.2
Operating profit	**192.9**	211.9	**117.9**	117.6
Profit before tax	**143.7**	164.1	**64.4**	69.8
Profit for the year	**111.2**	131.4	**58.3**	61.3
Basic earnings per share (pence)	**21.5**	25.5	**11.1**	11.8
Net debt	**746.1**	828.2	**n/a**	n/a

A leading public transport provider

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

Spain: Bus and 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
£564.6m
2012: £535.0m

Operating profit
£81.5m
2012: £83.8m

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 36 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.

Our transit business is growing the number of transit and para-transit contracts we operate in the US.

Revenue
£645.0m
2012: £578.3m

Operating profit
£62.6m
2012: £59.1m

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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
£273.4m
2012: £269.0m

Operating profit
£31.2m
2012: £34.1m

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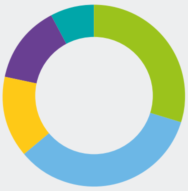
National Express Group

The Group operates in the UK, North America, Spain, Germany and Morocco and at the end of the year we employed 42,000 people and operated over 25,000 vehicles. Passengers made more than 800 million journeys on our services in 2013.

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

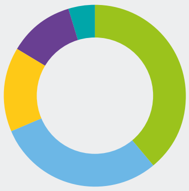
Group revenue by end market*



Spain	£564.6m	29.9%
North America	£645.0m	34.1%
UK Bus	£273.4m	14.5%
UK Coach	£263.5m	13.9%
Rail	£143.0m	7.6%

* Excludes German Coach.

Group operating profit by end market*



Spain	£81.5m	38.9%
North America	£62.6m	29.9%
UK Bus	£31.2m	14.9%
UK Coach	£24.5m	11.7%
Rail	£9.8m	4.6%

* Excludes corporate and German Coach.

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
£263.5m
2012: £255.1m

Operating profit
£24.5m
2012: £20.6m

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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
£143.0m
2012: £195.1m

Operating profit
£9.8m
2012: £26.7m

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New markets

- **city2city**

We operate scheduled coach services between a number of major cities in Germany through our city2city business. The business was launched in April 2013 and operates services between major cities including Frankfurt, Cologne, Dusseldorf and Munich.

- **German rail**

During 2013 we were awarded two contracts to serve cities including Cologne and Frankfurt in Germany's most populous region, North Rhine-Westphalia and these will start operating in December 2015.

- **International**

We have invested in a bid team to explore selected opportunities which leverage our skills in international bus, coach and rail markets.

Building a sustainable business

Sir John Armitt
Chairman
27 February 2014

Dear shareholder,

I am pleased to report that National Express has delivered another year of good financial and operational performance. Our core non-rail businesses have continued to make progress, achieving a record normalised operating profit and producing excellent free cash flow.

Delivering our strategy

Our portfolio of bus and coach operations in different geographies is a key strength. First, our services deliver excellent value for customers, meeting the needs of the challenging economic environment – National Express companies play an essential role in getting passengers to work, to school and to see family and friends. Second, our approach to operational excellence, which we are embedding across all of our operations, is delivering great customer service, efficiency and safety.

The balance of our portfolio means that we have been able to grow in UK Coach and North America School Bus, while we have mitigated much of the impact of recession and government austerity in Spain and UK Bus. At the same time, we continue to operate the best performing rail franchise in the UK. This has helped us to pre-qualify for three UK rail franchises currently out to tender. It has also provided the platform to win our first contracts in the German regional rail market from 2015 and pre-qualify for more.

I am excited by the further opportunities which we see, in both existing and new markets. During our Board visit to Morocco in 2013, we were able to experience the success that this market has become for National Express. Not only have we now started our third domestic bus concession, in Tangiers, but it is also a strong credential for other international opportunities, where the development and liberalisation of public transport are common themes. I believe these opportunities can add further to the shareholder returns that we generate from our core businesses.

2013 results

In 2013 we delivered a normalised profit before tax of £143.7 million and a statutory profit for the year of £58.3 million. We generated over £180 million of free cash flow, which we have used to reduce net debt, fund ongoing investment in our fleet and invest in new business development. Our Board policy is to maintain debt gearing between 2 and 2.5 times EBITDA and we continue to achieve this. I am pleased to see that total shareholder return of 41% for the year has reflected the performance and progress we have delivered.

Dividend

We have a clear, sustainable dividend policy – to pay a dividend that is covered approximately twice by our non-rail earnings. The Board is recommending that the final dividend is increased to 6.75 pence, which, when added to the interim dividend of 3.25 pence, represents an increase of 3% for the year as a whole. Subject to approval by shareholders, the final dividend will be paid on 23 May 2014 to shareholders on the register on 2 May 2014.

Board

Optimising the skills, diversity and experience of the Board is key. Thus I am delighted to welcome Jane Kingston as a Non-Executive Director. Jane is Group Human Resources Director at Compass Group and will make a strong contribution to Board and people matters.

At the same time, Tim Score has stepped down from the Board after serving for nine years. I would like to thank Tim for his commitment and contribution over that period, acting as Senior Independent Director, Chair of the Audit Committee and, at one point, Interim Chairman. Jackie Hunt will take over as Chair of the Audit Committee and as Senior Independent Director.

I greatly value Sir Andrew Foster's support and guidance and welcome his decision to take up the offer to remain as a Director until the 2015 Annual General Meeting to ensure continuity on the Board.

Our values and employees

At National Express, we have a set of values that are at the heart of everything we do. Operational Excellence now sits alongside Safety, Customers, People and Community. These values are demonstrated every day by our 42,000 committed employees, reflected in the high levels of employee engagement I have seen in the UK, US and other locations around the Group.

The Board strongly believes that it has the right systems of governance in place to ensure that National Express is delivering on its Vision and Values and thereby has a sustainable and profitable future in its selected transport markets. We are determined to build on the good progress that we are already making in every area and will continue to monitor development on a regular basis.

On behalf of the Board, I would like to thank all of our employees for their hard work during 2013 and their ongoing commitment to National Express.

I look forward to 2014 with confidence. We have a sound strategy and strong market positions, and a range of business development opportunities that can deliver additional growth and improved shareholder returns.

Sir John Armitt
Chairman
27 February 2014

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

Excellence
We constantly strive to be excellent in all that we do

Safety
We only do what is safe and stop any unsafe behaviour

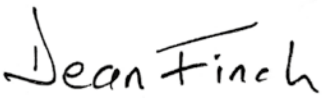
Customers
We place them at the heart of our business and relentlessly meet their expectations

People
We develop the talents, reward the exceptional performance and respect the rights of all our employees

Community
We are active in the communities we serve to generate economic, social and environmental value

> "Total shareholder return of 41% for the year has reflected the performance and progress we have delivered."

Operational excellence lies at the heart of everything we do



Dean Finch
Group Chief Executive
27 February 2014

Overview of 2013

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

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

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

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

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

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

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

External view – Safety

"Driving Out Harm is an exemplar safety improvement programme, and has led to a 50% reduction in harm in just two years. The leadership of safety from the Group Chief Executive is as strong and effective as we've seen anywhere and is transforming the culture of safety throughout the Group."

Richard Clarke,
Director, Arthur D Little

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

Highlights

Highlights of 2013 included:

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

Strategy

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

1. Delivering operational excellence

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

- consistent service performance for our customers, leading to revenue growth;
- continuous cost efficiency improvement, leading to better margins and returns; and living our core values every day, leading to a sustainable business.

Revenue growth

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

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

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

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

- ALSA was rated the best transport company in Spain for customer excellence. It successfully retained its urban contract in Palencia on renewal and was awarded new contracts in Tangiers and Guadalajara. Against the backdrop of a tough economic environment, our customer recommendation rate increased by five percentage points to 87%.
- North America School Bus achieved 92% customer satisfaction, up from 85% in 2012, reaping the benefits of our local focus on service delivery and improved key account management.
- Both UK Bus and UK Coach deployed customer technology in response to changing customer expectations. Over 100,000 people have now downloaded the National Express West Midlands app, whilst coach travellers can follow their services real time. Coach customers can now buy tickets through a host of new distribution channels, including Ryanair and the Post Office.
- c2c has now been the best performing operator in the UK rail industry for a record-breaking two years continuously, with an annual punctuality measure of 96.9% at year end.
- We invested over £80 million in net capital expenditure in 2013, adding nearly 900 new vehicles across our operations in UK Bus, Spain and North America.

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

Where our performance fails to meet customer expectations, we have embedded structured solutions. UK Bus implemented automatic

External view – Customers

"In mountain regions like La Alpujarra, with small and scattered communities and very difficult communications, the service provided by ALSA coaches is vital. Our transport routes provide daily access for inhabitants to health and educational services with complete ease. And they are particularly convenient for the elderly and young people living in our region."

María Teresa Blanco
Mayor of Órgiva, Granada

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

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

Cost efficiency

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

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

To strengthen operational excellence, we are implementing structured processes in each business using a recognised quality management framework. These frameworks also help us replicate our success in our existing businesses in new market opportunities. In 2013, c2c was awarded the maximum 5 star rating by the European Foundation for Quality Management (EFQM). This has been a key component of our success in delivering the UK's best performing franchise, whilst also being recognised in our German and UK rail bids.

Our values

We continue to support operational excellence through our focus on our core values – safety, customers, people and community. Employee engagement is strong across the Group, supported by formal training programmes such as 'Master Driver', which accredits drivers to key standards and provides non-monetary rewards for exceptional performance. North America reported a record level of 89% employee satisfaction, up for the third year in a row. I would personally like to acknowledge the efforts and commitment of our employees in helping to achieve our customer service and safety improvements. I am also delighted with the progress of our Community programmes, including 2,400 young people helped by our UK initiative to support the further education of disadvantaged students and a US$4 million commitment to community support in North America. We are proud to be the first company to sign the UK Government's Corporate Covenant that supports Armed Forces personnel, including helping their return to private sector employment.

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

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

2. Superior cash and returns

National Express is focused on cash generation. Our free cash flow pays dividends to shareholders, funds future growth and reduces debt. A strong cash flow and improving return on the capital we invest in the business will drive better returns for our shareholders. Maintaining a strong and flexible balance sheet gives us choices for the future.

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

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

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

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

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

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

3. Creating new business opportunities

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

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

External view – People

"VaLUENTiS works with National Express to conduct its annual employee surveys in the UK. National Express has been diligent in the timing and consistency of approach, with significant attention paid to results and follow-up. In 2013, National Express recorded one of the highest engagement scores registered, with 'best in class' scores in two business units."

Graeme Cohen,
Graeme Cohen, Director, VaLUENTiS Ltd

External view – Community

"I am grateful to National Express for being the first company to sign up to the Corporate Covenant. It is a great British company recognising the significant contribution and sacrifice of our Armed Forces and their families."

Mark Francois MP
Minister of State for the Armed Forces

During 2013 we developed the following new opportunities:

- **Germany:** we are now well established in the German rail bidding market, with an experienced local team in place. We are targeting capital-light regional 'revenue risk' and 'gross cost' contracts with pro-competition regional authorities. In 2013 we won two 15-year contracts to run the Rhine Munsterland Express, expected to generate €70 million of annual revenue from the end of 2015. Mobilisation is now well underway. Using this successful credential and building on our record of delivering high quality service in c2c, we have prequalified for the prestigious Berlin Ringbahn tender later in 2014, as part of a bid pipeline of 18 contracts with annual revenue of €1 billion. Our rail operations are being supplemented by our launch of 'city2city', a coach operation in Germany. We are using the UK Coach model of working with local coach partners to serve Munich, Stuttgart, Cologne, Frankfurt and Hamburg. Our start-up in 2013 saw a normalised operating loss of £2.4 million as we invest in marketing and promotion to develop this newly liberalised market.
- **US Transit:** Within 18 months, we have built US$80 million of annual revenue and are currently working on a revenue pipeline of over US$200 million. Focused on the Paratransit, Shuttle and Fixed Route segments, we have won five contracts targeted in smaller, lower risk markets. The industry is typically capital-light, with publicly funded fleet investment.
- **UK Rail:** having secured the extension of c2c to September 2014, we are bidding selectively within a programme of significant rail refranchising in the UK. As the UK's best performing franchise operator, we are pleased that quality is a factor in bid evaluation. Having prequalified for three tenders during the year, we have now submitted the Essex Thameside and Crossrail bids and expect to submit our ScotRail bid in April 2014.
- **International opportunities:** we expect public transport to grow significantly in the medium term, through liberalisation and the development of infrastructure in emerging economies. Building on ALSA's success developing the Moroccan market, we have invested in a bid team to explore selected opportunities which leverage National Express' strengths in international bus, coach and rail markets, where the risk is appropriate and capital requirements generally light.

Outlook

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

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

Dean Finch
Group Chief Executive
27 February 2014

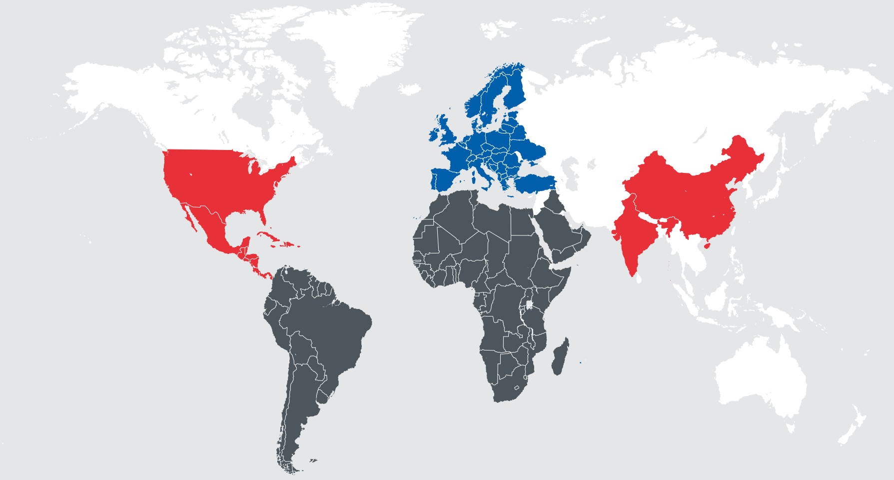
Strategic Report:
Market overview

Understanding our markets

The key drivers for the Group's strategy include mobility, economic activity, liberalisation and urbanisation. These are explained in this section.

Group

The National Express Group is a leading operator in the global public transportation market. Growth in these markets is mainly driven by economic activity, increasing social mobility and the outsourcing of public provision of services. The forecast trend is for ongoing liberalisation in both developed and developing economies.



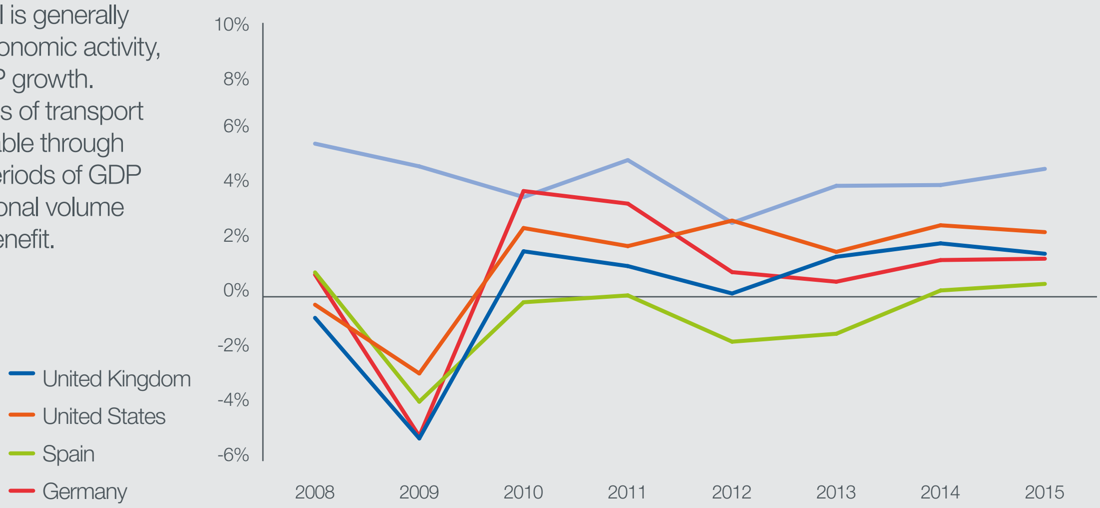
■ Urbanisation and increased mobility ■ Greenfield projects ■ Deregulation and liberalisation

Source: KPMG

Economic activity

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

Real GDP Growth



Source: EIU

Deregulation, liberalisation and outsourcing

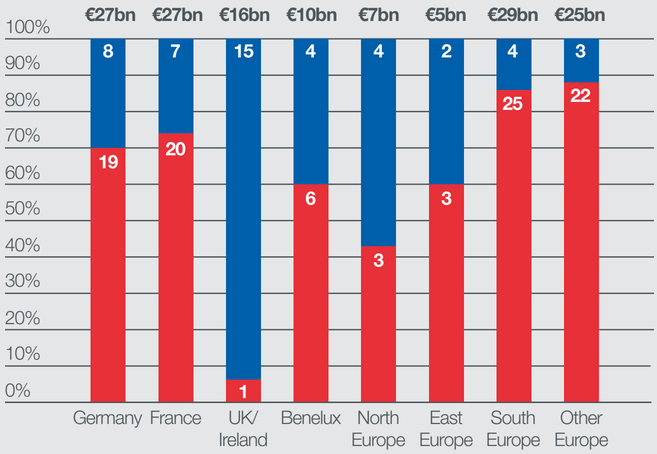
Our markets have been created when state provision of public transport is transferred to the private sector. There are different models for this, with examples ranging from the deregulated markets of our UK Bus and UK Coach divisions, through the concessions and franchises of Spain and Rail, to the school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

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.

2010 Public Transportation Market

Total Transport Market: €150bn

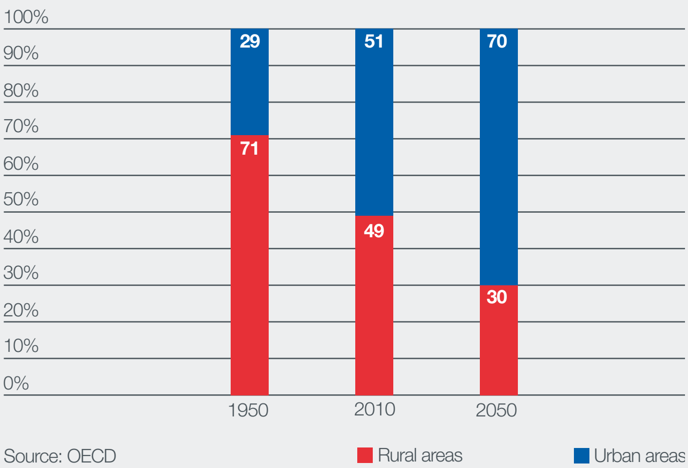


*Source: OECD

Urbanisation

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. Often this is accompanied by significant investment in infrastructure. This in turn requires additional transportation services, both within and between locations, so our bus, coach and rail operations are increasingly in demand.

Share of global population living in cities %



Source: OECD

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 rising fuel and insurance prices, although other factors such as environmental concerns and congestion can also be important. In Spain, we have seen additional support for demand in long distance coach services as air travel has either become more expensive or capacity has reduced.

Environment and congestion

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.

Strategic Report:

Investment case

A sound proposition for investors

1. A best in class public transport operator*

	Margin %	Best in class %
Spain	14.4	NX
North America	9.7	NX
UK Bus	11.4	15
UK Coach	9.3	NX
Rail	6.9	NX
Group	10.2	NX

*By margin

2. A sound strategy in place

Delivering operational excellence

- Best in class Group margin of 10.2%
- Revenue growth of 3%
- £4.6 billion of long term contracted or concessionary revenues
- Sustainable long term earnings: Core non-rail profit growth to £185.5 million

Generating superior cash and returns

- Free cash flow of over £180 million
- Operating cash conversion of 129%
- Net debt reduced by over £80 million in 2013
- Core non-rail ROCE increased by 50bps to 11.1%

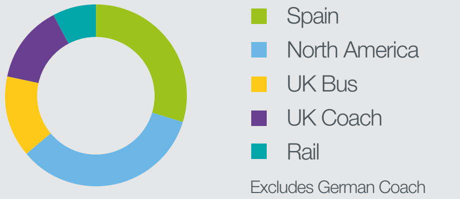
Pipeline of substantial capital-light growth opportunities starting to deliver

- Over £1.8 billion of new contracts won during the year:
- German rail – won Rhine Munsterland Express contract ending in November 2030; prequalified for Berlin Ringbahn
- Transit – 5 contracts won; annualised Transit revenue now $80 million
- Rail – Bids submitted for Essex Thameside and Crossrail; prequalified for ScotRail

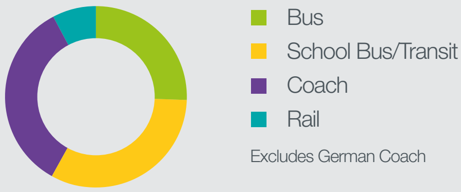
Read more p14

3. Well balanced portfolio

Divisional split by revenue



Modal split by revenue

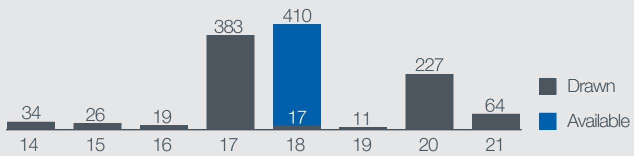


4. Stable long term finance in place and commitment to investment grade rating

Gearing ratios	2013	2012	Covenant
Net debt/EBITDA	2.5x	2.5x	<3.5x
Interest cover	6.1x	6.7x	>3.5x

Ratings	Grade	Outlook
Moodys	Baa3	Positive
Fitch	BBB-	Stable

Strong debt maturity profile



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

		2013 p	2012 p
Basic EPS	Non-rail	20.1	21.6
	Rail	1.4	3.9
	Group	**21.5**	**25.5**
Dividend		**10.0**	**9.75**

Delivering long term shareholder value

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 excellent 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 will allow us to target long term sustainable growth of the business:

- 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 of 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 existing operations with the opportunity to build value through high-return growth and capital returns to shareholders.

Our strategy

2013 performance

Measuring our performance

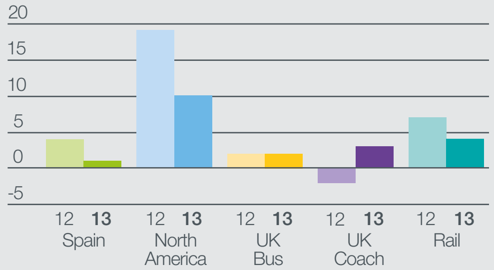
Delivering operational excellence

Driving revenue growth and margin progression in our core divisions by delivering excellent customer service and cost efficiency

Customer service

- ALSA the top rated transport company in Spain; passenger growth of 15% in Morocco
- 92% customer satisfaction and 97% retention rate in School Bus
- Core passenger growth of 9% in UK Coach
- Record-breaking performance at c2c

Metric: Revenue growth %

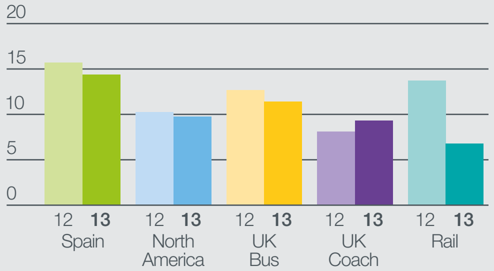


Local currency
Rail revenue growth is adjusted for the handover of NXEA in 2012.

Cost efficiency

- Non-rail profit increased to £185.5 million
- Group margin best in class at 10.2% reflects smaller rail business
- Four out of five divisions have best in class margins
- £30 million of cost savings across the Group

Metric: Margin %

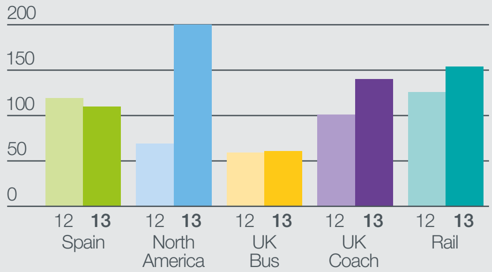


Generating superior cash and returns

A strong cash flow and improving return on the capital we invest will drive better returns for our shareholders

- Operating cash flow increased by £38 million to £248.0 million
- 129% of Group operating profit converted into cash
- Free cash flow of £183 million
- Non-rail return on capital improved by 50bps to 11.1%

Metric: Operating cash conversion %

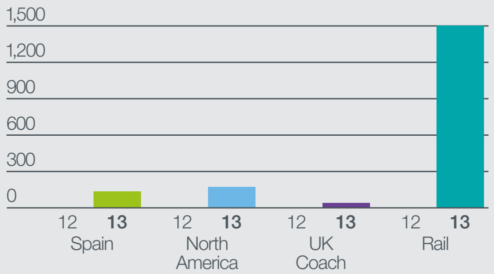


Delivering new opportunities

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 rail contracts in Germany
- Built over $80 million of annual revenue in US Transit
- Won Tangiers and Guadalajara urban bus contracts in ALSA
- Launched German coach operations
- Bid submitted for Essex Thameside and Crossrail; prequalified for ScotRail in the UK

Metric: Contract wins by value (£m)



Delivering operational excellence

c2c is the UK's top performing rail franchise

National Express has been the UK's top performing franchise for punctuality for the last two years, delivering an average annual punctuality measure of 96.9% at the end of 2013. We are also the most popular franchise in London and the South East, as recognised in the Autumn 2013 National Passenger Survey results.

Generating superior cash and returns

School Bus business drives $196 million of operating cash flow

We have had great success in 2013 with our increased focus on cash generation and returns. In School Bus, our most capital intensive division, we have converted 200% of operating profit into cash and increased Return on Assets to 22%. We worked with our customers to extend vehicle lives, cascaded buses around the fleet according to demand and kept our spares ratio low at 11%.

Pipeline of substantial capital-light growth opportunities

Tangiers win adds to our Moroccan footprint

The Group has unique access to international passenger transport markets. This year we started to operate city bus services in Tangiers, adding to our existing Marrakech and Agadir contracts. Our track record of high quality operations and investment in fleet gives us a key advantage in securing similar opportunities.

Strategic Report:

Managing our relationships and resources

Living our Values

Our Vision and Values were launched three years ago as a fundamental statement of who we are as a business and how we operate.

They originate from the conviction of the Company that National Express wants to be. Rather than the potential 'gloss' of Corporate Social Responsibility, the way we act as a business embodies these Vision and Values. In National Express' view being a good and successful company should be – and are – synonymous.

Since their introduction their relevance has become ever more important. In difficult economic times our Vision 'to earn the lifetime loyalty of our customers by consistently delivering frequent, high performing public transport services which offer excellent value' has helped to ensure we carried more passengers in 2013 than in 2011.*

Underpinned by our Values of Safety, Customers, People and Community, the Vision and Values have guided how we operate as a business and prioritised what we have focused on.

This year we have refreshed the Values to include a fifth: Excellence. By being excellent in all that we do we will meet customer expectations, deliver industry-leading services and act as a willing and constructive partner. We will be reporting on our achievements under the new Excellence Value in future years.

Ultimately, National Express firmly believes that these Vision and Values help us to deliver excellent services and drive growth in our business.

Safety

Safety is our priority. We have made significant progress in recent years but are aware there is always more to do. For us safety is 'relentless', it requires a continual focus on our processes and our practices.

We have robust processes in place to manage performance, with ultimate responsibility lying with Dean Finch, the Group Chief Executive. We review our health and safety strategy every three years, with objectives and targets set for each of our divisions – reflecting the fact that each business has its own unique challenges, each divisional head is responsible for developing and managing appropriate health and safety management systems.

We have seen significant progress since we launched the 'Driving Out Harm' safety programme across the Group in 2011. 'Driving Out Harm' sets out global safety standards for all our businesses and employees to follow.

The programme is reviewed annually by independent assessors from Arthur D Little. Their 2013 review found significant progress in safety performance and the further strengthening of safety leadership and upgrading of processes for controlling key risks.

This progress is borne out by our performance. Compared with 2010, across the Group responsible major injuries have fallen by 48%. Total employee injuries are down by 39% and preventable accidents have reduced by 21%.

Our Vision

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

Our Values

- Excellence
- Safety
- Customers
- People
- Community

We have continued to promote our 'Driving Out Harm' safety campaign, including reinforcing the Golden Rules

Safety performance

	2013	2010	% Change
Responsible major injuries	**37**	71	48% reduction
Preventable accidents	**578**	729	21% reduction
Total employee injuries	**1,571**	2,568	39% reduction

* Normalised, without National Express East Anglia.

Managing our relationships and resources continued

Customers

Customers are at the heart of everything we do. We continue to work to achieve their lifetime loyalty through delivering excellent services. Our five Customer Golden Rules set out a Group-wide standard which all employees are required to follow.

This approach is leading to some significant achievements. For example, c2c is currently the most popular commuter train operator in London and the South East according to the National Passenger Survey. c2c also has the highest UK performance statistics in four of the survey's key categories: satisfaction with the train (92%), punctuality (94%), transport connections (88%) and information provided at stations (88%). And in Spain, an external survey by PriceWaterhouseCoopers has ranked ALSA as one of the top customer service providers in the country.

We measure customer satisfaction across all businesses. These measures are used to set strategy and improve services in line with customers' expectations. Our businesses are aligning their own internal KPIs with those our customers tell us are most important to them.

Again we see that this is delivering results. In the last three years, improvements have been achieved in four of the five main businesses, with only UK Coach seeing a slight reduction in customer satisfaction. This was mainly due to a higher number of roadworks and delays on major roads in the last year, impacting on performance. We are also embracing new technology to improve the customer experience. Across the business we are using mobile apps, Twitter and Facebook to provide real-time travel information for customers and new ways for them to interact with us.

We have also established an annual Customer Service Week, with all senior managers across the business working with operational staff and serving customers. We believe this first-hand experience across the business is crucial as we deliver on our Vision of earning the lifetime loyalty of our customers.

Overall customer satisfaction

	Coach	Bus	c2c	ALSA	North America
2011	83%	80%	91%	74%	86%
2012	84%	82%	91%	77%	85%
2013	**82%**	**83%**	**92%**	**77%**	**92%**

People

Delivering on our Vision and for our customers is only possible if National Express is a good place to work. National Express recognises that our workforce is our greatest asset and we want each of our 42,000 employees to reach their full potential and to give their best.

A renewed Group-wide people strategy has been developed to further build employee engagement and to develop management capability to ensure we have the skill sets in place to drive operational excellence. This new strategy will be rolled out during 2014, and will include a common employee benefits package making it easier for our employees to take advantage of discounts and offers.

This renewed strategy builds on encouraging results in recent years. Each business runs an employee survey to measure engagement and gauge opinion on issues such as safety, employee morale and relationships with managers. These results are used to guide our businesses' actions and strategies to ensure we are doing all that we can to ensure National Express is a good place to work.

Our UK employee surveys are carried out by the same firm, VaLUENTiS, which is widely used as an employee survey provider by the UK transport industry. We are able to benchmark our engagement against the broader industry.

Our results for 2013 demonstrate that we have been making important strides forward. The result for corporate employees is amongst the highest engagement score for any business or part of a business in VaLUENTiS' database. c2c's engagement score is the highest of any train company in VaLUENTiS' database. And UK Coach has registered the highest score in the UK Bus/Coach section of VaLUENTiS' database.

Businesses across the Group took part in Customer Service Week in 2013

As part of the Customer Service Week activities, Michael Hampson, General Counsel and Company Secretary, met drivers at Baltimore

The Deputy Prime Minister, the Rt Hon Nick Clegg MP, visited our Birmingham Central bus garage to highlight the importance of apprenticeships

Our North American School Bus survey continues to produce strong scores. In the latest survey, 89% of employees say they enjoy working for the business.

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.

We are also committed to widening employment opportunities for young people. We were delighted when this was recognised by the Deputy Prime Minister, the Rt Hon Nick Clegg MP, with a visit in November to meet engineering apprentices at our Birmingham Central bus garage. The UK Bus training team have also worked with the Department for Work and Pensions to develop the first Sector-based Work Academy for driving skills. These initiatives form part of our Routes to Work programme which is creating 1,700 job opportunities over a three-year period.

Another example, from Spain, is the launch of the Muevete programme providing 80 trainees with work experience in ALSA, placing them in a stronger position to apply for jobs.

The Armed Forces provide a valuable source of skilled recruits to our UK businesses. Recognising the importance of this pool of talent, we were proud to be the first UK company to sign the Government's Corporate Covenant. Among other benefits, this provides all suitably qualified ex-service personnel with a guaranteed interview. Our leadership here has been recognised by the UK Government, including the Prime Minister, the Rt Hon David Cameron MP.

Employee, senior management and director numbers by gender at end 2013

	Male	Female
Directors	9*	1*
Senior Managers	53	15
All employees	25,065	17,459

* The gender split of the Board changed with the appointment of Jane Kingston as an independent Non-Executive Director on 26 February 2014, and the resignation of Tim Score on 25 February 2014.

Community

As a transport company, we don't just move vehicles. We are proud to play a vital part in our communities – whether that's getting people to work, taking them to see loved ones, effectively managing our environmental impact or, above all, taking children safely to and from school.

Both directly through the services we offer and through the jobs we provide and more widely, we are making a difference in our communities. We believe we have made significant strides in the last year.

The National Express Foundation continued into its second year, making more awards to community groups and providing bursaries for students with challenging financial circumstances. Since its launch, the foundation has helped around 2,400 young people through supporting students at 6 further or higher education institutions and 15 community groups. A third round of grants will be made shortly.

Following its success in the UK, work has progressed to establish the National Express Giving Foundation in the US. As in the UK, this new foundation is supporting students and community groups, but also has the remit to support employees who are suffering hardship.

In addition to the foundations, each business continues to progress its own community initiatives.

In Spain, 6,000 employees participated in the Kilos y Kilometres initiative in September which collected 10 tonnes of foodstuffs through 50 collection points across the country. The donations supported the work of food banks across Spain.

The partnership between UK Bus and Transaid expanded with the visit of two engineers to Tanzania to assess training needs of local staff at the National Institute of Transport. This was in addition to training inputs from four Driver Trainers in building the capability of local staff to deliver professional driver training.

The Special Olympics continue to be the main charitable cause in North America. We provided the transportation at a number of Special Olympics events throughout the US.

In the UK, the Employee Charity Panel made donations of almost £17,000 to 50 different charities and community groups. The Panel only supports groups where an employee is personally involved in fundraising or volunteering, and the awards it makes generate a huge amount of goodwill in the local community.

Across the Group, charitable donations totalling £356,000 were made during the year.

Newman University, in Birmingham, was one of the successful recipients of National Express Foundation funding in 2013

Managing our relationships and resources continued

Managing our environmental impacts

An important component of our Community Value is ensuring we meet our environmental responsibilities. Our Group Property and Environment Director works with the responsible director from each division to ensure we comply with relevant legislation, set ambitious targets and deliver against them.

2013 was a year of strong environmental performance at National Express. In the UK, we set three-year targets in 2010 which we achieved by the end of 2012, a year earlier than planned. These targets were exceeded in 2013. We improved our position in the UK Carbon Reduction Commitment Efficiency Scheme league table to become the best performing public transport company (and are now ranked 21st of all companies reporting in the UK). We have also delivered energy reductions at our sites in Spain. We are determined to build on these achievements and consistently deliver excellence in our environmental performance and reporting.

February 2014 saw National Express achieve full compliance in the CRC Energy Efficiency Scheme (formerly known as the Carbon Reduction Commitment), which provides a clear demonstration that we are actively responding to the climate change agenda in our development and drive of energy and carbon management strategies.

We are fully engaged with the Carbon Disclosure Project and it is helping us manage carbon usage and our impacts on climate change. You can find out more about our work in this area on our Group website.

Performance area

	KPI target by end 2013	On target
Fuel	5% reduction in UK fleet consumption (MWh)	**Exceeded** 6.9% reduction
Site energy	10% reduction in UK site electricity, gas and oil consumption	**Exceeded** 11.28% reduction
Waste	40% reduction in UK non-hazardous waste going to landfill	**Exceeded** 93% reduction

All KPIS from 2010 baseline

For 2013 we are reporting our greenhouse gas (GHG) emissions for the whole Group for the first time. In the UK we have already made significant progress in reducing our emissions. Since 2010, our UK businesses have seen a 43% reduction in emissions. See panel on page 23 for more detail on how we report GHG emissions.

We have delivered these improvements through improved management and investment. For example, we have rolled out telematics widely across our bus and coach fleets. Through the review of driving styles and vehicle efficiencies we have delivered the 5% reduction target in fuel consumption a year early.

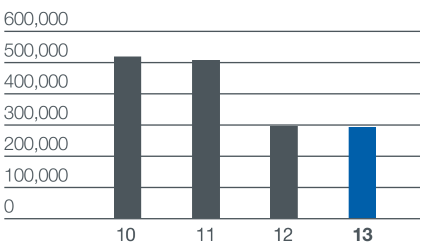
We have invested in a renewables programme. New solar panels generated, on average, 7% of site energy at the six locations where they are installed. In total 244,540 KWh of renewable energy was generated in 2013. This amount would be sufficient to power the Milton Keynes coach station all year.

We have also achieved the energy reduction targets through the use of energy efficient heating, cooling, lighting and voltage optimisation technology.

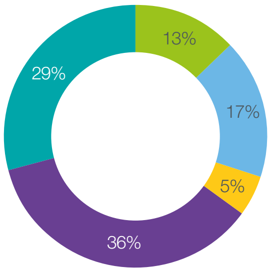
We have made considerable progress with recycling waste across the Group. c2c has performed particularly strongly. 91.25% of all waste produced at our stations was recycled, with many locations achieving 100% across the year.

The Board's Safety & Environment Committee reviews and monitors our environmental systems and processes, and makes recommendations on specific issues. Further information on its role and responsibilities can be found on page 67. The Committee will set new Group-wide targets for 2014-2017 in the coming months. A priority for the Group has been to improve its environmental reporting and these new targets will fully incorporate our Spanish and North American businesses for the first time.

UK greenhouse gas emissions (tCO_2e)



Greenhouse gas emissions reporting for 2013 (tCO_2e)



Coach (owned and 3rd party)	107,174
Bus (incl. Metro)	140,773
Trains (c2c)	42,816
Leased vehicles and business travel (UK)	611
ALSA	302,683
North America	237,957

Building strong relationships

National Express believes that building strong relationships is crucial to our ability both to deliver our Vision of consistently excellent services for our customers and win new contracts in our existing and new markets. But as our Community Value makes clear, seeking to forge strong relationships is also an important part of who we are as a business.

Public transport services require many institutions and organisations to work closely together to ensure their delivery. This is why we seek to build genuine partnerships to help ensure we can deliver our Vision.

Our ability to deliver excellent rail services requires a strong relationship with Network Rail – that is why we were the first Rail company to form an 'alliance' with Network Rail and have a Joint Control Centre in Upminster. We believe this partnership approach has been crucial in delivering c2c's industry-leading performance.

Our ability to deliver excellent bus and coach services and grow patronage requires a strong relationship with the relevant authorities. That is why, for example, we have signed the industry-leading Transforming Bus Travel 3 agreement with Centro (see right). As the majority of our UK Coach journeys are on the Strategic Road Network, we are working in partnership with the Highways Agency to help deliver our punctuality and reliability ambitions.

Our aim is to provide safe, excellent North America School Bus services that meet the needs of children and parents, but also the local school boards. We look to forge close relationships with local boards to create partnerships that deliver the services we all want to see. That is why we are so proud of our customer service scores and testimonials such as that from the school board at Racine (below right).

This is an approach that we are taking into new markets as well. We have worked very closely with the relevant authorities in North Rhine Westphalia as we prepare for the start of our services there next year.

Being an active partner in the areas we serve also means looking beyond day-to-day business activity and playing a broader community role. That is why we launched the National Express Foundation. We recognised that as Birmingham's largest employer we had a responsibility to the community we served. We were proud to be the first company to sign up to the UK Government's Military Corporate Covenant. (See External View – Community on page 10). Our North American business has supported the Special Olympics for a number of years. And we are active supporters of projects run by UNICEF in Morocco and Transaid in Tanzania. There are many other examples of partnership and support.

Being a trusted partner is good business. But as with our Vision and Values, National Express believes that being a good partner is the sign of a good business.

Greenhouse gas emissions reporting for 2013

Global GHG emissions data for calendar year 2013

Emissions from:	Tonnes of CO_2e
Combustion of fuel & operation of facilities (GHG Protocol Scope 1)	765,526
Electricity, heat, steam and cooling purchased for own use (GHG Protocol Scope 2)	61,808
Other upstream emissions (GHG Protocol Scope 3)	7,158
Total	834,492
Intensity metric (tonnes CO_2e/£million revenue)	441

GHG reporting methodology

We have 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 statement. We do not have responsibility for any emission sources that are not included in our consolidated statement.

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, Defra, 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 greenhouse gas emissions.

Analysis of our GHG emissions is carried out externally by Ecometrica.

External view

"Our Transforming Bus Travel partnership with National Express is genuinely industry leading. It sets tough targets that make sure both organisations work together to achieve the best deal for bus passengers and deliver the quality of service customers expect. This is only possible because of the strength of our relationship."

Geoff Inskip
Chief Executive, Centro

External view

"We have worked in partnership with Durham School Services since 2000 and the level of safety, delivery, and customer service we have received is outstanding. The team is knowledgeable, responsive and customer service driven, consistently looking for ways to provide efficient and reliable service."

Patrick Starken
Transportation Supervisor
Racine Unified School District, Wisconsin

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

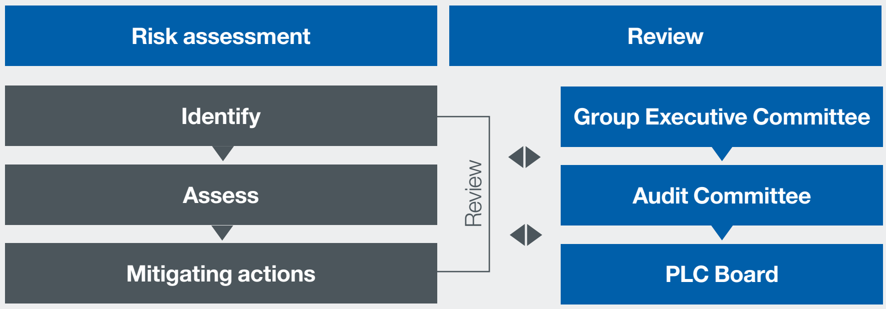
The Board:

- 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 review



Risk assessment

Each division, plus the Group function, 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.

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 function register, is consolidated into a Group Risk Register.

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

Internal audit

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

During 2013 the Group focused on the following key areas of risk:

Risk	Change	Why?	Responsible
Concession and contract renewal	↑	Significant increase in 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 management	–	Ongoing inherent risk in contract businesses	Divisional Managing Directors

The following are ongoing risks within the business:

Fuel cost	↓	Changes in the price of fuel will continue to be a risk	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 North America and 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:

Concession and contract renewal

Risks	Assessment	Management	Potential impact
Much of the Group's business is secured through winning contracts and concessions, particularly in its North American School Bus and Transit business, in Spain and in Rail. 2014 sees some significant bidding activity, such as the Essex Thameside (c2c) Rail franchise and the expected start of bidding to renew 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. Essex Thameside is the Group's last remaining Rail franchise and so represents all of the current rail revenue. The Group has secured its participation in the rail industry in future by winning contracts to operate services in Germany until 2030. The concession renewal process in Spain is undergoing regulatory change, with the most significant difference the removal of the incumbent advantage. ALSA currently expects about 20% of its national coach concessions to be bid in 2014 and 2015.	A reputation for high quality services helps to win and retain contracts. The Group has a good record of retaining contracts on a historic basis: no national coach concession in Spain has been lost before and retention rates in School Bus are typically very high (97% in 2013). National Express has now submitted its bids for Essex Thameside and Crossrail. It has also prequalified to tender for ScotRail during 2014. Further rail contracts are being bid 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

Risks	Assessment	Management	Potential impact
Uncertain economic conditions currently exist in Europe and North America. Whilst some of the Group's businesses have naturally defensive characteristics, some of the more discretionary parts of the business may be adversely affected by reduced economic activity.	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

Risks	Assessment	Management	Potential impact
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

Contract management

Risks	Assessment	Management	Potential impact
As noted above, 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

The following are ongoing risks within the business:

Fuel cost

Risks	Assessment	Management	Potential impact
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 30. We have hedge protection into 2016.	Medium

Insurance and claims

Risks	Assessment	Management	Potential impact
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 Board Safety and Environmental Committee. Where claims arise, they are managed by experienced claims handlers and professional advice is obtained in order to evaluate and minimise costs to the Group. It has also reduced self-insurance values and increased external market coverage.	Medium

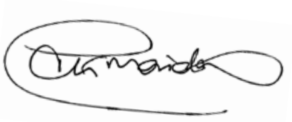
Credit risk

Risks	Assessment	Management	Potential impact
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 historic levels. In 2012 and 2013 all long term outstanding amounts were settled through a Federal Government credit facility and the level of outstanding debt is back to normal levels and continues to fall.	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

Risks	Assessment	Management	Potential impact
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 2013 both the Euro and US dollar appreciated against Sterling. 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

Outstanding cash generation



Jez Maiden
Group Finance Director
27 February 2014

Presentation

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

Revenue

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

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

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

Normalised profit

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

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

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

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

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

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

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

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

IFRS results

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

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

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

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

Cash management

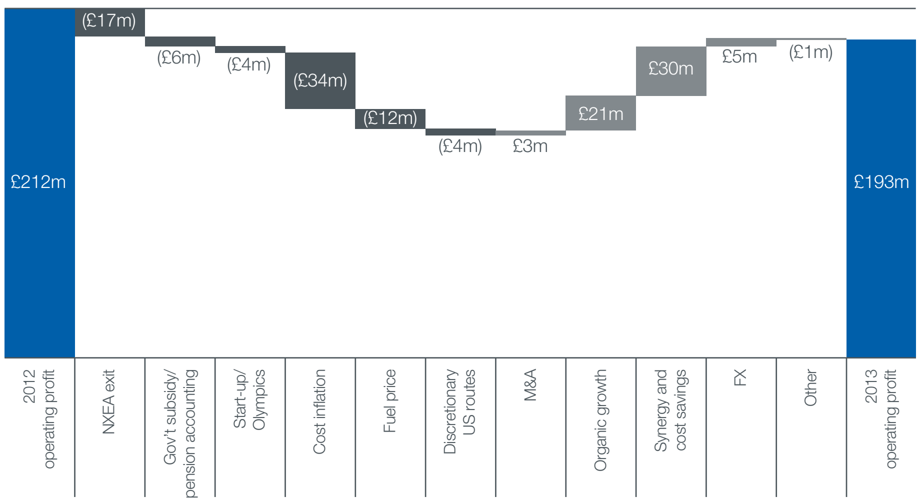
Operating cash flow

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

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

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

Normalised profit: Growth and cost efficiency have offset inflation



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

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

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

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

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

Capital returns

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

Treasury management

Funding sources

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

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

Financial ratios

The Board has a prudent approach to covenant compliance on its banking debt which is to maintain its debt gearing ratio at between 2.0 and 2.5 times EBITDA. At 31 December 2013 its financial ratios were as follows:

- Debt gearing ratio (net debt to EBITDA): 2.5 times (2012: 2.5 times), covenant not to exceed 3.5 times
- Interest cover (EBITDA to net interest): 6.1 times (2012: 6.7 times), covenant not to be less than 3.5 times.

Interest rate and currency hedging

The Group hedges its exposure to interest rate movements to maintain a balance between fixed and floating interest rates on borrowings. To achieve the desired fixed to floating ratio the Group has entered into a series of interest rate swaps that have the effect of converting fixed rates into floating rate debt. The net effect of these transactions was that, at 31 December 2013, the proportion of Group net debt at floating rates was 33% (2012: 37%).

The Group's exposure to foreign exchange is limited to translation of its earnings and assets, as its overseas activities are naturally hedged by earning revenue and incurring costs in local currencies. In order to hedge its exposure to currency fluctuations with regards to its financial ratios, the Group held, at 31 December 2013, Euro debt of €269 million and US dollar debt of $308 million. These correspond to 2.0 times Euro-generated EBITDA and 2.2 times US dollar-generated EBITDA in 2013.

Fuel risk management

The Group consumes approximately 245 million litres of diesel and gasoline each year for which it is at risk (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 2013 of £172 million (10% of related revenue), at an average fuel component cost of 49 pence per litre. The Group has adopted a forward fuel buying policy in order to secure a degree of certainty in its planning. This policy is to hedge fully a minimum of 15 months addressable consumption against movements in price of the underlying commodity, together with at least 50% of the next nine months' consumption in the contract businesses. Currently, the Group is 100% fixed for 2014 at an average price of 49 pence per litre (excluding delivery and tax), 90% fixed for 2015 at an average price of 47p and 50% fixed for 2016 at 44p.

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

Pensions

The Group's principal defined benefit pension schemes are all in the UK. At 31 December 2013 these schemes had a combined deficit under IAS19 of £30.1 million, an increase from the deficit position of £19.3 million at 31 December 2012, primarily due to lower asset returns and higher inflation. The National Express Group Staff Pension Plan ('UK Coach plan') is now closed to all future accrual. A funding plan aimed at bringing the plan to self sufficiency was agreed with the trustees in 2010; National Express contributes £4.2 million per annum to this scheme. In 2011 UK Bus agreed a £5.5 million annual deficit repayment plan with the trustees of the West Midlands Passenger Transport Authority Pension Fund ('WM plan'). The WM plan remains open to accrual for existing active members only. This scheme was further de-risked during 2012 by securing future payments for existing pensioners in a £272 million insurance buy-in to the scheme. The Group expects to contribute around £10 million per annum in total deficit contributions to its defined benefit schemes until 2017.

The IAS19 valuations at 31 December 2013 were as follows:

- UK Bus (under the WM plan and the Tayside Transport Superannuation Fund): £40.8 million deficit (2012: £32.9m deficit);
- UK Coach plan: £12.6 million surplus (2012: £16.6 million surplus); and
- UK Rail/other: £1.9 million deficit (2012: £3.0m deficit). The Group's rail business participates in the Railways Pension Scheme. This exposure transfers to an incoming operator in the event of a franchise termination.

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

Jez Maiden
Group Finance Director
27 February 2014

Growing revenue and underpinning profit

Javier Carbajo
Chief Executive, ALSA

Our business model

How our business works

The intercity coach market in Spain is regulated and supported by long term concession agreements provided to operators in exchange for public service obligations. Concessions typically run for 10 to 15 years. Public transport is seen as an essential service in Spain. Concessions are operated exclusively, resulting in competition being primarily intermodal, ie with rail, low cost airlines and the car, rather than other coach and bus operators (where competition is at point of tender). ALSA also operates urban buses on a 10 to 20 year contract basis in Spain and Morocco.

How we build long term value

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

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
- Rail competition
- Austerity impact on urban budgets.

Read more p26

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

Overview of 2013

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

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

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

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

Operational excellence

ALSA is recognised as an excellent operator in public transport. In 2013 it was voted best transport company in Spain for customer excellence, ahead of coach, airline and rail

Putting our markets into context

Market size
€3.5bn

Regulated bus and intercity coach market.

Composition
ALSA has the leading position in a highly fragmented market.

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

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

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

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

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

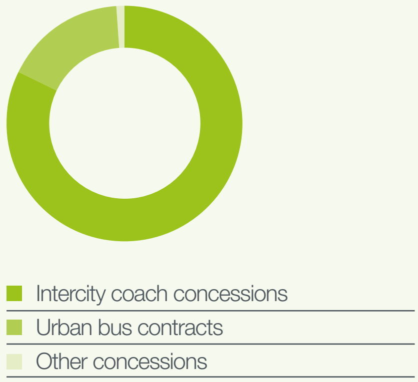
Concessions
193

ALSA has 159 intercity coach concessions, 32 urban bus contracts and two other concessions.

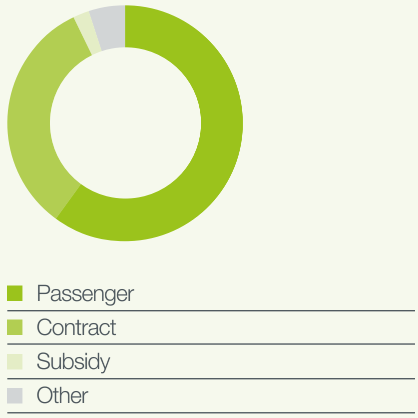
Labour
Historically less flexible labour market reflecting domestic practices; unionised. Austerity measures driving positive reform.

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

ALSA revenue by market



ALSA revenue split



Measuring our performance – KPIs

Operational excellence
Revenue growth – total
1%

2013	**1**
2012	4
2011	4

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

2013 performance
Underlying reduction in intercity and urban services, offset by new contracts and strong Morocco demand.

Operational excellence
Margin
14.4%

2013	**14.4**
2012	15.7
2011	16.4

Why we measure
Normalised operating margin reflects pricing, operational efficiencies and cost control.

2013 performance
Efficiency and savings not enough to offset fuel price, economic conditions and the impact of rail competition.

Operational excellence
Passenger journeys
250.2m

2013	**250.2**
2012	242.3
2011	207.5

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

2013 performance
Continued high growth in new routes and contracts in Morocco. Intercity coach passengers down 3% reflecting economic conditions.

Operational excellence
Mileage
179.6m

2013	**179.6**
2012	181.7
2011	169.9

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

2013 performance
Mileage reduced by 3% in intercity and urban to protect profitability. Increase in Morocco to meet demand.

Superior cash and returns
Operating cash conversion
110%

2013	**110**
2012	119
2011	54

Why we measure
A key part of the Group's strategy is to maximise the cash generated by the divisions, within the framework of their market and operating model.

2013 performance
Reflects continued fleet investment balanced against inflows from strong working capital management.

Safety
Lost time injuries (per 1,000 FTE)
23.6

2013	**23.6**
2012	23.1
2011	42.8

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

2013 performance
Stable progress in initiatives in Spain. Good improvement in Morocco – 12% better.

competition. Our customer recommendation rate increased by five percentage points to 87%, despite the background of more demanding times. This success was also reflected in concession renewal and wins. ALSA renewed its urban bus contract in Palencia and was awarded new contracts in Guadalajara, Palma, San Sebastian, Tarrega and Tangiers; the latter is the third concession to be awarded to ALSA in Morocco, building on the success of Marrakech and Agadir. We were able to meet our local stakeholder's need to start the concession early, by deploying fleet from Spain.

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

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

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

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

Cash and returns

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

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

Creating new opportunities

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

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

Our customer recommendation rate in ALSA increased by five percentage points to 87%

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

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

Driving capital return and customer service

David Duke
Chief Executive, National Express Corporation

Our business model

How our business works

In North American School Bus, the Group's operations are carried out by our subsidiaries, Durham School Services (US), Petermann (US) and Stock Transportation (Canada). The outsourced (private operator) market is only around one third of the total, with the remainder being in-sourced; that is, owned and run by the school boards themselves. Contracts typically run from three to five years. Once secured, contracts have low revenue risk over the contract life.

National Express Transit is focused primarily on the Paratransit segment of the market, where it operates services on behalf of municipalities to fulfil federally mandated social mobility obligations. Contracts also typically last for three to five years, with a mix of revenue risk and gross cost contracts. Vehicles are generally provided by the federal or local authorities.

How we build long term value

We are the second largest School Bus private operator in North America with high contract retention and a focus on customer service. 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 business development.

The Group acquired its initial Paratransit contracts as part of the Petermann school bus purchase in 2012. Since then the National Express 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.

Key risks to manage

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

Read more p26

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

Overview of 2013

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

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

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

Operational excellence

Our North America School Bus operation already delivers best in class margin, following successful completion of our margin improvement programme between 2010 and 2012. Traditionally, the school bus industry is a capital intensive, low cash generation business. In 2013 our focus has been to increase the return on capital across our portfolio of 500 contracts and generate a strong cash flow.

By focusing on contracts which generate adequate capital returns, we have more defensible, relationship-based contracts where our service quality is valued by the customer. Where we are not able to obtain financial returns above our minimum criteria, we have exited the contract – in the 2013/14 school year bid season we relinquished 16 contracts, leading to a reduction, net of bid wins, of 200 buses operated.

Putting our markets into context

Market size
$24bn

Total school bus market in North America, represented by 530,000 route buses.

32% is outsourced; 68% in-house.

Market share
14% of outsourced school bus market.

National Express operates 20,000 school buses.

Composition
Top four players operate approximately 90,000 routes.

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

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

Features
Local relationship and service delivery important.

Customers
Local school boards, funded largely by local property taxation.

Transport is a significant part of local education spending.

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

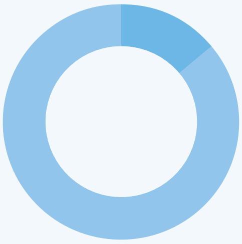
Potential for some market consolidation.

Labour
Traditionally part time workforce.

Over 30% of National Express staff unionised.

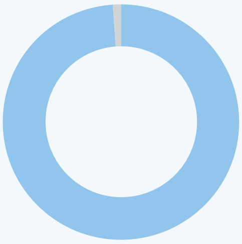
Growth
Securing price increases to meet required return on capital from existing customer base and winning contracts in the school bidding season, primarily through outsourcing/conversion as well as market share shift. New Transit business has a pipeline of contracts being targeted.

Market share



- National Express Group
- Others

Revenue split



- Passenger
- Contract
- Subsidy
- Other

Measuring our performance – KPIs

Operational excellence
Revenue growth – total
10%

2013	10
2012	19
2011	8

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

2013 performance
Underlying growth of 3%, supplemented by Petermann acquisition.

Operational excellence
Margin
9.7%

2013	9.7
2012	10.2
2011	10.0

Why we measure
Normalised operating margin reflects pricing, operational efficiencies and cost control.

2013 performance
Reduced due to fuel price increase of $7m.

Operational excellence
Retention rate
97%

2013	97
2012	97
2011	98

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

2013 performance
High retention rate maintained through excellent customer relationships and account management.

Superior cash and returns
Operating cash conversion
200%

2013	200
2012	69
2011	41

Why we measure
A key part of the Group's strategy is to maximise the cash generated by the divisions, within the framework of their market and operating model.

2013 performance
Higher fleet utilisation and productivity improvement significantly reducing expenditure on vehicles.

Superior cash and returns
Return on assets
21.7%

2013	21.7
2012	17.2
2011	16.0

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

2013 performance
Capital discipline and improving quality of the contract portfolio.

Safety
Total injuries (per 200,000 hrs)
5.76

2013	5.76
2012	5.49
2011	7.06

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

2013 performance
18% decrease in total injuries since 2011, through training, consultation, process improvement.

Our superior service delivery was reflected in our high contract retention rate, achieving 97% during the last School Bus bidding season, and 100% for acquired Petermann customers. Over 92% of school customers would recommend us. We have invested in a new 'Master Driver' programme to enhance driver skills and achieved 89% employee satisfaction, a record performance. A new key account management programme is helping our focus on contract retention, whilst we continue to target school board outsourcing, or 'conversion', contracts, which require lower capital and give better returns. We secured 13 new conversion contracts in 2013.

The market remains highly competitive and delivering cost efficiencies is crucial. In 2013 we achieved US$13 million of efficiency and synergy. Our approach focuses on simplification and standardisation across our 230 field locations, utilising technology and continuously improving safety performance. Following a successful pilot in 2013, we are now rolling out standardised processes and management systems to bring cost savings and a greater degree of control. This will support our GPS-based 'Compass' system which was fully implemented during 2013 – it integrates driver hours to payroll and customer invoicing, and has generated savings of $3 million through scheduling and fuel improvements. Compass also supports our safety programme, 'Driving Out Harm', by recording details of the inspection before and after every journey. We have also achieved further reductions in accident rates – over three years preventable street accidents fell by 19% and total accidents by 25% – and reduced insurance premiums.

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

The North American Transit business provides an exciting capital-light business development opportunity

Cash and returns

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

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

Creating new opportunities

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

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

Delivering better customer service

Peter Coates
Managing Director, UK Bus

Our business model

How our business works

National Express West Midlands is the market leader in the largest single urban network in the UK deregulated market. The deregulated model allows for total flexibility in both fares and service. The business also receives a government-funded subsidy for senior citizen travel. The business has a high regional market share, with strong competition from multiple operators on specific routes. Modal competition is principally from private cars.

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 p26

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

"We improved our offering, introduced technology and increased punctuality, resulting in better customer satisfaction and improved efficiency."

Overview of 2013

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

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

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

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

Operational excellence

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

Putting our markets into context

Market size
£4.8bn

(UK excluding London).

97% is privatised.

Market share
1,660 buses operated in the fleet.

Focused on the West Midlands and Dundee markets.

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

Remainder made up of a large number of private operators.

Trends
Short term economic pressures from austerity and local unemployment.

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

Features
Primarily deregulated market; vehicle/regulatory oversight.

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

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

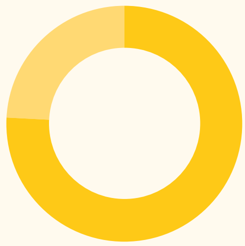
Around 75% of revenue from passengers, balance concessionary.

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

Labour
Primarily unionised with good industrial relations.

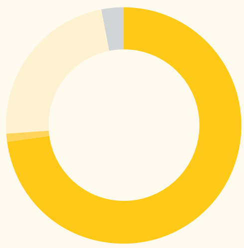
Growth
Growth strategy is focused on increasing passenger volumes through investment in vehicles, technology and our people, as well as delivering high quality services.

Customers



- Passenger fares
- Concessions

Revenue split



- Passenger
- Contract
- Subsidy
- Other

Measuring our performance – KPIs

Operational excellence
Revenue growth – like-for-like commercial
2%

2013	**2**
2012	4
2011	6

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

2013 performance
Increase driven by balanced rise in passenger journeys (+1%) and yield improvement (+1%).

Operational excellence
Margin
11.4%

2013	**11.4**
2012	12.7
2011	12.4

Why we measure
Normalised operating margin reflects pricing, operational efficiencies and cost control.

2013 performance
Margin affected by pension accounting changes, lower fuel duty rebate and higher fuel price, despite good cost efficiency savings.

Operational excellence
Passenger journeys
270.9m

2013	**270.9**
2012	271.6
2011	273.6

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

2013 performance
Good commercial passenger growth, but lower concessionary passengers in the first half of the year due to exceptionally poor weather.

Operational excellence
Mileage
68.9m

2013	**68.9**
2012	69.2
2011	69.8

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

2013 performance
Small decrease from network reviews and reduced unprofitable frequencies.

Superior cash and returns
Operating cash conversion
61%

2013	**61**
2012	59
2011	103

Why we measure
A key part of the Group's strategy is to maximise the cash generated by the divisions, within the framework of their market and operating model.

2013 performance
Broadly flat from prior year due to sustained investment in the fleet above depreciation level.

Safety
Lost time injuries (per 1,000 FTE)
12.6

2013	**12.6**
2012	22.8
2011	41.4

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

2013 performance
Safety significantly improved as safety culture, processes and systems become embedded, supported by investment in facilities and safety equipment.

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

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

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

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

Cash and returns

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

Our central control centre uses automatic vehicle location (AVL) to manage frequencies and drive punctuality

Creating new opportunities

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

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

Our network improvements have driven patronage growth

Strong year growing revenue and profit

Tom Stables
Managing Director, UK Coach

Our business model

How our business works

'National Express' is the national coach network operator in the UK, offering great value and accessible travel to all. It operates the only scheduled national UK coach network and the largest in Europe, in a deregulated market where we have flexibility over pricing and supply. Competition is modal, against rail and private car. National Express runs 500 coaches a day serving around 1,000 domestic destinations.

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 p26

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

"We re-established a solid financial and operational foundation from which to drive continued revenue growth and margin improvement."

Overview of 2013

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

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

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

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

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

Putting our markets into context

Market size
£300m

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

Market share
Around 1,000 destinations served.

National Express is the UK scheduled coach market leader.

Composition
National Express has the only nationwide network of services.

Other competitors tend to focus on specific regions or corridors.

Trends
Core revenue growth, reflecting value and convenience of coach.

Price competition from rail through discounted fares.

Features
Highly deregulated market.

Customer safety and disability access supported by regulation.

Operators able to compete flexibly on selected routes.

Customers
Customer satisfaction important in driving longer term loyalty.

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

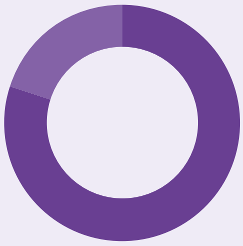
Competition
Selective competition from rail, large bus operators and localised services.

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

Consistent service and behaviour standards across all operators.

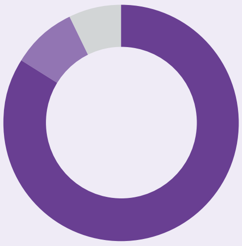
Growth
Revenue growth through competitive pricing, better distribution channels and greater understanding of our customers and their needs. In the longer term we will implement improved retailing systems.

Operations



- Third party operators
- Owned operations

Revenue split



- Passenger
- Contract
- Subsidy
- Other

Measuring our performance – KPIs

Operational excellence
Revenue growth – core network
7%

2013	7
2012	2
2011	4

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

2013 performance
Strong recovery in core business after loss of concession income in 2012.

Operational excellence
Margin
9.3%

2013	9.3
2012	8.1
2011	13.5

Why we measure
Normalised operating margin reflects pricing, operational efficiencies and cost control.

2013 performance
Increase from cost control and profitable revenue growth.

Operational excellence
Passenger journeys
18.0m

2013	18.0
2012	16.5
2011	16.8

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

2013 performance
Introduction of faster routes and new distribution channels (Ryanair, Post Office).

Operational excellence
Mileage
84.2m

2013	84.2
2012	85.0
2011	82.2

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

2013 performance
We reduced mileage to drive faster journey times, removing stops in smaller locations and selecting more direct routes.

Superior cash and returns
Operating cash conversion
140%

2013	140
2012	101
2011	70

Why we measure
A key part of the Group's strategy is to maximise the cash generated by the divisions, within the framework of their market and operating model.

2013 performance
Lower vehicle acquisitions in the owned fleet, plus a move to using more operating leases to match fleet life.

Safety
Lost time injuries (per 1,000 FTE)
14.0

2013	14.0
2012	13.2
2011	35.3

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

2013 performance
Accident rate broadly stable and a significant two-year improvement.

Operational excellence

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

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

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

Cash and returns

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

New distribution agreements with airlines and the Post Office have improved ease of access to tickets

Creating new opportunities

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

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

Better yield management has allowed us to encourage travellers by flexing pricing in line with market conditions

International growth builds from c2c success

Andrew Chivers
Managing Director, Rail

Our business model

How our business works

National Express has a strong operational skills base in Rail, one of the few privatised systems in Europe. The Rail industry comprises franchises awarded on an exclusive operation basis to private operators. Prices are predominantly regulated and costs are substantially fixed around track access, rolling stock and franchise payments. Franchisees therefore primarily target passenger volume growth, whilst fulfilling their service obligations.

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. National Express is currently bidding for Essex Thameside, Crossrail and ScotRail in the UK, and the Berlin S-bahn in Germany.

Key risks to manage

- Loss of c2c.

Read more p26

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

"c2c was awarded a 5-star rating by the European Foundation for Quality Management, the highest level attainable."

Overview of 2013

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

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

Operational excellence

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

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

Cash and returns

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

Putting our markets into context

Market size

£8.5bn

£8.5bn of UK franchise revenues over next five years (based on proposed DfT pipeline).

€6bn currently accessible German regional rail market.

Market share

One franchise currently: c2c (Essex Thameside).

Composition

Market share broadly dispersed between UK private train operators and overseas state market participants.

Trends

Growth over the past decade driven by passenger volumes.

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

Regulated fares likely to increase by 0%-1% in real terms over next two years.

Liberalising German rail market.

Features

Regulated environment.

New framework for future franchises: likely to settle between 7-15 year duration with introduction of quality element alongside pricing.

Highly regulated qualification and operational processes.

Customers

Steady growth in passenger volume over last 20 years.

Competition

Increased international competition in UK franchise bidding.

Labour

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

Growth

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

Measuring our performance – KPIs*

Operational excellence
Revenue growth
4%

2013	4
2012	7
2011	7

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

2013 performance
Revenue growth driven by fare increases and incremental passenger volume growth.

Operational excellence
Margin
6.9%

2013	6.9
2012	13.7
2011	6.3

Why we measure
Normalised operating margin reflects pricing, operational efficiencies and cost control.

2013 performance
Lower margin as NXEA franchise-end effects finish. Profit share mechanism on contract extension.

Operational excellence
Passenger journeys
37.5m

2013	37.5
2012	37.2
2011	35.6

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

2013 performance
Increase in journeys led by operational quality and marketing/off-peak initiatives.

Operational excellence
Public performance measure
96.9%

2013	96.9
2012	97.5
2011	96.7

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

2013 performance
Record-breaking performance: continuous period of two years as UK top performing franchise.

Superior cash and returns
Operating cash conversion
154%

2013	154
2012	126
2011	108

Why we measure
A key part of the Group's strategy is to maximise the cash generated by the divisions, within the framework of their market and operating model.

2013 performance
High natural cash conversion in rail franchises. c2c only in 2013.

Safety
Lost time injuries (per 1,000 FTE)
1.7

2013	1.7
2012	8.2
2011	12.7

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

2013 performance
Excellent performance in safety improvement.

* All KPIs refer to c2c only, except margin which is total Rail division.

Creating new opportunities

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

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

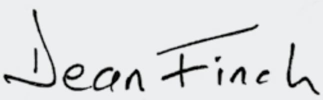
In the UK, we have a skilled and experienced bid team and have submitted bids to the DfT for Essex Thameside, where we are the current operator as c2c, and to Transport for London for Crossrail. We have also been selected by Transport Scotland to bid for the ScotRail franchise in April.

c2c has been the top rated performer of all UK rail franchises throughout 2012 and 2013

We were selected by the DfT to pilot a new smartcard ticketing system

"In 2013 we won two rail contracts to provide services to the Nord Rhine Westphalia regional government in Germany."

Our 2013 Strategic Report, from page 01 to page 51, has been reviewed and approved by the Board of directors on 27 February 2014.



Dean Finch
Group Chief Executive
27 February 2014

Contents

Corporate Governance

Chairman's Introduction

What does good governance mean to National Express?

Dear shareholder,

As a listed company in the UK, National Express is subject to the UK Corporate Governance Code (the 'Code'). The Code encourages me to report personally on how the principles relating to the role and effectiveness of the Board have been applied, and I am happy to do so.

The Board believes that maintaining the highest standards of corporate governance is essential to protecting shareholder value and the sustainable growth of the Group. We do not see governance as a box ticking exercise but as an integral part of ensuring we do the right things in the right way and that is fully embraced by all of our employees across the Group.

This section of the Annual Report and Accounts explains the various aspects of the governance of the Company, including reports from our Board Committees on their work in 2013.

The role of the Board is to provide leadership of the Company with myself as Chairman responsible for leading the Board and ensuring its effectiveness. It is therefore important that the Board has the correct balance of skills and experience and that Board members work together effectively. During the year under review I was appointed as Chairman taking over from John Devaney, while more recently Jane Kingston has been appointed as a Non-Executive Director. On 25 February 2014 Tim Score stepped down from the Board and Jackie Hunt became Senior Independent Director and Chair of the Audit Committee from 26 February 2014. I would like to thank Tim for his significant contribution to the Company over the past nine years. In view of these changes and to ensure continuity, I asked Sir Andrew Foster to remain on the Board even though he has served for more than nine years. Sir Andrew brings a wealth of knowledge and experience and I greatly value Andrew's support and guidance and welcome his decision to take up the offer to remain as a Director until the 2015 Annual General Meeting.

National Express supports diversity throughout the Group as well as in the Boardroom. While our existing policy is to select the best available candidate for any role irrespective of race, gender, disability or age, we have set the aspirational target that by 2015, 30% of the Board will be women, in line with the recommendation of the Davies Report on Boardroom Diversity. We are making good progress towards our target and with the recent appointment of Jane Kingston, 20% of our Board are now women.

In 2013 the review of the performance of the Board was carried out internally via a questionnaire circulated to all Directors. The review confirmed that the Board continued to operate effectively. More details are set out on page 61.

There have been a number of changes in reporting requirements introduced this year by the September 2012 edition of the Code and the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the 'Regulations'). The most significant reporting changes have been to our Directors' Remuneration Report as a result of the Regulations with the introduction of the binding vote on our remuneration policy and the way we are required to report on some elements of remuneration.

This year our Annual General Meeting will be held at 2.00 pm on 14 May 2014 at Hall 5, International Convention Centre, Broad Street, Birmingham B1 2EA and I would encourage you to attend to meet me and the Board.

Sir John Armitt
Chairman
27 February 2014

The right mix of skills and experience delivering effective oversight

Sir John Armitt, Chairman (68)

Committee membership:
Nomination (Chair)
Safety & Environment

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, Chairman of the Olympic Delivery Authority and a member of the Transport for London Board. Sir John was Chairman of the Engineering and Physical Science Research Council until 31 March 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 (47)

Committee membership:
N/A

Appointment: 15 February 2010

Experience: Prior to joining National Express, Dean Finch was Group Chief Executive of Tube Lines from June 2009. Before that he worked for over 10 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 2000-2004 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.

Tim Score, Senior Independent Director (until 25 February 2014) (53)

Committee membership:
Audit (Chair until 25 February 2014)
Remuneration
Safety & Environment

Appointment: 21 February 2005 (resigned 25 February 2014)

Experience: Tim Score was appointed to the Board in February 2005 and acted as Interim Chairman between December 2008 and April 2009. He is Chief Financial Officer at ARM Holdings PLC. Before joining ARM he worked as Finance Director of Rebus Group Limited which he joined in 1999. Between 1997 and 1999, he was Group Finance Director of William Baird PLC, which he joined from LucasVarity PLC. He is a chartered accountant. As announced on 28 January 2014, Tim Score stepped down from the Board on 25 February 2014.

Jez Maiden, Group Finance Director (52)

Committee membership:
N/A

Appointment: 17 November 2008

Experience: Jez Maiden was formerly Chief Finance Officer at Northern Foods PLC. Prior to that, he was Group Finance Director of British Vita PLC, Director of Finance of Britannia Building Society and Group Finance Director of Hickson International PLC. He is currently a Non-Executive Director of Synthomer PLC and is a Fellow of the Chartered Institute of Management Accountants.

Jorge Cosmen, Deputy Chairman (45)

Committee membership:
Nomination
Safety & Environment

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 Non-Executive Director of Bankia, as well as of other private companies.

Jackie Hunt, Independent Non-Executive Director (appointed Senior Independent Director from 26 February 2014) (45)

Committee membership:
Audit (Chair from 26 February 2014)
Safety & Environment

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 was appointed Senior Independent Director and Chair of the Audit Committee from 26 February 2014.

Chris Muntwyler, Independent Non-Executive Director (61)

Committee membership:
Audit
Safety & Environment (Chair)

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.

Joaquín Ayuso, Independent Non-Executive Director (58)

Committee membership:
Nomination
Safety & Environment

Appointment: 1 June 2011

Experience: Joaquín Ayuso is Board Vice Chairman for Ferrovial, the €12 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 currently a Non-Executive Director of Bankia, Chairman of the Board of Ausol in Spain and Senior Advisor to AT Kearney in Spain and Portugal.

Lee Sander, Independent Non-Executive Director (57)

Committee membership:
Remuneration
Safety & Environment

Appointment: 1 June 2011

Experience: Elliot (Lee) Sander is President and Chief Executive Officer of the HAKS Group, Inc. An American citizen, he was recently 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. He has also played a very active role on the National Surface Transportation Infrastructure Finance Commission, having been appointed by the United States Congress in 2006.

Sir Andrew Foster, Non-Executive Director (69)

Committee membership:
Audit
Nomination
Remuneration (Chair)
Safety & Environment

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. He currently works for Royal Bank of Canada and is Chairman of Commonwealth Games England. He is also 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.

Jane Kingston, Independent Non-Executive Director (56)

Committee membership:
Remuneration
Safety & Environment

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.

Michael Hampson, General Counsel & Company Secretary

Committee membership:
N/A

Appointment: 30 January 2012

Experience: Prior to joining National Express, Michael Hampson held the position of General Counsel and Company Secretary at Whitbread PLC, RMC Group PLC and Charter International PLC; he was also the Director of Corporate Development at Anglian Water Group PLC. He is currently Chairman of the Royal Society for the Prevention of Accidents and is a barrister and Chartered Secretary.

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') as relevant for the Company in 2013. The Directors believe that the Company has complied with the provisions set out in the Code during 2013 save as described below. A printed copy of the Code can be obtained free of charge from FRC Publications by telephone (+44 (0)20 8247 1264), email (cch@wolterskluwer.co.uk) and online at www.frcpublications.com.

As part of the Board's succession plans and in order to ensure there was continuity, it was decided to ask Sir Andrew Foster to remain a Director until the 2015 Annual General Meeting ('AGM'). With effect from 1 August 2013, Sir Andrew has served on the Board for more than nine years and is no longer deemed independent under the Code; however, it was felt important that with his significant experience he remain the Chair of the Remuneration Committee and a member of both the Nomination and Audit Committees. The intention is that Sir Andrew will continue to be a member of these Committees until he stands down at the 2015 AGM; the composition of the Committees will then be brought into line with the Code requirements.

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

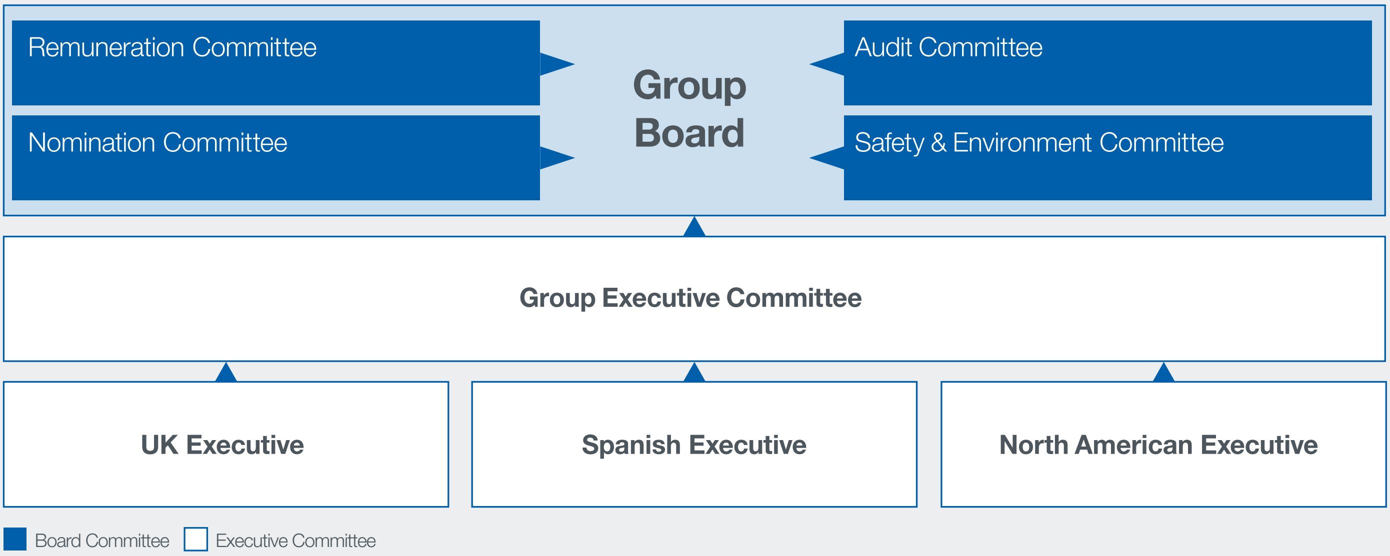
Corporate governance

- 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

Reporting framework



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 the necessary controls and resources are in place to deliver it. To help discharge its responsibilities, the Board has a formal schedule of matters specifically reserved for its decision, which form the core of the Board's agenda. The Board has also delegated certain aspects of its responsibilities to the following Committees: the Audit Committee, the Remuneration Committee, the Nomination Committee and the Safety & Environment Committee. More details about these Committees can be found in this report.

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 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 on page 59 shows the main items of business addressed by the Board during the year. The Non-Executive Directors also meet during the year without the Executive Directors being present.

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 54.

Governance Report continued

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

Non-Executive Directors constructively challenge and scrutinise the performance of management and help develop proposals on strategy. 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 88.

Senior Independent Director

Tim Score was the Senior Independent Director ('SID') of the Company during 2013. As announced on 28 January 2014, Tim Score stepped down from the Board on 25 February 2014 and Jackie Hunt became the SID from 26 February 2014. 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. The SID also has responsibility for leading the annual appraisal of the Chairman's performance.

Executive Directors

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

Principal committees of the Board

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

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

Reports of each of the Committees are provided on pages 64 to 87, and include information on each Committee's membership, duties and work 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 57.

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.

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

Number of Board meetings

Board meetings	The Board of Directors	Audit Committee	Nomination Committee	Remuneration Committee	Safety & Environment Committee
Total meetings in 2013	7	3	1	4	3
Executive Directors					
Dean Finch, Group Chief Executive	7	–	–	–	–
Jez Maiden, Group Finance Director	7	–	–	–	–
Non-Executive Directors					
Sir John Armitt	7	–	1	–	3
Joaquín Ayuso	7	–	1	–	2
Jorge Cosmen	7	–	1	–	2
John Devaney[1]	0 (1)	–	–	–	–
Sir Andrew Foster	6	2	1	4	1
Jackie Hunt	6	3	–	–	3
Chris Muntwyler	6	2	–	–	3
Lee Sander	7	–	–	3	3
Tim Score	7	3	–	3	3

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

[1] Resigned from the Board on 31 January 2013. Maximum possible meetings shown in brackets.

Board activity throughout the year (excluding standing items)

January 2013	• Review of the Group Strategic Plan for 2013-2017 • Capital investment • German rail bids update
February 2013	• Capital investment • Treasury funding update • Approval of the Preliminary Results Announcement, Annual Report and Accounts for the year ended 31 December 2012 and Notice of Annual General Meeting • Recommendation of the final dividend for financial year 2012
May 2013	• Approval of the establishment of the National Express Giving Foundation in North America • Approval of the international bid strategy • Update on UK and German Coach businesses
June 2013	• Broker feedback • Presentation on the UK Bus business • Rail bids update • Capital investment • Approval of the new Revolving Credit Facility
July 2013	• Review of the North American HR strategy • Capital investment • Approval of the Half Year Results Announcement and interim dividend
October 2013	• Presentation on the Spanish and Moroccan businesses • Presentation on the results of the Executive Committee's Strategic Away Day • Capital investment
November 2013	• Presentation on rail franchising by the Department of Transport • Approval of the Essex Thameside rail bid • Approval of the 2014 budget • Presentation on Group succession planning • Review of the results of the 2013 Board performance evaluation • Presentation on the work of the National Express Foundation

Board oversight and benchmarking

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

Effectiveness

Composition of the Board

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.

During 2013, at least half of the Board, excluding the Chairman, comprised independent Non-Executive Directors in accordance with the Code.

A list of the individual Directors, their biographies and Committee memberships as at the date of this report are set out on pages 54 to 55.

Independence

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

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

As at 1 August 2013, Sir Andrew Foster had served on the Board as a Director for more than nine years, having been appointed on 1 August 2004. Sir Andrew has agreed to remain on the Board until the 2015 AGM and the Board believe that it is in the best interests of the Company and shareholders that he should do so given his wealth of experience and to ensure continuity following the recent changes to the Board's composition.

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.

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

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 British 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.

Information and support

Reports from the Executive Directors, which include in-depth financial information, are circulated to Board members prior to every Board meeting. Senior management and advisers make presentations to the Board on significant matters during the year. Every effort is made to ensure that information reported to the 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.

All Directors have access to the advice and services of the Company Secretary who is responsible to the Board for ensuring compliance with the Board procedures. The Company Secretary is responsible for advising the Board, through the Chairman, on all governance matters. Under the direction of the Chairman, the Company Secretary's role includes ensuring good information flows within the Board and its Committees, and between senior management and Non-Executive Directors, as well as facilitating induction and assisting with professional development 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.

Performance evaluation

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

In 2011 an external evaluation of the Board's performance was led by Geoffrey Shepheard of ICSA Board Evaluation, who had no other connection with the Company. In accordance with the Code it is the Board's intention that the Board evaluation in 2014 will be externally facilitated.

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

Actions implemented from the 2012 evaluation are detailed below.

2012 recommendations	Actions
Increase focus on action plans arising from Board decisions with clear responsibilities and timescales for resulting actions	A list of matters arising from each Board and Committee meeting is maintained with clear responsibilities and deadlines for completion and followed up at subsequent meetings, with actions remaining on the list until they are completed
Further development of Board succession planning including an analysis of the future composition of the Board	Changes have been made to the composition of the Board in 2013

The results of the 2013 internal evaluation were discussed at the November Board meeting. The Board's discussions highlighted a number of areas of strength and it was felt that the Board continued to work well. Areas identified for action from the 2013 evaluation include the following:

2013 evaluation – areas for action

Improve timing of delivery of Board papers to Directors	Changes will be considered when preparing the 2015 Board calendar to ensure there is more time between delivery of the Board papers and the actual meetings
Allow sufficient time for discussion of complex issues	When producing agendas, more time will be allocated to such agenda items
Ensure the Board has the right balance of skills	This was addressed through the current NED search process that resulted in the appointment of Jane Kingston
Provide the Board with greater contact with senior management	The Board meet the North American and Spanish management teams once a year and opportunities will be provided to give the Board increased exposure to the UK based management teams

Outcomes arising from this 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 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 undertake an annual review at each operating company to assess the integrity of the balance sheet and to check the effective operation of key financial reporting and information systems controls. The results of the reviews are presented to both divisional and Group finance with any required actions agreed with the relevant divisional Finance Director.

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

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

Health and safety – Health and safety standards and benchmarks have been established in all 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 in December 2010. Where significant control failings or weaknesses have been identified, appropriate corrective action has been taken.

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 2013 there have been no cases relating to fraud or financial misconduct.

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 6 to 10 and the Group Finance Director's Review on pages 28 to 31. In addition, note 30 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposure to credit risk and liquidity risk.

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

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

Remuneration

The Directors' Remuneration Report, including details of remuneration policy and service contracts, is set out on pages 68 to 87.

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 Chairman, Group Chief Executive and Group Finance Director have held a number of meetings with existing and prospective institutional shareholders during the year as well as given presentations following the full year and half year results. They have also met and given presentations to research analysts and stockbrokers' sales teams. The Company's appointed brokers and investor relations advisors in turn have provided regular confidential feedback to the Company on the views of the major institutions.

The Chairman, Senior Independent Director and other Non-Executive Directors are also given the opportunity to meet institutional shareholders and are available by contact through the normal channels. During 2013 the Chairman met with major shareholders to discuss the governance and direction of the Company.

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

Analyst coverage

The Company is aware of 15 analysts who have published equity research notes covering National Express Group PLC during 2013 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 80% 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 2014 Annual General Meeting and updating them on the progress of the business this year.

Audit Committee overview

Dear shareholder,
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 2013.

Composition
The individuals who served on the Committee during 2013 are set out below:

Name of Director	Position
Tim Score	Committee Chair (until 25 February 2014)
Sir Andrew Foster	Non-Executive Director
Jackie Hunt	Independent Non-Executive Director (appointed Committee Chair from 26 February 2014)
Chris Muntwyler	Independent Non-Executive Director

Both myself and Jackie Hunt are considered by the Board to meet the requirements of the Code that at least one Committee member has recent and relevant financial experience.

On 25 February 2014, I stepped down from the Board and Jackie Hunt took on the role of Chair of the Committee from 26 February 2014.

Responsibilities
The Audit Committee's primary responsibilities comprise the duties and tasks delegated to it by the Board and include the following:

- overseeing the process for selecting the external auditor, assessing the continuing independence of the external auditor and recommending approval of the audit fee to the Board;
- responsibility for ensuring that provision of non-audit services does not impair the external auditor's independence or objectivity;
- liaising with the external auditor on matters relating to the nature and scope of the audit and any issues or concerns arising from the audit process;
- reviewing 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
Three Committee meetings were held in 2013. Details of attendance at these meetings can be found on page 58. 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 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, the Committee considered the following:

- review of compliance with Code;
- review of the effectiveness of the Group's internal audit function and internal controls and approval of the internal audit plan for 2013;
- review of the Group Risk Register;
- review of the Group's IT strategy;
- approval of the updated Group Treasury Counterparty Risk Policy;
- review and approval of the Audit and Non-Audit services and fees;
- consideration of the results of internal audit compliance testing of financial controls (Annual Fitness Checks) within the subsidiaries;
- review of the effectiveness of the external audit process and the independence of the external auditor;
- consideration and recommendation to the Board of the re-appointment of the external auditor;
- approval of the 2013 external audit plan and fees;
- undertook a self assessment of the effectiveness of the Committee and concluded that it continued to operate effectively;
- review of the Company's Preliminary Results, full year and half year financial statements and accounting policies;
- review of the operation of the Group's whistleblowing and anti-bribery and corruption policies;
- review and approval of the Committee's report for inclusion in the Annual Report; and
- consideration and recommendation to the Board for approval of the updated Committee's terms of reference.

Significant issues
The significant issues considered in the year are detailed below:

- *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 2013 Financial Statements.

- *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.
- *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.
- *Other matters* – The Committee also considered the key assumptions underpinning the Group's defined benefit pension obligations as well as the adequacy of the liabilities arising from uncertain tax positions. 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. Following consideration, the Committee concluded that the defined benefit pension assumptions were reasonable and the taxation liabilities were fairly stated.

Risk management and internal control

The Committee continued to monitor the Group's internal financial controls and risk management systems.

Further details of the internal controls are set out on pages 61 to 62. A summary of the Company's risk management framework and an overview of its principal risks are detailed on pages 24 to 27.

Internal Audit

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.

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 introduction 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 were appointed as the Company's auditor.

Effectiveness and independence of external auditor

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 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.

We believe the auditor has performed satisfactorily in 2013, that the audit process they implemented was effective and they remain 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 their performance and we were happy to recommend to the Board that they be put forward to be re-appointed at the 2014 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 2013 appears in note 6 to the Consolidated Accounts.

Tim Score
Audit Committee Chair
25 February 2014

Nomination Committee overview

Dear shareholder,
I am pleased to report to you on the work undertaken by the Committee during 2013.

Composition
The individuals who served on the Committee during 2013 are set out below:

Name of Director	Position
Sir John Armitt	Committee Chair (appointed a Committee member on 1 January 2013 and as Committee Chair on 1 February 2013)
Joaquín Ayuso	Independent Non-Executive Director (appointed 26 February 2013)
Jorge Cosmen	Deputy Company Chairman
John Devaney	Company Chairman (resigned 31 January 2013)
Sir Andrew Foster	Non-Executive Director

Responsibilities
The key responsibilities of the Nomination Committee are summarised below:

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

Meetings
One Committee meeting was held in 2013. Details of attendance at this meeting can be found on page 58.

At the invitation of the Committee, and as appropriate to the matters under discussion, meetings may be attended by the Executive Directors and external advisers. 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 the Committee:

- evaluated the balance of skills, experience, independence, diversity and knowledge on the Board and then prepared a description of the role and capabilities required for the recruitment of a new Non-Executive Director;
- appointed search consultants, JCA Group (who have no other connection with the Company), to identify a shortlist of candidates for the role of Non-Executive Director and interviewed candidates following which the appointment of Jane Kingston was recommended to the Board; and
- reviewed succession plans across the Group.

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. While maintaining our existing policy of selecting the best available candidate for any position, National Express has set the aspirational target that by 2015, 30% of the Board will be women, in line with the recommendations of the Davies Report on Boardroom Diversity. We are making good progress towards our target and with the recent appointment of Jane Kingston, 20% of our Board are now women.

Sir John Armitt
Nomination Committee Chair
27 February 2014

Safety & Environment Committee overview

Dear shareholder,
I am pleased to report that in 2013 we continued to make good progress in our safety performance and in the management of the Company's environmental responsibilities.

Composition

The individuals who served on the Committee during 2013 are set out below:

Name of Director	Position
Chris Muntwyler	Committee Chair
Sir John Armitt	Company Chairman (appointed 1 January 2013)
Joaquín Ayuso	Independent Non-Executive Director
Jorge Cosmen	Deputy Company Chairman
Sir Andrew Foster	Non-Executive Director
Jackie Hunt	Independent Non-Executive Director
Lee Sander	Independent Non-Executive Director
Tim Score	Senior Independent Director (resigned 25 February 2014)

Jane Kingston was appointed a member of the Committee on 26 February 2014.

Responsibilities

The key responsibilities of the Committee are as below:

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

Meetings

Three meetings were held in 2013. Details of attendance at these meetings can be found on page 58.

At the invitation of the Committee, and as appropriate to the matters under discussion, meetings may be attended by the Executive Directors, senior management responsible for Safety and Environmental matters, and external advisers. 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 the Committee:

- reviewed the findings and actions from the 2012 review of the Group's 'Driving Out Harm' programme;
- monitored progress of the divisional action plans stemming from the 2012 'Driving Out Harm' review;
- reviewed the findings and recommendations of the external audit of corporate governance of safety and agreed a further external audit should be carried out in 2014 in line with the Global Safety Standard;
- reviewed environmental management across the Group;
- monitored safety practices and procedures across the Group; and
- considered and recommended to the Board for approval the updated Committee's terms of reference.

It is now mandatory for UK public companies to report on greenhouse gas emissions in all of their businesses from 2013 and more details on this can be found on pages 22 to 23.

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
27 February 2014

Embracing new remuneration reporting

Remuneration Committee overview

Dear shareholder,
I am pleased to be given the opportunity to introduce the Directors' Remuneration Report for the year ended 31 December 2013.

During the 2013 financial year we have continued to see a focus on Executive remuneration. In line with the revised remuneration disclosure regulations that came into force in 2013, we have split the report into two parts:

- The Directors' Remuneration Policy report sets out the Company's remuneration policy for Directors for three years from the date of the 2014 AGM and the key factors that were taken into account in setting the policy. This policy is subject to a binding shareholder vote at the 2014 AGM and after that at least every third year.
- The Annual Report on Remuneration sets out payments and awards made to the Directors and details the link between Company performance and remuneration for the 2013 financial year. This report together with this letter is subject to an advisory shareholder vote at the 2014 AGM.

The turnaround of the Group has continued during 2013 with a strong financial performance having been delivered. The highlights of the year were:

- normalised Group profit before tax of £143.7 million with an increase in core non-rail normalised operating profit to £185.5 million;
- 7% growth in UK Coach core service revenue;
- secured £1.8 billion in contract wins;
- delivered over £180 million of free cash flow;
- reduced net debt by £82 million;
- strong improvement in ROCE; and
- delivered a total shareholder return of 41% in 2013.

Against this background, our pay and benefits must be at a level that will attract and retain high quality management who are fully incentivised to deliver outstanding performance. We operate in an international market that places a premium on successful individuals. We have in our Executive Directors individuals of proven ability and the changes we made to their remuneration in 2012 helped the Company to retain and motivate them. This was very much in the long term interests of shareholders. After a pay freeze of two years (for 2012 and for 2013), the Committee has decided that a modest 2% increase to base pay for Executive Directors is appropriate, effective from 1 January 2014. A similar rise has been agreed for other managers in the Group.

We have made no other changes to the structure of our Executive remuneration during 2013. Bonuses of 142.89% and 144.08% of base salary were achieved by the Group Chief Executive and Group Finance Director respectively. The Remuneration Committee were comfortable that these bonus payments were based on performance against financial and safety targets alongside the achievement of specific personal objectives set at the beginning of the year.

We consulted many shareholders during 2013 on our remuneration packages and the Board will continue to liaise with shareholders on this important subject as part of its ongoing dialogue with them. We believe that the Remuneration Policy report for 2014 is appropriate for future years and we look to our shareholders to approve the Report.

Sir Andrew Foster
Remuneration Committee Chair
27 February 2014

Directors' Remuneration Policy report

Introduction

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 has taken account of the Directors' Remuneration Reporting Guidance issued by the GC100 and Investor Group. It will be submitted to shareholders for their approval at the AGM to be held on 14 May 2014. In carrying out its functions, the Committee has followed the provisions of Schedule A to the September 2012 edition of the Code which is published by the Financial Reporting Council. Further information on the Code can be found on the Financial Reporting Council's website, frc.org.uk.

In this section of the report we have provided details of the Company's remuneration policy for Directors which is proposed to be applicable from the date of the 2014 AGM and the key factors taken into account when setting this policy.

Remuneration policy for Executive Directors

Commencing from the 2014 AGM, shareholders will be provided with the opportunity to endorse the Company's remuneration policy through a binding vote at least every three years. The first binding vote on the Directors' remuneration policy set out in this section of the report will be put to shareholders at the 2014 AGM.

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

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

In implementing its policy, the Committee gives full consideration to the principles set out in the 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.

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

The Group operates a leadership and development programme which includes an appraisal system for Directors and senior management. In 2013 the appraisal system used balanced scorecards to assess performance against safety, customer, people and community objectives. The results of the annual appraisal system are taken into consideration when setting remuneration levels.

Remuneration structure from 2014

The table below sets out the key elements of the Company's remuneration policy for the Executive Directors with effect from the 2014 AGM. Whilst there is no major change in policy identified in these tables, the Remuneration Committee always seeks to retain flexibility in setting pay and benefits. This reflects competitive and other pressures which might affect our ability to recruit, retain and motivate key individuals.

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 are 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; • pay and conditions elsewhere in the Group; and • individual performance, skills, experience in post and potential. A greater increase may be granted if there is a substantive change to an Executive's role or responsibility, for example following promotion, or if an Executive's salary falls significantly below market positioning. The Committee may stage increases in these circumstances over a number of years and the increases may be contingent on performance in role. When considering pay increases the Committee intends to 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 to make them more appropriate.
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 Chief Executive receives a cash supplement in lieu of pension at 35% of salary. The Group Finance Director receives 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.
Performance related bonus	To incentivise delivery of performance objectives that 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 paid following year end. Bonus payments are not pensionable. 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. Dividends or dividend equivalents (which may assume notional reinvestment) are paid on these shares. 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 is 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 is to be deferred. The Remuneration Committee retains the discretion to standardise the percentage of the bonus deferred into shares if this is felt 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.

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 and his Retention Award, both of which are described on page 74.

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 Directors' salary has fallen significantly below market position. In such circumstances, the increase will not exceed RPI +10%.	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.
Maximum 150% of base salary.	The targets for the bonus in respect of 2013 were as follows: For the Group Chief Executive 70% bonus is subject to normalised financial targets, 30% subject to non-financial targets. For the Group Finance Director 60% bonus is subject to normalised financial targets, 40% subject to non-financial targets. The Committee retains discretion 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 but will be disclosed when they are considered no longer commercially sensitive.

Remuneration policy table for Executive Directors continued

Element	How element supports business strategy	Operation
Performance related bonus (continued)		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. Dividend equivalents can be paid on these shares. A proportion of the award is made as approved share options under an HMRC approved option plan structure. This does not increase the gross benefit to the participant or the costs to the Company or shareholders. 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.
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.

Notes:

Long term incentive arrangements

LTIP – performance conditions

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

The performance condition attached to the other half of an award (Part 'B') is based on the Company's Total Shareholder Return ('TSR') performance over the same fixed performance period relative to the TSR performance of an appropriate group of companies.

EPS and TSR have been chosen for the LTIP as the most appropriate measures of the Group's long term performance, since EPS is an important growth measure considered within the Company and a driver of shareholder value and TSR improves shareholder alignment and is consistent with the Company's objective of providing superior long term returns to shareholders.

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

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

The Committee believes that EPS growth as a performance measure for the long term incentives, in most normal circumstances, provides a transparent and accessible method of gauging the financial performance of the Company. The Company calculates performance against this performance measure by reference to the earnings per share figures reported in the Company's audited accounts. TSR measured against an appropriate group of companies has been used by the Company as a primary performance measure for awards made to Executive Directors under the LTIP as outlined in this report.

The current LTIP rules expire in May 2015 and the intention is that these are renewed at the AGM in 2015 on the same terms but with the inclusion of a provision that would enable awards to be reduced should it be necessary for the Company to restate materially the financial results.

The LTIP grant in 2014 will include a provision that will enable awards to be reduced should it be necessary for the Company to restate materially the financial results.

The Committee may grant awards under the Listing Rule 9.4.2 which allows for the granting of awards, specifically to facilitate, in unusual circumstances, the recruitment or retention of an Executive Director, without seeking prior shareholder approval, up to an equivalent of 100% of salary per annum. The Company will explain the reasons for making any awards under Listing Rule 9.4.2 in the following year.

On a change of control, Deferred Bonus Awards and 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.

All employee share schemes

Currently the Company does not operate any all employee share plans. However if the Company implements any all-employee share schemes in the future, the Executive Directors would be eligible to join such schemes.

Maximum potential value	Performance conditions and assessment
	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 at least 95% of budget 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 2013, please see page 79.
Executive Directors are eligible to receive a conditional award of Performance Shares up to an equivalent of 100% of base salary per annum.	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.
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.

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). However, the Committee reserves the right to make payments outside of this policy in exceptional circumstances. The Committee would only use this right where it believes that this is in the best interests of the Company, and when it would be disproportionate to seek specific approval from a general meeting.

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 recruit was in post (maximum of 150% of salary). If the commencement date is after 1st September in the year, no award would normally be made for that year;
- participation in the Long Term Incentive Plan (Performance Shares equivalent to up to 100% of salary), Matching Scheme (up to four Matching Shares based on an Executive Director's investment of up to 30% of salary) and any all employee share plans operating at that time; 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 100% 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
Jez Maiden	17 November 2008	12 months	12 months
Dean Finch	16 December 2009	12 months	6 months

The service contracts of both the Executive Directors, which are rolling contracts, contain a provision, exercisable at the option of the Company, to pay an amount on termination of employment equal to one year's salary or, in the case of Dean Finch, one year's salary, salary supplement in lieu of pension and car allowance. The 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 relevant 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 pension normally becomes payable, at the earliest, on 1 April 2022. All or part of it may be paid as a lump sum. The Group Chief Executive may request early payment on a change of control.

The Group Chief Executive is eligible to receive a conditional Retention Award of Performance Shares equivalent to 100% of base salary per annum. Vesting is dependent on the achievement of performance conditions measured over a five-year period. Half of any award is subject to EPS growth and the remaining half is subject to the relative total shareholder return (TSR) of the Company measured against an appropriate group of companies.

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.

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 2013 are shown below.

Director	Fee	External appointment
Jez Maiden	£50,000 (2012: £50,000)	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.

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 equal to at least one year's current salary over a period of five years.

The details of the interests of the Executive Directors in shares and long term incentive interests are set out on page 83 together with the extent to which each of the Executive Directors has complied with the guidelines as at 31 December 2013.

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
Tim Score	21 February 2005	1 month

The table below sets out the Company's remuneration policy for the Non-Executive Directors with effect from the 2014 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.

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.

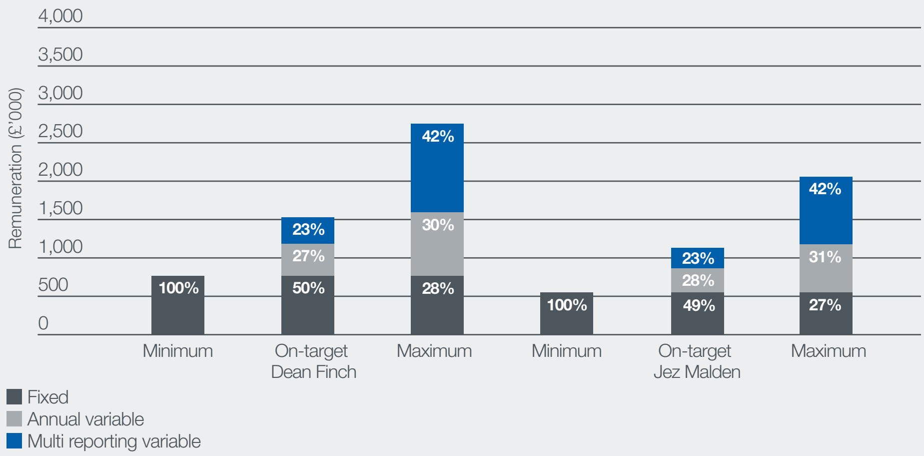
The elements of remuneration have been categorised into three components: (i) Fixed; (ii) Annual variable; and (iii) Multiple reporting period, which are set out in the future policy table below.

Element	Descriptions
Fixed	Total amount of salary, pension and benefits in respect of 2013
Annual variable	Performance Related Bonus (including deferred element)
Multiple reporting variable	Long Term Incentive Plan (Performance Shares and Matching Shares)

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

- Salaries are as at 31 December 2013.
- Performance Share Awards are granted at the maximum level permitted under the policy.
- Each Director will own shares with a value of 30% of his base salary and will receive up to four Matching Shares for each National Express share pledged or purchased.
- 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 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. Performance Shares and Matching Shares are cascaded down below Executive level to senior management, aligning the senior team to deliver value for the Group.

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.

The Committee reflected on the views of shareholders from the AGM in 2013. We remain sensitive to such views and sought to consult many of our leading shareholders during 2013 and 2014 on remuneration issues. We explained the rationale for our actions in 2012 and reassured shareholders that there would be no major changes to the remuneration policy in 2013. The Committee will continue to monitor shareholder comments and retain an open dialogue as necessary.

Annual Report on Remuneration

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

Composition

The individuals who served on the Remuneration Committee during 2013, and those individuals who attended Remuneration Committee meetings, are set out below:

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

Management attendees	Position
Dean Finch	Group Chief Executive
Stephen Connock MBE	Group HR Adviser
Michael Hampson	General Counsel and Company Secretary

Jane Kingston was appointed a member of the Committee on 26 February 2014.

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 four times in 2013. Details of attendance at these meetings can be found on page 58.

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.

Main activities during the year

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

- review of Executive Directors' and senior Executives' salary levels;
- approval of annual bonus payments;
- review of the Chairman's fees;
- consideration and approval of performance targets to apply to the 2013 Long Term Incentive Plan awards (including the total shareholder return comparator group used and the range of earnings per share targets set);
- approval of 2013 award levels under the Company's share plans;
- testing of performance conditions and approval of vesting of Long Term Incentive Plan awards granted in 2010;
- setting targets for the Group's 2013 bonus scheme;
- review and approval of the draft Directors' Remuneration Report for the year ended 31 December 2013;
- approval of the appointment of PricewaterhouseCoopers as new independent remuneration consultants from 1 August 2013 following a tender process;
- consideration and recommendation to the Board for approval of the updated Committee's terms of reference; and
- review of advisers and fees paid to them.

Advisors to the Committee

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

PricewaterhouseCoopers LLP ('PwC') – independent remuneration consultants from 1 August 2013;

New Bridge Street ('NBS') – independent remuneration consultants up to 1 August 2013;

Dean Finch – Group Chief Executive;

Stephen Connock MBE – Group HR Adviser;

Michael Hampson – General Counsel, and Company Secretary;

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 Adviser 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.

Following a competitive tender process, the Committee appointed independent remuneration consultants, PwC, to advise on all aspects of senior executive remuneration. PwC was appointed from 1 August 2013.

During 2013 PwC provided advice to the management of the Group on various matters including pensions, information technology, internal audit and tax advice.

Prior to 1 August 2013, NBS were the appointed independent advisers to the Committee. NBS has no other connection with the Group other than in the provision of advice on Executive and employee remuneration and nor does its ultimate parent, Aon PLC.

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

NBS and 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)
NBS	36
PwC	35

Base salary

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

Performance related bonus

A summary of the 2013 performance related bonus scheme is summarised below.

The maximum potential bonus payable to Executive Directors in 2013 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 is 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 is to be deferred.

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 2013.

In respect of the targets applying to the annual bonus for 2013 for the Group Chief Executive and Group Finance Director, a maximum of 105% of salary and 90% of salary respectively was payable based on achievement against a sliding scale of challenging financial targets. A maximum of 45% and 60% of salary respectively was payable based on non-financial targets that encompassed customer, operational excellence and people objectives.

In relation to the proportion of the bonus determined by performance against normalised profit targets no bonus is payable unless the Company achieves at least 95% of budget and the maximum amount is only payable on the achievement of a stretch target of 110% of budget. The 2013 target set in relation to budget was £132.6 million.

The 2013 target set in relation to net debt was to deliver a net debt of £799.1 million.

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 2013 awards and the actual performance and bonus value achieved.

The Committee has full discretion in the payment of annual bonuses. For any financial element to be payable, the Group must have achieved at least 95% of its normalised profit targets 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. As the financial targets are considered to be commercially sensitive and potentially provide information to competitors, they will not be disclosed in advance but will be disclosed the following year.

Non-financial objectives are logged with the Committee at the beginning of each year and then performance is reviewed at the end of the year in detail before any bonus payment is determined. The Committee believes that the non-financial targets are commercially sensitive since they may provide competitors with insight into the Group's strategic plans and will not be disclosed in advance. The Committee's intention is that a summary of these targets will be disclosed the following year.

The amounts deferred under the bonus plan 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 2013 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 2013 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 deferred bonuses awarded to both Executive Directors in 2013 (based on performance to 31 December 2012) are due to vest on 28 February 2014.

Single total figure of remuneration

Executive Directors

The table below sets out the single total figure of remuneration and breakdown for each Executive Director paid in the 2013 financial year. Comparative figures for 2012 have also been provided.

	2013						2012					
£'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	**550**	**26**	**785**	**0**	**192[2]**	**1,553**	550	26	644	289	192[2]	1,701
Jez Maiden	**420**	**25**	**605**	**0**	**105**	**1,155**	420	24	491	227	105	1,267

[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 82.

2013 Bonus Scheme

	% 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 95% of budgeted normalised profit before tax (PBT)	22.5% for Group Chief Executive 18.75% for Group Finance Director	
On-target bonus potential at 100% of budgeted normalised PBT	45% for Group Chief Executive 37.5% for Group Finance Director	Awarded on achieving budget
Stretch bonus for 110% of budgeted normalised PBT	90% for Group Chief Executive 75% for Group Finance Director	Awarded on achieving a stretch target of 110% of normalised PBT
Net debt	15% for Group Chief Executive 15% for Group Finance Director	
Non-financial targets (underpinned by achievement of 95% of budgeted normalised PBT)	45% for Group Chief Executive 60% for Group Finance Director	Awarded on meeting key strategic Group objectives tailored to each Executive Director's responsibilities

Performance condition	Weighting		Threshold 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			**Dean Finch**	**Jez Maiden**	**Dean Finch**	**Jez Maiden**	**Dean Finch**	**Jez Maiden**
Normalised profit	60%	50%	95%	110%	108.4%	108.4%	22.5%-90%	18.75%-75%	82.89%	69.08%
Net debt	10%	10%	–	–	10%	10%	3.75%-15%	3.75%-15%	15%	15%
Non-financial targets	30%	40%	–	–	30%	40%	0%-45%	0%-60%	45%	60%
Total	**100%**	**100%**							**142.89 % salary**	**144.08 % salary**
									£785,000	**£605,000**

LTIP awards

Performance Share Awards and Matching Share Awards granted under the LTIP in 2011 are scheduled to vest in 2014. The performance period relating to these Awards ended on 31 December 2013. 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)	
					Dean Finch	Jez Maiden	Dean Finch	Jez Maiden
TSR[1]	50%	Median of comparator group	20th percentile of comparator group	Below median of comparator group	15%-50%	15%-50%	0%	0%
EPS	50%	2013 EPS of 26.1p	2013 EPS of 29.3p	21.5p	15%-50%	15%-50%	0%	0%
Total	**100%**		**30%-100%**			**30%-100%**	**0% salary**	**0% salary**
							£nil	**£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)	
					Dean Finch	Jez Maiden	Dean Finch	Jez Maiden
TSR[1]	50%	Median of comparator group	20th percentile of comparator group	Below median of comparator group	18%-60%	18%-60%	0%	0%
EPS	50%	2013 EPS of 26.1p	2013 EPS of 29.3p	21.5p	18%-60%	18%-60%	0%	0%
Total	**100%**		**36%-120%**			**36%-120%**	**0% salary**	**0% salary**
							£nil	**£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.

Long term incentives awarded in 2013

The tables below set out the details of any long-term incentive award granted in the 2013 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
10.04.13	LTIP – Performance Shares	100% of salary	561	30%	**31.12.15**	TSR & EPS equally weighted
10.04.13	LTIP – Matching Shares	120% of salary	673	30%	**31.12.15**	TSR & EPS equally weighted
23.05.13	Chief Executive's five year Award	100% of salary	541	30%	**31.12.17**	TSR & 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
10.04.13	LTIP – Performance Shares	100% of salary	428	30%	**31.12.15**	TSR & EPS equally weighted
10.04.13	LTIP – Matching Shares	120% of salary	514	30%	**31.12.15**	TSR & 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 199.9p on 10th April 2013 and 210p on 23 May 2013.

Performance conditions for LTIP Awards granted in 2013

Part A of the Award – EPS Conditions

EPS for the financial year ending 31 December 2015	Percentage of part A of the Award that vests
Less than 22.1 pence	0%
22.1 pence	30%
24.7 pence or above	100%
Between 22.1 pence and 24.7 pence	30%-100% pro rata

Part B of the Award – TSR Conditions

Rank of the Company's TSR	Percentage of part B of the Award that vests
Below median	0%
Median	30%
20th percentile	100%
Between median and 20th percentile	30%-100% pro rata

Performance conditions for the Chief Executive's five year Award

Part A of the Award – EPS Conditions (relating to one half of the Award)

EPS for the financial year ending 31 December 2017	Percentage of part A of the Award that vests
Less than 23.4 pence	0%
23.4 pence	30%
28.3 pence or above	100%
Between 23.4 pence and 28.3 pence	30%-100% pro rata

Part B of the Award – TSR Conditions (relating to one half of the Award)

Rank of the Company's TSR	Percentage of part B of the Award that vests
Below median	0%
Median	30%
20th percentile	100%
Between median and 20th percentile	30%-100% pro rata

Indicative percentage of LTIP awards vesting based on performance to 31 December 2013

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 2013 (without making any allowance for pro rata reduction for any period of less than three years).

Year of Award	TSR element (max 50%)	EPS element (max 50%)	Total (max 100%)
2012 – Performance Shares and Matching Shares	0%	0%	0%
2012 – Chief Executive's five year award	0%	0%	0%
2013 – Performance Shares and Matching Shares	19.5%	0%	19.5%
2013 – Chief Executive's five year award	19.5%	0%	19.5%

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. In addition, 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 pension normally becomes payable, at the earliest, on 1 April 2022. All or part of it may be paid as a lump sum. The Group Chief Executive may request early payment on a change of control.

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

CEO's pay in last five financial years

The table below sets out the total remuneration delivered to the Chief Executive over the last five years, valued using the methodology applied to the single total figure of remuneration.

Year	2009	2010	2011	2012	**2013**
Chief Executive	R Bowker[2]	D Finch	D Finch	D Finch	**D Finch**
Total remuneration (£'000)	465	1,356	1,454	1,701	**1,553**
Annual bonus payment (% maximum opportunity)	0%	100%	100%	78%	**95%**
LTIP vesting level achieved[1] (% maximum opportunity)	n/a	n/a	n/a	32.5%	**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.

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

Deferred bonuses awarded in 2013 (based on performance to 31 December 2012) will vest on 28 February 2014 as set out in the table below.

			During year						
		As at 1 January 2013	Granted	Vested	Lapsed	**At 31 December 2013**	Market price at date of vesting	Date of grant	Date of vesting
Dean Finch	2012	75,417	–	75,417	–	**0**	218.5p	02.03.12	02.03.13
	2013	–	79,523	–	–	**79,523**		28.02.13	28.02.14
Jez Maiden	2012	51,832	–	51,832	–	**0**	218.5p	02.03.12	02.03.13
	2013	–	62,981	–	–	**62,981**		28.02.13	28.02.14

The market price per share on the date of award was calculated on the basis of the average market price share 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 2012 and 2013 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 2013. The table includes only those columns in respect of elements of remuneration received by Non-Executive Directors.

	2013 fees £000	Total	2012 fees £000	**Total**	Notes
Sir John Armitt	**225**	225	–	–	Appointed to the Board on 1 January 2013 and as Chairman on 1 February 2013
Joaquín Ayuso	**49**	49	49	49	
Jorge Cosmen	**45**	45	45	45	
John Devaney	**19**	19	225	225	Resigned as Chairman on 31 January 2013
Sir Andrew Foster	**55**	55	51	51	
Jackie Hunt	**45**	45	13	13	
Chris Muntwyler	**59**	59	59	59	
Lee Sander	**73**	73	69	69	
Tim Score	**60**	60	60	60	

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.

In line with the decision not to increase the basic salaries of the Executive Directors in 2013, it was agreed that there would be no increase in the fees paid to the Non-Executive Directors in 2013. The fees payable to the Chairman also did not increase.

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. No such payments were made in 2013.

Statement of Directors' shareholding

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 75 of the Policy.

The beneficial and non-beneficial interests of the Executive Directors in office and their connected persons as at 31 December 2013 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 2013 (% 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%	166%	252,527	79,523	2,155,379	Yes
Jez Maiden	100%	152%	168,919	62,981	1,249,310	Yes

[1] The share price of 275.2p (as at 31 December 2013) has been taken for the purpose of calculating the current shareholding as a percentage of salary.

Please see the appendices on page 87 for more information on 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 2013, all of which are held outright with no attaching performance conditions are shown below:

	At 31 December 2013
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**
Tim Score	**0**

[1] Jorge Cosmen's holding includes shares held by European Express Enterprises Ltd which are shown on page 89 in the list of major shareholdings in the Company.

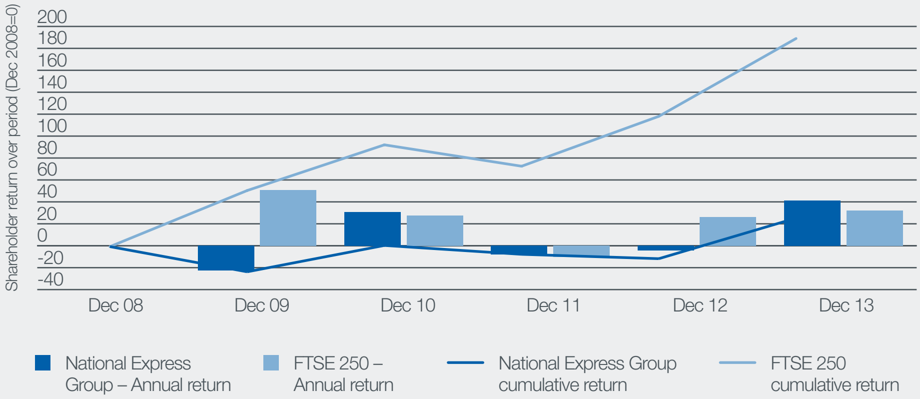
The Register of Directors' interests maintained by the Company contains full details of the Directors' holdings of shares and options over shares in the Company. The mid-market price of the Company's ordinary shares at 31 December 2013 was 275 pence (2012: 204 pence) and the range during the year ended 31 December 2013 was 191 pence to 276 pence.

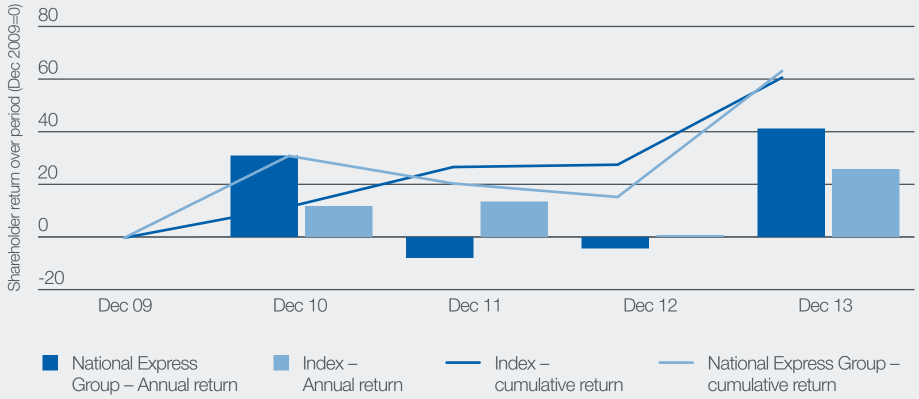
Changes since year end

There have been no changes in the shareholdings of the Directors between 31 December 2013 and the date of signing of this Annual Report.

Comparison of overall performance

The first graph shows a comparison of National Express Group PLC's five-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.





The second graph shows a comparison of National Express Group PLC's cumulative return and annual return since the commencement of the turnaround of the business from 31 December 2009 against that achieved by a bespoke index of First Group, Stagecoach and Go-Ahead.

The Group has executed a strong turnaround with a new management team following a period of intense instability in 2008 and 2009, which involved a rights issue, debt restructuring and the handback of the East Coast main line. Despite market concerns in 2011 and 2012 regarding the Group's macro exposure to Spain, underlying performance, measured by non-rail revenues, earnings and return on capital have all improved since then.

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 2012 to 2013 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 2012 to 2013		
	Base salary	Taxable benefits	Performance related bonus
Group Chief Executive	0%	0%	21.97%
UK employee remuneration	2.63%	12.37% [1]	13.77%

[1] The 2013 increase in taxable benefits was driven by an increase in healthcare premium.

Relative importance of the spend on pay

The table below sets out the total spend on pay in the 2013 financial year and 2012 financial year compared with distributions to shareholders:

	2013 (£m)	2012 (£m)	% increase from 2012 to 2013
Overall Group spend on pay including Directors	**855.8**	788.1	8.6%
Profit distributed by way of dividend	**50.3**	49.3	2.0%
Profit distributed by way of share buyback	**–**	–	–

Statement of voting at 2013 AGM

At the AGM held on 9 May 2013, 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	Votes withheld
2. To approve the Remuneration Report for the year ended 31 December 2012	277,526,180	71.52	110,503,482	28.48	388,029,662	75.83	18,006,199
21. To approve amendments to the rules of the Company's Long Term Incentive Plan	299,426,247	73.78	106,436,183	26.22	405,862,430	79.31	187,907

[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 2013 in favour of the 2012 Remuneration Report whilst remaining sensitive to those who voted against. We had made some major structural reforms to our pay and benefits package for our Group Chief Executive in 2012 and these reflected serious concerns about our ability to retain him over the long term. We engaged with our major shareholders who backed these improvements and the reasons for making them. In view of the votes at the 2013 AGM, however, Directors have continued to engage with shareholders during 2013/14 and have made themselves available to those shareholders who wished to raise issues of pay and benefits. These discussions have been advantageous and helpful to the Remuneration Committee and no changes are being proposed to the structure of remuneration for 2014.

Statement of implementation of remuneration policy in 2014

Executive Directors' base salaries

After a pay freeze of two years, the Committee has decided that a modest 2% increase to base pay for Executive Directors is appropriate, effective from 1 January, 2014. As of 1 January 2014, the current salaries for the Group Chief Executive and Group Finance Director are £561,000 and £428,000 respectively.

Performance related bonus

The annual bonus for the 2014 financial year will operate on the same basis for the 2013 financial year and will be consistent with the policy detailed in the Remuneration policy section of this report in terms of the maximum bonus opportunity and performance conditions. The targets themselves, as they relate to the 2014 financial year, are deemed to be commercially sensitive. However, retrospective disclosure of the targets and performance against them will be provided in next year's remuneration report to the extent that they do not remain commercially sensitive at that time.

Long term incentives

Long term incentive awards granted in the 2014 financial year will be granted in accordance with the policy detailed in the remuneration policy section of this report.

Non-Executive Directors' fees

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.

The current fees for the Non-Executive Directors with effect from 1 January 2014 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.

Appendices
LTIP Awards to Executive Directors

	LTIP Share Awards	At 1 January 2013	During year: Granted	Exercised	Expired	**At 31 December 2013**	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	227,272	–	73,863	153,409	**–**	220.3p	195.8p	15.03.10	15.03.13	15.09.13
	Matching Shares	227,270	–	73,863	153,407	**–**	220.3p	195.8p	15.03.10	15.03.13	15.09.13
	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
Jez Maiden	Performance Shares	174,672	–	56,768	117,904	**–**	230.0p	199.9p	01.04.10	01.04.13	01.10.13
	Matching Shares	174,670	–	56,768	117,902	**–**	230.0p	199.9p	01.04.010	01.04.13	01.10.13
	Performance Shares	170,040	–	–	–	**170,040**	247.0p	–	25.02.11	25.02.14	25.08.14
	Matching Shares	204,048	–	–	–	**204,048**	247.0p	–	25.02.11	25.02.14	25.08.14
	Performance Shares	183,326	–	–	–	**183,326**	228.4p	–	11.04.12	12.04.15	12.10.15
	Matching Shares	219,988	–	–	–	**219,988**	228.4p	–	11.04.12	12.04.15	12.10.15
	Performance shares	–	214,504	–	–	**214,504**	199.9p	–	10.04.13	11.04.16	11.10.16
	Matching Shares	–	257,404	–	–	**257,404**	199.9p	–	10.04.13	11.04.16	11.10.16

1 Details of the performance conditions applicable to the 2013 awards are shown on page 81.

2 The TSR performance conditions applicable to the 2011 and 2012 awards are the same as for the 2013 awards and the relevant maximum and minimum EPS figures are 29.3 pence and 26.1 pence and 26.4 pence and 23.7 pence respectively.

3 The aggregate gain on the shares which were exercised in 2013 was £516,000.

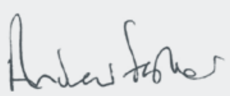
Group Chief Executive's five year Retention Award

	LTIP Share Awards	At 1 January 2013	During year: Granted	Exercised	Expired	**At 31 December 2013**	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	261,407	–	–	–	**261,407**	210.4p	–	03.08.12	03.08.17	03.08.18
	Performance Shares	–	257,973	–	–	**257,973**	210.0p	–	23.05.13	23.05.18	23.05.19

1 Details of the performance conditions applicable to the 2013 award are shown on page 81

2 The TSR performance conditions applicable to the 2012 award is the same as for the 2013 award and the relevant maximum and minimum EPS figures are 28 pence and 25 pence respectively.

By order of the Board



Sir Andrew Foster

Remuneration Committee Chair
27 February 2014

Other Statutory Information

This section contains additional information which the Directors are required by law and regulation to include within the Annual Report. This section along with the information from the Chairman's Statement on page 4 to the Statement of Directors' Responsibilities on page 92 constitutes the Directors' Report in accordance with the Companies Act 2006.

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 51, which are incorporated in this report by reference.

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 2013 was £64.4 million (2012: £69.8m) and a profit attributable to equity shareholders of £56.8 million (2012: £60m) was transferred to reserves.

The Directors recommend a final dividend for the year of 6.75 pence per ordinary share (2012: 6.6p) which, together with the interim dividend of 3.25 pence per ordinary share (2012: 3.15p), paid on 20 September 2013, gives a total dividend for the year of 10.0 pence per share (2012: 9.75p). Subject to shareholder approval, the final dividend will be paid on 23 May 2014 to ordinary shareholders on the register of members at the close of business on 2 May 2014.

Directors

The Directors of the Company as at the date of the approval of this annual report are listed on pages 54 to 55.

On 1 January 2013 Sir John Armitt was appointed a Director of the Company.

On 31 January 2013 John Devaney resigned as Chairman of the Board.

On 1 February 2013 Sir John Armitt was appointed Chairman of the Board.

On 25 February 2014 Tim Score stepped down from the Board.

On 26 February 2014 Jackie Hunt was appointed Senior Independent Director and Chair of the Audit Committee and Jane Kingston was appointed a Non-Executive Director of the Company from this date.

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 Companies Act and related legislation. In accordance with the UK Corporate Governance Code, all the Directors will retire at the 2014 AGM and offer themselves for election or re-election. The Board is satisfied that each Director is qualified for re-election by virtue of their skills, experience and contribution to the Board.

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

Directors' interests in contracts

Except as stated in note 36 on page 154, 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 pages 83 and 84.

Directors' share options

Details of Directors' share options are provided in the Directors' Remuneration report on page 87.

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 92 and 96.

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 56. Both are incorporated by reference into this report.

Post balance sheet events

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

Employment policies

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

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

Employee involvement

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

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

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

Environmental policy

Information on the Group's environmental initiatives, including the mandatory reporting disclosure on greenhouse gas emissions, can be found in the strategic report on pages 19 to 23 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 £13,500 (2012: £6,750).

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 102 to 156 and are incorporated by reference into this report.

Major shareholdings

As at 24 February 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.

	Ordinary shares	Percentage of share capital*	Nature of holding
European Express Enterprises Ltd	78,795,062	15.4%	Direct
Prudential PLC	66,764,762	13.0%	Direct
Jupiter Asset Management Ltd	26,288,829	5.1%	Direct

* The holdings for European Express Enterprises Ltd are included in Jorge Cosmen's holdings which are shown in the Directors' Remuneration Report on page 84.

Analysis of ordinary shareholdings at 21 February 2014	Number of accounts	Percentage of total number of accounts	Number of shares	Percentage of ordinary capital
By size of holding				
1-500	6,424	48.19%	895,299	0.17%
501-1,000	1,660	12.45%	1,308,489	0.26%
1,001-5,000	3,581	26.87%	8,374,981	1.64%
5,001-50,000	1,427	10.71%	16,900,098	3.30%
50,001-1,000,000	181	1.36%	49,975,242	9.77%
Over 1,000,000	56	0.42%	434,284,539	84.86%
	13,329	100.00%	511,738,648	100.00%
By investor type				
Individuals	12,368	92.78%	24,746,685	4.83%
Institutional investors	499	3.75%	481,626,562	94.12%
Other corporate investors	462	3.47%	5,365,401	1.05%
	13,329	100.00%	511,738,648	100.00%

Other Statutory Information continued

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 15 on page 164.

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

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

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

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

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

Resolutions will be proposed at the 2014 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 2013 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 2014 for its renewal. Further details are set out in the Notice of AGM accompanying this document.

Share schemes

First Names (Jersey) Limited (formerly IFG Trust (Jersey) Limited) are Trustee of the National Express Group Employee Benefit Trust. As at 24 February 2014 they held 426,630 shares (0.08% of the issued share capital) of the Company for employee share schemes. Further details of the Company's employee share schemes can be found in note 7 on page 116 and are incorporated by reference into this report. The Trustee may vote the shares held by the Trust at its discretion.

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

Articles of Association

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

Annual General Meeting

The AGM will be held at 2.00pm on 14 May 2014 at Hall 5, International Convention Centre, Broad Street, Birmingham B1 2EA. 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 Group currently runs one DfT franchise: c2c. The rail franchise agreement with DfT contains termination rights for the benefit of DfT which would be triggered by a change of control in National Express Group PLC.

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

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

Directors' and employees' service contracts

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

Risks

A summary of the Company's risk management framework and an overview of its principal risks are detailed on pages 24 to 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 2014 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

Michael Hampson
Company Secretary
27 February 2014

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
Group Chief Executive
27 February 2014

Jez Maiden
Group Finance Director
27 February 2014

Financial Statements

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 Company's affairs as at 31 December 2013 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 Company Balance Sheets, the Group Statement of Changes in Equity, the Group Statement of Cash Flows, the related notes 1 to 38 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 62 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:

Risk	How the scope of our audit responded to the risk
Impairment of goodwill The key assumptions used in the assessment of the carrying value of goodwill and intangible assets. This is determined with reference to judgemental factors such as future projected cash flows and the appropriate discount rate.	We assessed management's assumptions used in the impairment model for goodwill and intangible assets, described in note 14, specifically including the risk adjusted cash flow projections, discount rates, perpetuity growth rates and sensitivities applied, particularly in respect of the Group's interests in Spain and North America. Our procedures included reviewing forecast cash flows with reference to historical trading performance, using our valuation specialists and benchmarking assumptions such as the perpetual growth rate and discount rate to external macro-economic and market data.
Spanish receivables The judgement used to estimate the bad debt provision in respect of the receivables due from public authorities and private companies in Spain is challenging given the current economic climate which means the receivables can become aged before they are recovered, in particular those due from public authorities.	We assessed the adequacy of management's provision against Spanish receivables and their recoverability by testing the controls over the credit management process and performing substantive procedures such as confirming cash receipts received post year end for a sample of receivables, reviewing aging and obtaining evidence to support the recoverability of aged receivables not provided for historically. For the public authority receivables we also obtained evidence of the agreed payment plans and confirmed, on a sample basis, that these had been adhered to.

Independent Auditor's Report to the members of National Express Group Plc continued

Insurance provisions The measurement of the self-insured claims provision uses actuarial assumptions to determine the quantum of claims which are likely to arise in respect of past events but are not yet known to the Company. These claims are inherently difficult to predict and quantify as no two individual claims are the same, and the settlement outcome is subject to multiple variables.	We used our actuarial specialists to challenge the assumptions inherent in the valuation produced by the Group's actuary, particularly in respect of North America, such as the claim rate probability and to re-perform the actuarial calculation to develop a valuation range. We compared the level of provision recorded to the range determined by our actuarial specialists and the Group's actuary to conclude that 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 operating profit on the basis that they are material and non-recurring in nature and therefore disclosed as exceptional items.	A sample of exceptional items (including all material items) have been agreed to source documentation and challenged by the local and Group audit teams as to their nature in order to validate that they are material non-recurring items which are appropriate to present outside of normalised operating profit.
Tax provisions 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.	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.
Pension deficit The measurement of the Group's net pension liability requires management to make judgements on assumptions including price inflation, discount rates, pension increases, mortality rates and earnings growth.	We tested 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 34 with reference to comparable market data.
	The Audit Committee's consideration of these risks is set out on pages 64 to 65. 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. 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 £9 million, which is approximately 6% of normalised pre-tax profit (profit before exceptional items and amortisation). The exceptional items are volatile and their exclusion, as well as the exclusion of amortisation costs, is consistent with the Group's internal and external reporting to facilitate a better understanding of the underlying trading performance. We agreed with the Audit Committee that we would report to the Committee any audit adjustments in excess of £0.2 million, as well as any adjustments below that threshold that, in our view, warranted reporting on qualitative grounds. 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. 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 2013. 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. At the parent entity level we also tested the consolidation process. The Group audit team includes the component audit teams in our audit team briefing, discusses their risk assessment, and reviews documentation of the findings from their work. There is a programme of planned site visits so that the Senior Statutory Auditor or another senior member of the Group audit team visits each of the six full scope divisions at least once a year.
Opinion on other matters prescribed by the Companies Act 2006	In our opinion: • 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; and • the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.
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.
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 nine 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.

Independent Auditor's Report to the members of National Express Group Plc continued

Respective responsibilities of directors and auditor	As explained more fully in the Directors' responsibility statement set out on page 92 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. 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 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, UK
United Kingdom
27 February 2014

Financial Statements
Group Income Statement
For the year ended 31 December 2013

	Note	Total before intangible amortisation and exceptional items 2013 £m	Intangible amortisation and exceptional items 2013 £m	Total 2013 £m	Total before intangible amortisation and exceptional items 2012 £m	Intangible amortisation and exceptional items 2012 £m	Total 2012 £m
Continuing operations							
Revenue	4	**1,891.3**	**–**	**1,891.3**	1,831.2	–	1,831.2
Operating costs before intangible amortisation and exceptional items		**(1,698.4)**	**–**	**(1,698.4)**	(1,619.3)	–	(1,619.3)
Intangible amortisation	5,14	**–**	**(49.3)**	**(49.3)**	–	(51.7)	(51.7)
Exceptional items	5	**–**	**(25.7)**	**(25.7)**	–	(42.6)	(42.6)
Total operating costs	6	**(1,698.4)**	**(75.0)**	**(1,773.4)**	(1,619.3)	(94.3)	(1,713.6)
Group operating profit		**192.9**	**(75.0)**	**117.9**	211.9	(94.3)	117.6
Loss on disposal of business	19	**–**	**(4.3)**	**(4.3)**	–	–	–
Share of results of associates	18	**0.6**	**–**	**0.6**	1.4	–	1.4
Finance income	4,9	**6.8**	**–**	**6.8**	4.4	–	4.4
Finance costs	9	**(56.6)**	**–**	**(56.6)**	(53.6)	–	(53.6)
Profit before tax		**143.7**	**(79.3)**	**64.4**	164.1	(94.3)	69.8
Tax charge	10	**(32.5)**	**26.4**	**(6.1)**	(32.7)	24.2	(8.5)
Profit for the year		**111.2**	**(52.9)**	**58.3**	131.4	(70.1)	61.3
Profit attributable to equity shareholders		**109.7**	**(52.9)**	**56.8**	130.1	(70.1)	60.0
Profit attributable to non-controlling interests		**1.5**	**–**	**1.5**	1.3	–	1.3
		111.2	**(52.9)**	**58.3**	131.4	(70.1)	61.3
Earnings per share:							
– basic earnings per share	13			**11.1p**			11.8p
– diluted earnings per share	13			**11.1p**			11.7p
Normalised earnings per share:							
– basic earnings per share	13	**21.5p**			25.5p		
– diluted earnings per share	13	**21.4p**			25.4p		

Group Statement of Comprehensive Income

For the year ended 31 December 2013

	Note	2013 £m	2012 £m
Profit for the year		**58.3**	61.3
Items that will not be reclassified subsequently to profit or loss:			
Actuarial losses on defined benefit pension plans	34	**(19.0)**	(31.1)
Deferred tax on actuarial losses		**3.7**	7.2
		(15.3)	(23.9)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on retranslation of foreign operations (net of hedging)		**1.0**	(44.2)
Exchange differences on retranslation of non-controlling interests		**0.2**	(0.2)
Gain on cash flow hedges		**2.5**	2.2
Less: reclassification adjustments for gains or losses included in profit		**(3.5)**	(20.2)
Tax on exchange differences		**2.0**	1.6
Deferred tax on cash flow hedges		**0.3**	4.9
		2.5	(55.9)
Total comprehensive income/(expenditure) for the year		**45.5**	(18.5)
Total comprehensive income/(expenditure) attributable to:			
Equity shareholders		**43.8**	(19.6)
Non-controlling interests		**1.7**	1.1
		45.5	(18.5)

Financial Statements
Group Balance Sheet
At 31 December 2013

	Note	2013 £m	2012 £m
Non-current assets			
Intangible assets	14	**1,223.5**	1,262.9
Property, plant and equipment	15	**751.4**	787.4
Available for sale investments	17	**7.4**	7.1
Derivative financial instruments	17	**18.5**	31.1
Investments accounted for using the equity method	18	**5.1**	4.4
Trade and other receivables	20	**4.6**	5.6
Defined benefit pension asset	34	**12.6**	16.6
		2,023.1	2,115.1
Current assets			
Inventories	21	**21.2**	19.3
Trade and other receivables	22	**169.9**	194.8
Derivative financial instruments	17	**3.1**	4.7
Deferred tax assets	27	**16.7**	7.8
Current tax assets		**1.6**	0.8
Cash and cash equivalents	23	**40.9**	72.8
		253.4	300.2
Total assets		**2,276.5**	2,415.3
Non-current liabilities			
Borrowings	28	**(750.7)**	(786.8)
Derivative financial instruments	28	**(1.6)**	(2.2)
Deferred tax liability	27	**(75.1)**	(84.8)
Other non-current liabilities	25	**(6.5)**	(5.9)
Defined benefit pension liability	34	**(42.7)**	(35.9)
Provisions	26	**(21.4)**	(28.3)
		(898.0)	(943.9)
Current liabilities			
Trade and other payables	24	**(351.6)**	(348.4)
Borrowings	28	**(76.8)**	(169.0)
Derivative financial instruments	28	**(1.9)**	(3.0)
Current tax liabilities		**(22.9)**	(19.9)
Provisions	26	**(28.0)**	(28.7)
		(481.2)	(569.0)
Total liabilities		**(1,379.2)**	(1,512.9)
Net assets		**897.3**	902.4
Shareholders' equity			
Called-up share capital	32	**25.6**	25.6
Share premium account		**532.7**	532.7
Capital redemption reserve		**0.2**	0.2
Own shares		**(0.8)**	(0.5)
Other reserves	33	**46.5**	44.2
Retained earnings		**282.4**	290.7
Total shareholders' equity		**886.6**	892.9
Non-controlling interests in equity		**10.7**	9.5
Total equity		**897.3**	902.4

D Finch Group Chief Executive
J K Maiden Group Finance Director
27 February 2014

Group Statement of Changes in Equity

For the year ended 31 December 2013

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Own shares (note 32) £m	Other reserves (note 33) £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
At 1 January 2013	**25.6**	**532.7**	**0.2**	**(0.5)**	**44.2**	**290.7**	**892.9**	**9.5**	**902.4**
Shares purchased	**–**	**–**	**–**	**(2.8)**	**–**	**–**	**(2.8)**	**–**	**(2.8)**
Own shares released to satisfy employee share schemes	**–**	**–**	**–**	**2.5**	**–**	**(2.5)**	**–**	**–**	**–**
Total comprehensive income and expenditure	**–**	**–**	**–**	**–**	**2.3**	**41.5**	**43.8**	**1.7**	**45.5**
Share-based payments	**–**	**–**	**–**	**–**	**–**	**3.1**	**3.1**	**–**	**3.1**
Tax on share-based payments	**–**	**–**	**–**	**–**	**–**	**(0.1)**	**(0.1)**	**–**	**(0.1)**
Dividends	**–**	**–**	**–**	**–**	**–**	**(50.3)**	**(50.3)**	**–**	**(50.3)**
Dividends paid to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(0.5)**	**(0.5)**
At 31 December 2013	**25.6**	**532.7**	**0.2**	**(0.8)**	**46.5**	**282.4**	**886.6**	**10.7**	**897.3**

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Own shares (note 32) £m	Other reserves (note 33) £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
At 1 January 2012	25.6	532.7	0.2	(14.0)	99.9	313.1	957.5	7.9	965.4
Shares purchased	–	–	–	(4.8)	–	–	(4.8)	–	(4.8)
Own shares released to satisfy employee share schemes	–	–	–	4.5	–	(4.5)	–	–	–
Disposal of own shares	–	–	–	13.8	–	(9.8)	4.0	–	4.0
Total comprehensive income and expenditure	–	–	–	–	(55.7)	36.1	(19.6)	1.1	(18.5)
Share-based payments	–	–	–	–	–	5.2	5.2	–	5.2
Tax on share-based payments	–	–	–	–	–	(0.1)	(0.1)	–	(0.1)
Dividends	–	–	–	–	–	(49.3)	(49.3)	–	(49.3)
Adjustment from changes in non-controlling interests	–	–	–	–	–	–	–	0.5	0.5
At 31 December 2012	25.6	532.7	0.2	(0.5)	44.2	290.7	892.9	9.5	902.4

Financial Statements

Group Statement of Cash Flows

For the year ended 31 December 2013

	Note	2013 £m	2012 £m
Cash generated from operations	37	**296.4**	169.6
Tax paid		**(16.3)**	(13.4)
Net cash from operating activities		**280.1**	156.2
Cash flows from investing activities			
Payments to acquire businesses, net of cash acquired	19(a)	**(7.2)**	(156.9)
Deferred consideration for businesses acquired and disposed	19(a)	**(3.7)**	(0.6)
Proceeds from the disposal of business	19(b)	**1.4**	–
Purchase of property, plant and equipment		**(90.7)**	(103.8)
Proceeds from disposal of property, plant and equipment		**12.1**	16.7
Payments to acquire intangible assets		**(3.2)**	(2.9)
Payments to acquire associates		**–**	(0.5)
Proceeds from disposal of associates		**–**	1.6
Dividends received from associates		**–**	0.9
Interest received		**5.2**	3.7
Net cash used in investing activities		**(86.1)**	(241.8)
Cash flows from financing activities			
Proceeds from the sale of treasury shares		**–**	4.0
Purchase of own shares		**(2.8)**	(4.8)
Interest paid		**(51.0)**	(48.8)
Finance lease principal payments		**(21.3)**	(18.0)
Net loans (repaid)/drawn down		**(99.4)**	174.5
(Payments)/receipts for the maturity of foreign currency contracts		**(1.1)**	8.9
Dividends paid to non-controlling interests		**(0.5)**	(0.1)
Dividends paid to shareholders of the Company		**(50.3)**	(49.3)
Net cash (used in)/from financing activities		**(226.4)**	66.4
Decrease in cash and cash equivalents		**(32.4)**	(19.2)
Opening cash and cash equivalents		**72.8**	92.5
Decrease in cash and cash equivalents		**(32.4)**	(19.2)
Foreign exchange		**0.5**	(0.5)
Closing cash and cash equivalents	23	**40.9**	72.8

Notes to the Consolidated Accounts

For the year ended 31 December 2013

1 Corporate information

The Consolidated Financial Statements of National Express Group PLC and its subsidiaries ('the Group') for the year ended 31 December 2013 were authorised for issue in accordance with a resolution of the Directors on 27 February 2014. 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 62) 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 2013 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 Statement 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 14 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 34.

Insurance

The estimation of the insurance provisions is based on an assessment of the expected settlement on known claims together with an estimate of settlements that will be made in respect of incidents occurring prior to the Balance Sheet date but for which claims have not been reported to the Group. The Group makes assumptions concerning these matters with the assistance of advice from independent qualified actuaries.

Tax provisions

Assessing the outcome of uncertain tax positions requires judgements to be made regarding the result of negotiations with and 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 years' changes in presentation.

Changes in accounting policies

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 13 Fair Value Measurement (effective for annual periods beginning on or after 1 January 2013) – the standard defines fair value, and a framework for measuring fair value.

IAS 19 (revised) Employee Benefits (effective for annual periods beginning on or after 1 January 2013) – the standard has impacted the measurement of the various components representing movements in the defined benefit pension obligation and associated disclosures, but not the Group's total obligation. Following the replacement of expected returns on plan assets with a net finance cost in the Income Statement, the operating profit for the period has been reduced and accordingly other comprehensive income increased.

Amendment to IAS 1 Presentation of Financial Statements – the amendments require items of other comprehensive income to be grouped by those items that may be reclassified subsequently to profit or loss and those that will never be reclassified, together with their associated income tax. The amendments have been applied retrospectively, and hence items of comprehensive income have been represented to reflect the change. The effect of these changes is evident from the Consolidated Statement of Comprehensive Income.

Interests in joint ventures

The Group has a number of contractual arrangements with other parties to share control of other entities which represent joint ventures.

The Group recognises its interest in the entity's assets and liabilities using the equity method of accounting. The Group Balance Sheet includes the appropriate share of these joint ventures' net assets or liabilities and the Income Statement includes the appropriate share of their results after tax.

Financial Statements of jointly controlled entities 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 jointly controlled entities. The Group ceases to use the equity method from the date it no longer has joint control over the entity.

Interests in associates

Companies, other than subsidiaries and joint ventures, in which the Group has an investment representing not less than 20% of the voting rights and over which it exerts significant influence are treated as associates. The Consolidated 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 before the following, as appropriate: profit or loss on the sale of businesses, exceptional profit or loss on the sale of non-current assets and charges for goodwill impairment, amortisation of intangible assets, exceptional items and tax relief on qualifying exceptional items and intangibles.

Exceptional items

Exceptional items are material items of income or expenditure which, in the opinion of the Directors, due to their nature and infrequency require separate identification on the face of the Income Statement to allow a better understanding of the financial performance in the year, in comparison to prior years.

2 Accounting policies continued

Revenue recognition

Rendering of services

Revenue comprises income from road passenger transport, train passenger services and related activities in the UK, North America and Europe. Where appropriate, amounts are shown net of rebates and sales tax.

Revenue is recognised by reference to the stage of completion of the customer's travel or services provided under contractual arrangements as a proportion of total services to be provided.

Rail revenue includes amounts attributed to the train operating companies (TOCs), based principally on agreed models of route usage by Railway Settlement Plan Limited (which administers the income allocation system within the UK rail industry), in respect of passenger receipts. In addition, net franchise agreement receipts from the Department for Transport Rail Division (DfT Rail) and local Passenger Transport Executives (PTEs) are treated as revenue. Net franchise agreement payments to DfT Rail are recognised in operating costs. UK Coach revenue comprises amounts receivable generated from ticket sales. UK Bus and 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)
Right to operate TOC franchises	– over the life of the franchise (between 1 and 7 years)
Contractual relationships	– over the life of the relationship (between 8 and 20 years)
Brands	– over the life of the brand (5 years)

Intangible assets with indefinite lives are tested annually for impairment. The useful lives of finite life intangible assets are examined on an annual basis and adjustments, where applicable, are made on a prospective basis. Finite life assets are reviewed for impairment where indicators of impairment exist.

The Group's only indefinite life intangible asset is goodwill.

Software

Computer software that is not integral to an item of property, plant and equipment is recognised separately as an intangible asset and is carried at cost less accumulated amortisation and accumulated impairment losses. Costs include software licences, consulting costs attributable to the development, design and implementation of the computer software and internal costs directly attributable to the development, design and implementation of the computer software. Costs in respect of training are expensed as incurred. Amortisation is calculated using the straight-line method so as to charge the cost of the computer software to the Income Statement over its estimated useful life (3 to 7 years).

The carrying value of intangibles is reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable.

2 Accounting policies continued

Goodwill

Goodwill on acquisition is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is stated at historic cost less any accumulated impairment. If an acquisition gives rise to an excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously referred to as negative goodwill), this is credited immediately to the Income Statement.

In accordance with IFRS 3, goodwill is not amortised. All goodwill is subject to an annual test of impairment and an impairment charge recognised as required.

Fair value accounting adjustments are made in respect of acquisitions. Fair value adjustments based on provisional estimates are amended within one year of the acquisition if required, with a corresponding adjustment to goodwill, in order to refine adjustments to reflect further evidence gained post-acquisition.

Where goodwill forms part of a cash-generating unit and all or part of that unit is disposed of, the associated goodwill is included in the carrying amount of the operation when determining the gain or loss on the disposal of the operation.

Property, plant and equipment

All property, plant and equipment is stated at historic cost less accumulated depreciation and accumulated impairment losses. Under the transitional arrangements of IFRS 1, the Group elected to deem the fair value of certain revalued assets to be equivalent to cost.

Land and buildings comprise mainly vehicle depots and garages, and offices. Freehold land is not depreciated. Other property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives as follows:

Freehold buildings	– 30 to 50 years
Long leasehold property improvements	– 15 to 40 years
Public service vehicles	– 8 to 15 years
Plant and equipment, fixtures and fittings	– 3 to 15 years

Useful lives and residual values are reviewed annually and adjustments, where applicable, are made on a prospective basis. Repairs and maintenance are charged to the Income Statement during the financial period in which they are incurred.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the derecognition of the asset is included in the Income Statement in the period of derecognition.

Impairment of non-financial assets

All non-current assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, except for indefinite life intangible assets and goodwill which are reviewed annually. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash inflows.

In assessing value in use, the estimated risk adjusted future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money. Impairment losses are recognised in the Income Statement in expense categories consistent with the function of the impaired asset.

Except for goodwill impairments, a review is made at each reporting date of any previous impairment losses to assess whether they no longer exist or may have decreased. If such indication exists, the asset's recoverable amount is estimated and any previously recognised impairment loss is reversed only if there has been a change in the estimates used to assess the recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased, subject to a limit of the asset's net book value had no previous impairment loss been recognised. Such reversal is recognised in the Income Statement. Future depreciation or amortisation is then adjusted to allocate the asset's revised carrying amount over its remaining useful economic life. Impairments to goodwill cannot be reversed.

2 Accounting policies continued

Financial instruments

The Group determines the classification of its financial instruments at initial recognition. The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the Income Statement. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the Income Statement within finance costs in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the Balance Sheet date which are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the Balance Sheet.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the Balance Sheet date.

The Group's investments in entities that are not subsidiaries, associates or joint ventures are classified as available-for-sale financial assets. After initial recognition these assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or the investment is determined to be impaired, at which time the previously reported cumulative gain or loss is included in the Income Statement. Where there is no active market for the Group's investments, fair value is determined using valuation techniques including recent commercial transactions and discounted cash flow analyses. In the absence of any other reliable external information, assets are carried at cost or amortised cost as appropriate.

The Group assesses at each Balance Sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the Income Statement. Impairment losses recognised in the Income Statement on equity instruments are not reversed through the Income Statement.

Financial liabilities

When a financial liability is recognised initially, the Group measures it at its fair value. Financial liabilities include trade payables, accruals, other payables, borrowings and derivative financial instruments. In the case of a financial liability not at fair value through profit or loss, an adjustment is made for transaction costs that are directly attributable to the issue of the financial liability. Subsequent measurement depends on its classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities classified as held for trading and derivative liabilities that are not designated as effective hedging instruments are classified as financial liabilities at fair value through profit or loss. These liabilities are carried on the Balance Sheet at fair value with gains or losses being recognised in the Income Statement.

Other

All other financial liabilities not classified as fair value through profit or loss are measured at amortised cost using the effective interest method.

2 Accounting policies continued

Derivative financial instruments

The Group uses derivative financial instruments such as foreign currency forward exchange contracts, fuel derivatives and interest rate derivatives to hedge its risks associated with foreign currency, fuel price and interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value and subsequently remeasured to fair value for the reported Balance Sheet. The fair value of foreign currency forward exchange contracts, interest rate and fuel derivatives is calculated by reference to market exchange rates, interest rates and fuel prices at the period end.

The Group's fuel derivatives are designated as cash flow hedges. The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in equity, and the ineffective portion in the Income Statement. The gains or losses deferred in equity in this way are recycled through the Income Statement in the same period in which the hedged underlying transaction or firm commitment is recognised in the Income Statement.

The Group's interest rate derivatives are designated as fair value hedges. The gain or loss on the hedging instrument is recognised immediately in the Income Statement. The carrying amount of the hedged item is adjusted through the Income Statement for the gain or loss on the hedged item attributable to the hedged risk, in this case movements in the risk free interest rate.

Foreign currency derivatives are used to hedge the Group's net investment in foreign currency denominated operations and to the extent they are designated and effective as net investment hedges are matched in equity against foreign exchange exposure in the related assets and liabilities. Gains and losses accumulated in equity are included in the Income Statement when the foreign operation is partially disposed of or sold. Foreign currency forward contracts are also used to hedge transactional exposures. These contracts are not hedge accounted and all gains and losses are taken directly to the Income Statement.

For derivatives that do not qualify for hedge accounting, gains or losses are taken directly to the Income Statement in the period.

Hedge accounting is discontinued when the hedging instrument expires, is sold, terminated, exercised, or no longer qualifies for hedge accounting.

Inventories

Inventories are valued at the lower of cost and net realisable value on a first in-first out basis, after making due allowance for obsolete or slow moving items.

Pre-contract costs

Pre-contract costs associated with securing new rail franchises are expensed as incurred up to the point when a franchise is awarded. From this point in time, appropriate costs are recognised as an asset and are expensed to the Income Statement over the life of the franchise. Costs associated with the commencement of all new contracts other than rail franchises are expensed as incurred.

Trade and other receivables

Trade and other receivables are recognised and carried at original invoice amount less an allowance for any uncollectable amounts. Doubtful debts are provided for when collection of the full amount is no longer probable, whilst bad debts are written off when identified.

Cash and cash equivalents

Cash and cash equivalents as defined for the cash flow statement comprise cash in hand, cash held at bank with immediate access, other short term investments and bank deposits with maturities of three months or less from the date of inception and bank overdrafts. In the Consolidated Balance Sheet, cash includes cash and cash equivalents excluding bank overdrafts. Bank overdrafts that have no legal right of set-off against cash and cash equivalents are included within borrowings in current liabilities.

Trade and other payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Interest-bearing borrowings

All loans and borrowings are initially recognised at cost being the net fair value of the consideration received plus transaction costs that are directly attributable to the issue of the financial asset or liability. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

2 Accounting policies continued

Insurance

The Group's policy is to self-insure high frequency claims within the businesses. To provide protection above these types of losses, the Group purchases insurance cover from a selection of proven and financially strong insurers. The insurance provision is based on estimated exposures at the year end principally for claims arising in the UK and North America prior to the year end date, subject to the overall 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 34.

The Balance Sheet position in respect of defined benefit schemes comprises the net value for each scheme of the present value of the relevant defined benefit obligation at the Balance Sheet date less the fair value of plan assets. The trustees complete a full actuarial valuation triennially, separately for each plan, but the obligation is updated annually for financial reporting purposes by independent actuaries, using the projected unit credit method. The present value of the obligation is determined by the estimated future cash outflows discounted using interest rates of high quality corporate bonds which have terms to maturity equivalent to the terms of the related liability.

The current service cost and 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 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 in some cases had not yet been adopted by the EU):

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.

IFRS 9 Financial Instruments – the standard deals with the classification, recognition and measurement of financial assets and liabilities, but has yet to be adopted by the EU.

IAS 36 Recoverable Amount Disclosures for Non-Financial Assets – the amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on the fair value less costs of disposal.

The Directors assess that the standards and interpretations issued but not yet effective are not likely to have a significant impact on future Financial Statements, with the exception of IFRS 9 which will impact both the measurement and disclosures of Financial Instruments.

3 Exchange rates

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

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

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

4 Revenue

	2013 £m	2012 £m
Rendering of services	**1,888.8**	1,828.0
Rental income	**2.5**	3.2
Revenue	**1,891.3**	1,831.2
Finance income	**6.8**	4.4
Total revenue from continuing operations	**1,898.1**	1,835.6

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

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

Intangible asset amortisation is analysed by reportable segment as follows:

	2013 £m	2012 £m
UK Bus	**–**	–
UK Coach	**0.3**	–
Rail	**–**	0.1
North American Bus	**13.5**	11.1
Spanish Coach and Bus	**35.4**	40.4
Central functions	**0.1**	0.1
Total	**49.3**	51.7

Exceptional items are analysed by reportable segment as follows:

	2013 £m	2012 £m
UK Bus	**1.4**	3.7
UK Coach	**1.6**	2.5
Rail	**9.3**	17.6
North American Bus	**4.6**	14.8
Spanish Coach and Bus	**1.8**	1.4
Central functions	**6.3**	2.6
Other	**0.7**	–
Total	**25.7**	42.6

5 Segmental analysis continued

Exceptional items are further analysed by type as follows:

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

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

£6.4m (2012: £3.0m) of business development costs have been incurred across the Group as part of a major investment to create other new contract and passenger business pipelines in new markets.

Exceptional costs of £4.6m (2012: £13.4m) were incurred in relation to the acquisition and integration of school bus and transit businesses in North America. Further details of the acquisitions are disclosed in note 19.

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

Assets, liabilities and capital expenditure are analysed by reportable segment as follows:

	Assets 2013 £m	Of which non-current assets* 2013 £m	Liabilities 2013 £m	Capital** expenditure 2013 £m	Assets 2012 £m	Of which non-current assets* 2012 £m	Liabilities 2012 £m	Capital** expenditure 2012 £m
UK Bus	**153.5**	**134.7**	**(118.7)**	**27.1**	142.9	124.5	(115.1)	24.7
UK Coach	**59.0**	**45.0**	**(36.7)**	**3.8**	66.7	53.0	(36.5)	6.6
Rail	**13.4**	**1.8**	**(45.7)**	**–**	14.7	2.4	(47.6)	0.2
North American Bus	**795.7**	**722.5**	**(195.2)**	**16.1**	878.0	789.4	(203.9)	58.9
Spanish Coach and Bus	**1,148.1**	**1,065.2**	**(150.6)**	**36.4**	1,172.5	1,076.3	(159.7)	43.1
Central functions	**26.2**	**5.7**	**(44.2)**	**1.4**	34.0	4.7	(57.3)	0.3
Unallocated	**89.2**	**–**	**(796.7)**	**–**	125.3	–	(911.6)	–
Intercompany elimination	**(8.6)**	**–**	**8.6**	**–**	(18.8)	–	18.8	–
Total	**2,276.5**	**1,974.9**	**(1,379.2)**	**84.8**	2,415.3	2,050.3	(1,512.9)	133.8

* 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 £82.6m (2012: £125.4m).

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 15. In 2013 software intangible assets of £3.4m (2012: £6.6m) were acquired as disclosed in note 14.

5 Segmental analysis continued

Unallocated assets and liabilities comprise the following items:

	Unallocated assets 2013 £m	**Unallocated liabilities 2013 £m**	Unallocated assets 2012 £m	Unallocated liabilities 2012 £m
Cash and cash equivalents	**40.9**	**–**	72.8	–
Other debt receivables	**1.0**	**–**	1.0	–
Current tax	**1.6**	**(22.9)**	0.8	(19.9)
Available for sale investments	**7.4**	**–**	7.1	–
Derivative financial assets/(liabilities)	**21.6**	**(3.5)**	35.8	(5.2)
Borrowings, excluding finance leases	**–**	**(694.6)**	–	(801.1)
Dividend payable	**–**	**(0.6)**	–	(0.6)
Deferred tax	**16.7**	**(75.1)**	7.8	(84.8)
Total	**89.2**	**(796.7)**	125.3	(911.6)

6 Operating costs

		2013 £m	2012 £m
Cost of inventories recognised in expense		**75.2**	67.0
Staff costs (including exceptional costs of £7.7m (2012: £5.8m))		**855.8**	788.1
Depreciation	– Owned assets (including exceptional costs in 2012 of £2.6m)	**88.3**	90.0
	– Leased assets	**19.1**	19.8
Amortisation of fixed asset grants		**(1.1)**	(1.2)
Operating lease charges	Rolling stock: capital element	**27.5**	31.0
	Rolling stock: non-capital element	**–**	5.0
	Public service vehicles	**6.0**	4.0
	Other	**8.1**	6.0
	– Plant and equipment	**41.6**	46.0
	Fixed track access	**13.6**	14.9
	Other	**23.6**	23.7
	– Land and buildings	**37.2**	38.6
Foreign exchange differences		**(0.9)**	(0.4)
Other charges (including exceptional expense of £18.0m (2012: £34.2m))		**608.9**	614.0
Operating costs before intangible asset amortisation		**1,724.1**	1,661.9
Intangible asset amortisation		**49.3**	51.7
Total operating costs		**1,773.4**	1,713.6

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:

	2013 £m	2012 £m
Fees payable to the Company's auditors for the audit of the consolidated and parent Company accounts	**0.3**	0.3
Fees payable to the Company's auditors and its associates for other services:		
The audit of the Company's subsidiaries	**0.6**	0.6
Other services	**0.1**	0.3
	1.0	1.2

7 Employee benefit costs
(a) Staff costs

	2013 £m	2012 £m
Wages and salaries	**738.4**	679.9
Social security costs	**104.8**	96.1
Pension costs (note 34)	**9.5**	6.9
Share-based payment (note 8)	**3.1**	5.2
	855.8	788.1

The average number of employees, including Executive Directors, during the year was as follows:

	2013	2012
Managerial and administrative	**3,941**	3,659
Operational	**38,321**	35,737
	42,262	39,397

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.

	2013 £m	2012 £m
Basic salaries	**1.0**	1.0
Benefits	**0.3**	0.3
Performance-related bonuses	**1.4**	1.1
Share-based payment	**1.0**	1.5
	3.7	3.9

(b) Share schemes
Details of options or awards outstanding as at 31 December 2013 under the Group's share schemes are as follows:

	Number of share options 2013	Number of share options 2012	Exercise price	Future exercise periods
Executive Share Option Plan	**16,286**	35,508	**207p-354p**	**2014**
Long Term Incentive Plan	**10,498,399**	6,986,836	**nil**	**2014-2019**
Share Matching Plan	**724,494**	1,089,251	**nil**	**2014-2015**
Deferred Annual Share Bonus Plan	**846,474**	1,325,234	**nil**	**2014-2015**
WMT Long Service Option Scheme	**262,171**	283,628	**129p-599p**	**2014-2023**
Executive Deferred Bonus Plan	**142,504**	127,249	**nil**	**2014**
	12,490,328	9,847,706		

7 Employee benefit costs continued
(b) Share schemes continued
(i) Executive Share Option Plan
The Company operates tax approved and unapproved executive share option schemes open to Group employees in senior management positions. Options granted by this Plan have a maximum term of ten years. The options vest after three years subject to the satisfaction of certain performance criteria based on the achievement of a target growth in earnings per share. If the performance criteria are not met when initially tested, in some instances they may be reassessed during the term of the option. From 2005 executive share option grants have been replaced by awards made under the Long Term Incentive Plan, as described in (ii). There are no cash settlement alternatives.

(ii) Long Term Incentive Plan (LTIP)
The LTIP was introduced in 2005 on the recommendation of the Remuneration Committee to replace the annual award under the Executive Share Option Plan to Executive Directors and to certain senior employees. Under the LTIP, a Performance Award to acquire a specified number of free shares may be made to the employee or Director. In addition, a Matching Award may be made, as described in (iii). Performance conditions are attached to the vesting of Performance and Matching Awards based on both the achievement of target growth in earnings per share and the relative total shareholder return (TSR) of the Company against a comparator group of companies. If the performance conditions are met, Performance and Matching Awards vest on the third anniversary of the grant date and remain exercisable for a period of up to six months following the vesting date. There are no cash settlement alternatives at present.

In 2011, 2012 and 2013 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 Long Term Incentive Plan arrangements described in (ii). Under the Plan, a Matching Award to acquire a specified number of shares for free may be made if the employee pledges a number of shares as investment shares which are then matched by the Company on up to a 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 (2012: 965) National Express Group PLC shares were held for the benefit of the Trustee. Dividends on shares held in the SIP forfeited shares account are waived. There are no cash settlement alternatives.

7 Employee benefit costs continued

(b) Share schemes continued

(vii) 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:

	2013 £m	2012 £m
Expense arising from share and share option plans – continuing operations	**3.1**	5.2

There were exceptional costs included within the charge during the year of £0.1m (2012: £0.1m).

During the year ended 31 December 2013, 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:

	2013		2012	
	Number of share options	**Weighted average exercise price p**	Number of share options	Weighted average exercise price p
Options without a nil exercise price:				
At 1 January	**319,136**	**368**	1,277,006	445
Granted during the year	**14,840**	**252**	26,660	252
Forfeited during the year	**(5,892)**	**377**	(9,708)	424
Exercised during the year	**(10,501)**	**196**	(29,877)	146
Expired during the year	**(39,126)**	**276**	(944,945)	475
Outstanding at 31 December	**278,457**	**380**	319,136	368
Exercisable at 31 December	**225,895**	**411**	211,343	430
Options with a nil exercise price:				
At 1 January	**9,528,570**	**nil**	7,285,150	nil
Granted during the year	**5,106,185**	**nil**	4,754,977	nil
Forfeited during the year	**(209,721)**	**nil**	(333,117)	nil
Exercised during the year	**(1,426,737)**	**nil**	(1,954,978)	nil
Expired during the year	**(786,426)**	**nil**	(223,462)	nil
Outstanding at 31 December	**12,211,871**	**nil**	9,528,570	nil
Exercisable at 31 December	**–**	**nil**	197,069	nil
Total outstanding at 31 December	**12,490,328**		9,847,706	
Total exercisable at 31 December	**225,895**		408,412	

The options outstanding at 31 December 2013 had exercise prices that were between 129p and 599p (2012: between 129p and 604p) excluding options with a nil exercise price. The range of exercise prices for options was as follows:

Exercise price (p)	**2013**	2012
0-300	**104,166**	123,278
300-350	**–**	12,141
350-650	**174,291**	183,717
	278,457	319,136

The options have a weighted average contractual life of one year (2012: one year). Options were exercised regularly throughout the year and the weighted average share price at exercise was 201p (2012: 225p).

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	
	2013	2012	**2013**	2012
Risk free interest rate	**1.19%**	0.50%-1.16%	**0.35%-0.84%**	0.50%-0.55%
Expected volatility	**38.1%**	36.8%-40.0%	**29.2%-44.2%**	40.0%-44.5%
Peer group volatility	**–**	–	**36.8%-44.3%**	38.5%-45.5%
Expected option life in years	**7 years**	3-6 years	**3-5 years**	3-5 years
Expected dividend yield	**4.73%**	3.97%-4.16%	**4.64%-4.88%**	4.16%-4.56%
Weighted average share price at grant date	**206p**	239p	**201p**	225p
Weighted average exercise price at grant date	**252p**	252p	**nil**	nil
Weighted average fair value of options at grant date	**32p**	49p	**128p**	171p

Experience to date has shown that approximately 24% (2012: 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

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

10 Taxation

(a) Analysis of taxation charge in the year

	2013 £m	2012 £m
Current taxation:		
UK corporation tax	**3.9**	1.6
Overseas taxation	**14.4**	7.0
Current income tax charge	**18.3**	8.6
Adjustments with respect to prior years – UK and overseas	**–**	(0.5)
Total current income tax charge	**18.3**	8.1
Deferred taxation (note 27):		
Origination and reversal of temporary differences – continuing operations	**(11.8)**	(0.3)
Adjustments with respect to prior years – UK and overseas	**(0.4)**	0.7
Deferred tax (credit)/charge	**(12.2)**	0.4
Total tax charge	**6.1**	8.5
The tax charge is disclosed as follows:		
Tax charge on profit before intangible asset amortisation and exceptional items	**32.5**	32.7
Tax credit on intangible asset amortisation and exceptional items	**(26.4)**	(24.2)
	6.1	8.5
Tax credit on intangible asset amortisation and exceptional items is analysed as follows:		
Tax credit on intangible asset amortisation	**(17.4)**	(15.1)
Tax credit on exceptional items	**(6.8)**	(9.1)
Tax credit on loss on disposal of business	**(2.2)**	–
	(26.4)	(24.2)

(b) Tax on items recognised in other comprehensive income or equity

	2013 £m	2012 £m
Current taxation:		
Credit on exchange movements offset in reserves	**(0.1)**	–
	(0.1)	–
Deferred taxation:		
Deferred tax charge on share-based payment	**–**	(0.1)
Deferred tax credit on actuarial losses	**3.7**	7.2
Deferred tax credit on cash flow hedges	**0.3**	4.9
Deferred tax credit on foreign exchange differences	**2.1**	1.6
	6.1	13.6

10 Taxation continued

(c) Reconciliation of the total tax charge

	2013 £m	2012 £m
Profit before income tax	**64.4**	69.8
Notional charge at UK corporation tax rate of 23.25% (2012: 24.5%)	**15.0**	17.1
Non-deductible goodwill impairment and intangible amortisation	**1.8**	0.7
Recognition of a deferred tax asset for previously unrecognised tax losses	**(0.1)**	(3.9)
Effect of reduction in UK tax rates (note 10(g))	**(0.1)**	(0.1)
Prior year adjustments within current and deferred tax	**(0.4)**	0.2
European reinvestment relief and other tax credits	**(1.2)**	(1.6)
Effect of overseas tax rates	**5.2**	6.8
Tax on European goodwill and intangibles	**(6.1)**	(5.8)
Overseas financing deductions	**(6.8)**	(9.1)
Non-deductible expenditure	**(1.2)**	4.2
Total tax charge reported in the income statement (note 10(a))	**6.1**	8.5

(d) Temporary differences associated with Group investments

No deferred tax (2012: £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 (2012: £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 £6.1m (2012: £9.4m), 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 £3.1m (2012: £5.9m) which have not been recognised, recoverability of which is dependent on capital gains arising.

The £3.1m of unrecognised capital losses will expire at various dates from 2014 through to 2016, as follows:

	2013 £m
2014	**1.4**
2015	**1.0**
2016	**0.7**
	3.1

(f) Deferred tax included in the Income Statement

	2013 £m	2012 £m
Accelerated capital allowances	**(6.8)**	7.2
Other short term temporary differences	**(11.0)**	(1.2)
Utilisation of losses	**5.6**	(5.6)
Deferred tax (credit)/charge	**(12.2)**	0.4

Details on the Balance Sheet position of deferred tax are included in note 27.

(g) Factors that may affect future tax charges

On 21 March 2012, the UK Chancellor of the Exchequer announced a 1% reduction in the UK corporation tax rate to 24% effective from 1 April 2012, along with two subsequent reductions to 23% from 1 April 2013 and 22% from 1 April 2014. On 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 21% (2012: 23%) was substantively enacted. The change in rate from 23% to 21% has resulted in a tax credit of £0.1m to the income statement.

The proposed changes to reduce the UK corporation tax rate from 21% to 20% on 1 April 2015 will have a similar effect in future years.

11 Discontinued operations

In 2013 and 2012 there were no material movements arising from discontinued operations.

12 Dividends paid and proposed

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

13 Earnings per share

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

Basic earnings per share is calculated by dividing the earnings attributable to equity shareholders of £56.8m (2012: £60.0m) by the weighted average number of ordinary shares in issue during the year, excluding those held by employee share ownership trusts and those held as treasury shares which are both treated as cancelled.

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

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

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

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

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

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

14 Intangible assets

	Customer contracts £m	Brand £m	Software £m	Contractual relationships £m	Total finite life assets £m	Goodwill £m	Total £m
Cost:							
At 1 January 2013	460.1	2.3	31.9	58.7	553.0	1,121.3	1,674.3
Acquisitions	3.7	–	–	–	3.7	3.9	7.6
Additions	3.4	–	3.4	0.1	6.9	(3.4)	3.5
Transfer to property, plant and equipment	–	–	(0.2)	(3.3)	(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	6.6	–	(1.4)	(1.9)	3.3	5.6	8.9
At 31 December 2013	471.6	2.3	33.0	53.6	560.5	1,127.1	1,687.6
Amortisation and impairment:							
At 1 January 2013	308.8	0.3	15.7	3.2	328.0	83.4	411.4
Charge for year	41.0	0.5	4.5	3.3	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	4.4	–	(0.8)	(0.4)	3.2	0.8	4.0
At 31 December 2013	354.0	0.8	19.0	6.1	379.9	84.2	464.1
Net book value:							
At 31 December 2013	117.6	1.5	14.0	47.5	180.6	1,042.9	1,223.5
At 1 January 2013	151.3	2.0	16.2	55.5	225.0	1,037.9	1,262.9

14 Intangible assets continued

	Customer contracts £m	Rail franchise £m	Brand £m	Software £m	Contractual relationships £m	Total finite life assets £m	Goodwill £m	Total £m
Cost:								
At 1 January 2012	417.9	9.9	–	23.0	57.0	507.8	1,082.9	1,590.7
Acquisitions	54.3	–	2.3	3.4	–	60.0	65.6	125.6
Additions	–	–	–	3.2	3.2	6.4	3.1	9.5
Transfer from property, plant and equipment	–	–	–	3.0	–	3.0	–	3.0
Disposal	–	(9.9)	–	–	–	(9.9)	–	(9.9)
Foreign exchange	(12.1)	–	–	(0.7)	(1.5)	(14.3)	(30.3)	(44.6)
At 31 December 2012	460.1	–	2.3	31.9	58.7	553.0	1,121.3	1,674.3
Amortisation and impairment:								
At 1 January 2012	272.3	9.7	–	11.8	–	293.8	84.4	378.2
Charge for year	43.6	0.2	0.3	4.3	3.3	51.7	–	51.7
Disposals	–	(9.9)	–	–	–	(9.9)	–	(9.9)
Foreign exchange	(7.1)	–	–	(0.4)	(0.1)	(7.6)	(1.0)	(8.6)
At 31 December 2012	308.8	–	0.3	15.7	3.2	328.0	83.4	411.4
Net book value:								
At 31 December 2012	151.3	–	2.0	16.2	55.5	225.0	1,037.9	1,262.9
At 1 January 2012	145.6	0.2	–	11.2	57.0	214.0	998.5	1,212.5

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:

	2013 £m	2012 £m
UK Coach	**13.2**	13.2
North American Bus	**319.9**	330.5
Spanish Coach and Bus	**709.8**	694.2
	1,042.9	1,037.9

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, detailed budget plans as well as management's assessment of current market and economic conditions. Growth has then been extrapolated forward from the end of the forecasts.

14 Intangible assets continued

The calculation of value in use for each group of cash-generating units is most sensitive to the assumptions over discount rates and the growth rate used to extrapolate cash flows beyond the five-year period of the management plan.

The key assumptions used for the cash-generating units are as follows:

	Pre-tax discount rate applied to cash flow projections		Growth rate used to extrapolate cash flows beyond five-year period of management plan	
	2013	2012	**2013**	2012
UK Coach	**9.4%**	11.9%	**2.0%**	2.0%
North American Bus	**9.1%**	11.5%	**2.5%**	2.5%
Spanish Coach and Bus	**8.6%**	9.0%	**2.0%**	2.0%

The value in use of the North American Bus division exceeds its carrying amount by £161.1m (2012: £55.4m). Sensitivity analysis has been completed on each key assumption in isolation, and this indicates that the value in use of the division will be equal to its carrying amount following an increase in the discount rate of 150 basis points (2012: 40 basis points) or a reduction in the growth rates used to extrapolate cash flows beyond the five-year period of the management plan of 150 basis points (2012: 150 basis points).

The value in use of the Spanish Coach and Bus division exceeds its carrying amount by £212.9m (2012: £47.4m). Sensitivity analysis has been completed on each key assumption in isolation, and this indicates that the value in use of the division will be equal to its carrying amount following an increase in the discount rate of 140 basis points (2012: 30 basis points) or a reduction in growth rates used to extrapolate cash flows beyond the five-year period of the management plan of 150 basis points (2012: 130 basis points).

The headroom in both North American Bus and Spanish Coach and Bus has improved during the year due to the reduced discount rate and the reduced asset values.

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 170 basis points (2012: 60 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 200 basis points (2012: 80 basis points) will also result in the value in use of the division being equal to its carrying amount.

The Directors consider the assumptions used to be consistent with the historical performance of each cash-generating unit and to be realistically achievable in light of economic and industry measures and forecasts.

15 Property, plant and equipment

	Freehold land and buildings £m	Long leasehold property improvements £m	Public service vehicles £m	Plant and equipment, fixtures and fittings £m	Total £m
Cost:					
At 1 January 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

15 Property, plant and equipment continued

	Freehold land and buildings £m	Long leasehold property improvements £m	Public service vehicles £m	Plant and equipment, fixtures and fittings £m	Total £m
Cost:					
At 1 January 2012	95.1	4.2	1,025.5	173.6	1,298.4
Additions	3.7	0.2	117.6	12.3	133.8
Acquisitions of businesses	1.2	–	57.3	1.1	59.6
Transfer to intangible assets	–	–	–	(3.0)	(3.0)
Disposals	(0.5)	(0.1)	(30.1)	(17.8)	(48.5)
Foreign exchange	(1.0)	(0.2)	(30.4)	(1.9)	(33.5)
At 31 December 2012	98.5	4.1	1,139.9	164.3	1,406.8
Depreciation:					
At 1 January 2012	13.0	2.0	401.3	127.6	543.9
Charge for the year	2.1	0.5	95.0	12.2	109.8
Disposals	(0.2)	–	(10.4)	(10.5)	(21.1)
Foreign exchange	0.5	(0.2)	(12.3)	(1.2)	(13.2)
At 31 December 2012	15.4	2.3	473.6	128.1	619.4
Net book value:					
At 31 December 2012	83.1	1.8	666.3	36.2	787.4
At 1 January 2012	82.1	2.2	624.2	46.0	754.5

Property, plant and equipment held under finance lease agreements are analysed as follows:

		2013 £m	2012 £m
Land and buildings	– cost	**–**	1.3
	– depreciation	**–**	(0.1)
Net land and buildings		**–**	1.2
Long leasehold property	– cost	**0.8**	–
	– depreciation	**–**	–
Net long leasehold property		**0.8**	–
Public service vehicles	– cost	**256.5**	255.4
	– depreciation	**(85.2)**	(75.1)
Net public service vehicles		**171.3**	180.3
Plant and equipment	– cost	**0.2**	0.2
	– depreciation	**(0.1)**	(0.2)
Net plant and equipment		**0.1**	–
Total net book value		**172.2**	181.5

Finance leased assets and assets under hire purchase contracts are pledged as security for the related finance lease and hire purchase liabilities.

16 Subsidiaries

The companies listed below include all those which principally affect the results and net assets of the Group. A full list of subsidiaries, joint ventures and associates will be annexed to the next Annual Return to Companies House. The principal country of operation in respect of the companies below is the country in which they are incorporated.

National Express Group PLC is the beneficial owner of all the equity share capital, either itself or through subsidiaries, of the companies. The Group's train passenger services in the UK are operated through franchises awarded by DfT Rail, as delegated by the UK Government.

Incorporated in England and Wales	
National Express Limited	Administration and marketing of express coach services in Great Britain
Eurolines (UK) Limited	Administration and marketing of express coach services to Europe
Airlinks Airport Services Limited	Operation of coach services
The Kings Ferry Limited	Operation of coach services
West Midlands Travel Limited	Operation of bus services
c2c Rail Limited	Operation of train passenger services

Incorporated in Scotland	
Tayside Public Transport Co Limited (trading as Travel Dundee)	Operation of bus services

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 (Marrakesh)	Operation of bus services
TVAM Transport de Voyageurs en Autocar Maroc SA (Marrakesh)	Operation of bus services
ACA Alsa City Agadir SA	Operation of bus services

Incorporated in Germany	
National Express Germany GmbH	Operation of coach services

* The main holding companies of the ALSA Group.

17 Derivative financial assets and available for sale investments

	2013 £m	2012 £m
Available for sale investments – Unlisted ordinary shares	**7.4**	7.1
Derivative financial instruments – Interest rate derivatives	**17.6**	31.0
Derivative financial instruments – Fuel derivatives	**0.9**	0.1
Derivative financial instruments included in non-current assets	**18.5**	31.1
Derivative financial instruments – Fuel derivatives	**0.9**	4.6
Derivative financial instruments – Foreign exchange derivatives	**2.2**	0.1
Derivative financial instruments included in current assets	**3.1**	4.7

Further information on the Group's use of fuel, interest rate and foreign exchange derivatives is included in note 31.

Available for sale investments

	2013 £m	2012 £m
Cost or valuation and net book value:		
At 1 January	**7.1**	7.6
Additions	**0.1**	–
Disposals	**–**	(0.3)
Foreign exchange	**0.2**	(0.2)
At 31 December	**7.4**	7.1

The principal available for sale investments are as follows:

Name	Country of registration	Class of share	2013 Proportion held %	2012 Proportion held %
Metros Ligeros de Madrid, S.A. (MLM)	Spain	Ordinary shares	**15**	15
Various investments within ALSA and Continental Auto	Spain	Ordinary shares	**1-16**	1-16

18 Investments accounted for using the equity method

Investments accounted for using the equity method are as follows:

	2013 £m	2012 £m
Joint ventures	**2.4**	2.2
Associates	**2.7**	2.2
Total investments accounted for under the equity method	**5.1**	4.4

The Group's share of post-tax results from associates and joint ventures accounted for using the equity method is as follows:

	2013 £m	2012 £m
Share of joint venture's profit	**0.2**	0.1
Share of associates' profit	**0.4**	1.3
Total share of results from associates and joint ventures	**0.6**	1.4

(a) Investments in joint ventures

The Group's interests in joint ventures are as follows:

Name	Country of registration	Activity	Proportion held %
Ibero-Eurosur S.L.	Spain	Holding company of Deutsche Touring	20

The financial information of this joint venture is summarised below:

Share of joint venture's balance sheet and results	2013 £m	2012 £m
Non-current assets	**3.5**	3.5
Current assets	**0.1**	–
Share of gross assets	**3.6**	3.5
Non-current liabilities	**(0.7)**	(0.9)
Current liabilities	**(0.5)**	(0.4)
Share of gross liabilities	**(1.2)**	(1.3)
Share of net assets	**2.4**	2.2
Revenue	**0.3**	0.2
Share of profit	**0.2**	0.1

The carrying amount of the investment in joint ventures matches the Group's share of the net assets.

18 Investments accounted for using the equity method continued

(b) Investments in associates

The Group's interests in associates are as follows:

Name	Country of registration	Proportion held %
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 are summarised below:

Share of associates' balance sheets and results	**2013 £m**	2012 £m
Non-current assets	**3.0**	3.1
Current assets	**4.1**	3.9
Share of gross assets	**7.1**	7.0
Non-current liabilities	**(1.9)**	(2.2)
Current liabilities	**(2.5)**	(2.6)
Share of gross liabilities	**(4.4)**	(4.8)
Share of net assets	**2.7**	2.2
Total revenue	**19.8**	12.7
Share of profit	**0.4**	1.3

The carrying amount of the investment in associates matches the Group's share of the net assets.

19 Business combinations

(a) Acquisitions

During the year the Group acquired a number of small school bus businesses in North America. The total fair value of net assets acquired in these businesses was £3.7m. Total consideration was £7.6m (including deferred consideration of £0.4m), resulting in provisional goodwill of £3.9m.

Deferred consideration of £3.7m was paid in the year relating to acquisitions in North America in earlier years.

In 2012 the Group made a number of acquisitions, including Petermann Partners Inc., the Joint Venture of Thompson Transit Inc. and YCN Transportation LLC, and a number of small controlling interests in the Group's Spanish division. Full details of these acquisitions are disclosed in the Group's 2012 Annual Report and Accounts. No changes were made to the fair values during 2013.

(b) Disposals

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 fair value of the net assets disposed was £5.7m. Consideration received was £1.4m, resulting in a loss on disposal of £4.3m.

There were no business disposals in the Group in 2012.

20 Non-current assets – trade and other receivables

	2013 £m	2012 £m
Trade receivables	**1.1**	1.1
Prepayments and accrued income	**0.8**	1.0
Other receivables	**2.7**	3.5
	4.6	5.6

21 Inventories

	2013 £m	2012 £m
Raw materials and consumables	**21.2**	19.3

The movement on the provision for slow moving and obsolete inventory is immaterial.

22 Current assets – trade and other receivables

	2013 £m	2012 £m
Trade receivables	**110.3**	130.4
Less: provision for impairment of receivables	**(11.3)**	(10.1)
Trade receivables – net	**99.0**	120.3
Amounts due from associates and joint ventures (note 36)	**1.1**	0.9
Amounts due from other related parties (note 36)	**1.0**	0.9
Other receivables	**34.4**	38.2
Prepayments and accrued income	**34.4**	34.5
	169.9	194.8

An analysis of the provision for impairment of receivables is provided below:

	2013 £m	2012 £m
At 1 January	**(10.1)**	(10.2)
(Provided)/utilised in the year	**(1.2)**	0.1
At 31 December	**(11.3)**	(10.1)

Amounts included within trade receivables which are past due at the reporting date are shown in note 30. The Directors believe that based on the ongoing contractual relationships with predominantly government bodies that these amounts will be collected.

23 Cash and cash equivalents

	2013 £m	2012 £m
Cash at bank and in hand	**37.7**	41.7
Overnight deposits	**–**	28.6
Other short term deposits	**3.2**	2.5
Cash and cash equivalents	**40.9**	72.8

Cash and cash equivalents include restricted balances of £2.9m (2012: £6.7m) held by the Rail subsidiaries (TOCs). Under the terms of the train franchise agreements, cash can only be distributed by the TOCs either up to the value of retained profits or the amount determined by prescribed liquidity ratios. The restricted cash represents the balance that is either not available for distribution or the amount required to satisfy the liquidity ratio at the Balance Sheet date.

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates. Short term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group and earn interest at the agreed short term floating deposit rate. The fair value of cash and cash equivalents is equal to the carrying value.

24 Current liabilities – trade and other payables

	2013 £m	2012 £m
Trade payables	**129.7**	133.1
Amounts owed to associates and joint ventures (note 36)	**0.8**	0.8
Amounts owed to other related parties (note 36)	**0.9**	3.6
Other tax and social security payable	**26.8**	23.8
Accruals and deferred income	**112.9**	92.3
Other payables	**80.5**	94.8
	351.6	348.4

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 £0.9 m (2012: £1.4m).

25 Other non-current liabilities

	2013 £m	2012 £m
Deferred fixed asset grants	**4.7**	3.0
Other liabilities	**1.8**	2.9
	6.5	5.9

26 Provisions

	Claims provision[1] £m	Other[2] £m	Total £m
At 1 January 2013	**50.6**	**6.4**	**57.0**
Charged to the income statement	**21.8**	**0.7**	**22.5**
Utilised in the year	**(28.0)**	**(3.3)**	**(31.3)**
Unwinding of discount	**1.3**	**–**	**1.3**
Acquired in business combinations	**1.2**	**–**	**1.2**
Exchange difference	**(1.9)**	**0.6**	**(1.3)**
At 31 December 2013	**45.0**	**4.4**	**49.4**
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**
Current 31 December 2012	22.3	6.4	28.7
Non-current 31 December 2012	28.3	–	28.3
	50.6	6.4	57.0

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 and dilapidation provisions in Rail.

When the effect is material, the provisions are discounted to their net present value.

27 Deferred tax

	2013 £m	2012 £m
Net deferred tax liability at 1 January	**(77.0)**	(95.2)
Charge to income statement	**12.2**	(0.4)
Credit to other comprehensive income or equity	**6.1**	13.6
Exchange differences	**(0.4)**	3.0
Acquired in business combinations	**0.7**	2.0
Net deferred tax liability at 31 December	**(58.4)**	(77.0)

Based on current capital investment plans, the Group expects to be able to claim capital allowances in excess of depreciation in future years at a similar level to the current year.

Deferred tax assets and liabilities within the same jurisdiction have been offset.

27 Deferred tax continued

Deferred tax assets	2013 £m	2012 £m
Accelerated tax depreciation	**0.7**	(6.1)
Losses carried forward	**8.9**	10.3
Other short term temporary differences	**7.1**	3.6
Total	**16.7**	7.8

Deferred tax liabilities	2013 £m	2012 £m
Accelerated tax depreciation	**(158.5)**	(158.3)
Losses carried forward	**36.4**	42.1
Other short term temporary differences	**47.0**	31.4
Total	**(75.1)**	(84.8)

28 Borrowings and derivative financial liabilities

	2013 £m	2012 £m
Non-current		
Bank loans	**5.2**	3.7
Bonds	**579.5**	590.0
Finance lease obligations	**100.7**	127.1
Other debt payable	**65.3**	66.0
Non-current borrowings	**750.7**	786.8
Fuel derivatives	**1.1**	2.2
Interest rate derivatives	**0.5**	–
Non-current derivative financial instruments	**1.6**	2.2
Non-current borrowing and derivative financial liabilities	**752.3**	789.0
Current		
Bank loans	**14.1**	110.9
Bonds – accrued interest	**29.2**	29.2
Finance lease obligations	**32.2**	27.6
Other debt payable	**1.3**	1.3
Current borrowings	**76.8**	169.0
Fuel derivatives	**1.5**	2.5
Foreign exchange derivatives	**0.4**	0.5
Current derivative financial instruments	**1.9**	3.0
Current borrowings and derivative financial liabilities	**78.7**	172.0

An analysis of interest-bearing loans and borrowings is provided in note 29. Further information on derivative financial instruments is provided in note 31.

29 Interest-bearing borrowings

The effective interest rates on loans and borrowings at the Balance Sheet date were as follows:

	2013 £m	**Maturity**	**Effective interest rate**	2012 £m	Maturity	Effective interest rate
7 year Sterling bond	**352.0**	**January 2017**	**6.54%**	360.1	January 2017	6.54%
10 year Sterling bond	**227.5**	**June 2020**	**6.85%**	229.9	June 2020	6.85%
Bonds	**579.5**			590.0		
Accrued interest – bonds	**29.2**			29.2		
European bank loans	**13.0**	**July 2018[1]**	**LIBOR + 1.10%**	79.4	August 2014[1]	LIBOR + 1.45%
European bank loans	**–**			28.4	February 2013	1.2%
European bank loans	**5.7**	**2014-2016**	**5.08%**	5.8	2013-2017	5.02%
European bank loans	**0.6**	**2014-2016**	**EURIBOR + 2.87%**	1.0	2013-2017	EURIBOR + 2.85%
Bank loans	**19.3**			114.6		
US dollar finance leases at fixed rate	**112.4**	**2014-2020**	**2.21%**	127.5	2013-2019	2.34%
European finance leases at fixed rate	**4.2**	**2014-2017**	**5.68%**	6.0	2013-2017	5.88%
European finance leases at floating rate	**3.1**	**2014-2017**	**EURIBOR + 1.31%**	4.5	2013-2017	EURIBOR + 1.21%
Sterling finance leases at fixed rate	**13.2**	**2014-2018**	**4.76%**	16.7	2013-2018	4.76%
Finance leases	**132.9**			154.7		
Euro Private Placement	**64.5**	**August 2021**	**4.55%**	65.2	August 2021	4.55%
Accrued interest – Private placement	**1.1**			1.2		
Euro loans	**1.0**	**2014-2017**		0.9	2013-2016	
Other debt payable	**66.6**			67.3		
Total	**827.5**			955.8		

1 This date is the ultimate maturity date of the syndicated credit facility.

In July 2013, the Group renewed its committed unsecured revolving bank facility, replacing the previous £500m facility, which had been due to mature in 2014, with a £410m facility, maturing in July 2018.

During 2012, the Group issued a €78.5m Private Placement, repayable in August 2021 at a fixed rate of 4.55%.

Under the terms of the £1bn EMTN programme, there is a change in control put option such that, upon a change of control event, any holder of any MTN may require the Company to redeem or purchase that MTN.

Details of the Group's interest rate risk management strategy and associated interest rate derivatives are included in notes 30 and 31.

The Group is subject to a number of financial covenants in relation to its syndicated credit facilities which, if contravened, could result in its borrowings under the facility becoming immediately repayable. These covenants specify maximum net debt to EBITDA and minimum EBITDA to net interest payable.

29 Interest-bearing borrowings continued

The following table sets out the carrying amount, by maturity of the Group's interest-bearing borrowings and deposits.

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)

As at 31 December 2012	< 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	> 5 years £m	Total £m
Fixed rate							
Bank loans	(31.0)	(1.4)	(1.2)	(0.6)	–	–	(34.2)
Bonds	–	–	–	–	(360.1)	(229.9)	(590.0)
Finance leases	(26.1)	(32.1)	(20.9)	(18.6)	(28.2)	(24.3)	(150.2)
Other debt payable	(1.3)	(0.3)	(0.5)	–	–	(65.2)	(67.3)
Floating rate							
Cash assets	72.8	–	–	–	–	–	72.8
Bank loans	(79.9)	(0.3)	(0.2)	–	–	–	(80.4)
Finance leases	(1.5)	(1.2)	(1.1)	(0.5)	(0.2)	–	(4.5)

30 Financial risk management objectives and policies

Financial risk factors and management

The Group's multinational operations and debt levels expose it to a variety of financial risks, of which the most material are market risks relating to fuel prices, foreign currency exchange rates, interest rates and the availability of funding at reasonable margins. The Group has in place a risk management programme that seeks to manage the impact of these risks on the financial performance of the Group by using financial instruments including borrowings, committed facilities and forward foreign exchange, fuel and interest rate derivatives.

The Board of Directors has delegated the responsibility for implementing the financial risk management policies laid down by the Board to the Group Finance Director and Group Treasurer. The policies are implemented by the Group Treasury department with regular reporting to the Group Finance Director and the Audit Committee on its activities.

30 Financial risk management objectives and policies continued

Foreign currency

The Group has major foreign operations in the US, Canada and Spain and as a result is exposed to the movements in foreign currency exchange rates on the translation of these foreign currency denominated net assets and earnings. These movements can have a significant impact on the Group's reported results. The Group seeks to manage this foreign currency exchange movements risk by aligning its foreign currency denominated liabilities with the EBIT generated in each currency, such that some protection is afforded to the net debt: EBITDA covenant within the Group's core borrowing facility. This is achieved by a combination of foreign currency borrowings and finance leases, and entering into derivative financial instruments such as 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$75.0m, €4.9m, C$23.3m and finance leases of US$186.0m and €8.9m.

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 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 £3.5m.

			2013		2012
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%	**–**	**(2.6)**	–	(8.0)
Euro	10%	**0.1**	**5.9**	–	(11.6)
Canadian dollar	10%	**0.2**	**0.2**	–	0.5
US dollar	(10)%	**–**	**2.6**	–	8.0
Euro	(10)%	**(0.1)**	**(5.9)**	–	11.6
Canadian dollar	(10)%	**(0.2)**	**(0.2)**	–	(0.5)

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 2013 the proportion of Group net debt at floating rates was 33% (2012: 37%).

The table below demonstrates the sensitivity of the Group's financial instruments to a reasonably possible change in interest rates, with all other variables held constant, on the Group's profit before tax and on the Group's hedging reserve.

The sensitivity analysis covers all floating rate financial instruments, including the interest rate swaps. If the interest rates applicable to floating rate instruments denominated in Sterling were increased by 100bps, it is estimated that the Group's profit before taxation would decrease by approximately £1.8m. 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 £0.5m. The analysis assumes that the amount and mix of floating rate debt, including finance leases, remains unchanged from that in place at 31 December 2013.

30 Financial risk management objectives and policies continued

As at 31 December	Increase/ (decrease) in basis points	**2013** Effect on profit before tax £m	**2013** Effect on hedging reserve £m	2012 Effect on profit before tax £m	2012 Effect on hedging reserve £m
Sterling	100	**(1.8)**	**–**	(1.6)	–
US dollar	50	**–**	**–**	0.1	–
Euro	75	**(0.5)**	**–**	(0.5)	–
Sterling	(100)	**1.8**	**–**	1.6	–
US dollar	(50)	**–**	**–**	(0.1)	–
Euro	(75)	**0.5**	**–**	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 2013, the Group had hedged approximately 100% of its 2014 expected usage and 86% of its expected usage in 2015 (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 £41.2m at 31 December 2013. 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	**2013** Effect on profit before tax £m	**2013** Effect on hedging reserve £m	2012 Effect on profit before tax £m	2012 Effect on hedging reserve £m
Sterling denominated ULSD	20%	**–**	**15.8**	–	14.9
US dollar denominated heating oil/diesel	20%	**–**	**8.6**	–	9.6
Euro denominated ULSD	20%	**–**	**16.8**	–	16.4
Sterling denominated ULSD	(20)%	**–**	**(15.8)**	–	(14.9)
US dollar denominated heating oil/diesel	(20)%	**–**	**(8.6)**	–	(9.6)
Euro denominated ULSD	(20)%	**–**	**(16.8)**	–	(16.4)

Credit risk

The maximum credit risk exposure of the Group is the gross carrying value of each of its financial assets. This risk is mitigated by a number of factors. Many of the Group's principal customers, suppliers and financial institutions with which it conducts business are public (or quasi-public) bodies, both national (DfT Rail and Network Rail in the UK) and local (school boards in North America, municipal authorities in Spain and Morocco, Transport for London and Centro in the UK). The Group does not consider these counterparties to pose a significant credit risk. Outside of this the Group does not consider it has significant concentrations of credit risk. The Group has implemented policies that require appropriate credit checks on potential customers before sales commence.

The only elements of the Group's financial assets which are not impaired but are past due are certain trade receivable items. An ageing of the assets which are past due is included in the table below. In terms of trade receivables that are neither impaired nor past due, there are no indications as at the year end reporting date that the debtors will not meet their payment obligations (see Risk and risk management section for details of how management manages this process).

30 Financial risk management objectives and policies continued

	Carrying amount £m	Of which: neither impaired nor past due £m	Of which: not impaired and past due in the following periods: Less than 30 days £m	Between 30 and 60 days £m	Between 61 and 90 days £m	Over 90 days £m
Trade receivables at 31 December 2013	**100.1**	**60.2**	**17.1**	**7.5**	**3.5**	**11.8**
Trade receivables at 31 December 2012	121.4	82.2	19.1	8.3	2.3	9.5

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 July 2013, the Group renewed its committed unsecured revolving bank facility, replacing the previous £500m facility, which had been due to mature in 2014, with a £410m facility, maturing in July 2018. The Group reduced the size of the facility, which is primarily used for seasonal funding requirements, in light of its lower debt forecast. At 31 December 2013, £393.4m of this facility remained unused (2012: £419.3m).

At 31 December 2013, the Group had committed bank borrowing and finance lease facilities of £542.9m (2012: £616.2m).

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2013 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 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)**

Year ended 31 December 2012	On demand £m	Less than 1 year £m	1-5 years £m	> 5 years £m	Total £m
Bank loans	–	112.6	3.8	–	116.4
Bonds	–	36.8	497.1	269.7	803.6
Finance lease obligations	–	29.7	135.3	12.7	177.7
Other debt payable	–	3.8	11.6	76.8	92.2
Trade and other payables	–	347.0	2.9	–	349.9
	–	529.9	650.7	359.2	1,539.8
Foreign exchange derivatives	–	0.4	–	–	0.4
Interest rate derivatives	–	(5.6)	(21.4)	(4.7)	(31.7)
Fuel derivatives	–	(1.9)	1.4	–	(0.5)
	–	(7.1)	(20.0)	(4.7)	(31.8)

30 Financial risk management objectives and policies continued

Capital risk management

The Group seeks to adopt efficient financing structures that enable it to use its Balance Sheet strength to achieve the Group's objectives without putting shareholder value at risk. The Group's capital structure comprises its equity (refer to the Group Statement of Changes in Equity) and its net debt (refer to note 37).

The decrease in the Group's net debt from £828.2m to £746.1m (excluding accrued interest) is explained in the Finance Director's review. Information about the financial covenants in relation to the Group's borrowing facilities is included in note 29.

31 Financial instruments (including cash, trade receivables and payables)

Fair values

The table below illustrates the fair values of all financial assets and liabilities held by the Group at 31 December 2013.

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.

31 Financial instruments (including cash, trade receivables and payables) continued

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)

Classification of financial instruments As at 31 December 2012	Loans and receivables £m	Available-for-sale assets £m	Derivatives used for hedging £m	Liabilities measured at amortised cost £m	At fair value through profit or loss £m	Total £m
Assets						
Investments	–	7.1	–	–	–	7.1
Fuel derivatives	–	–	4.7	–	–	4.7
Foreign exchange derivatives	–	–	0.1	–	–	0.1
Interest rate derivatives	–	–	31.0	–	–	31.0
Cash and cash equivalents	72.8	–	–	–	–	72.8
Trade and other receivables	165.1	–	–	–	–	165.1
	237.9	7.1	35.8	–	–	280.8
Liabilities						
Bank loans	–	–	–	(114.6)	–	(114.6)
Bonds including accrued interest	–	–	–	(619.2)	–	(619.2)
Finance lease obligations	–	–	–	(154.7)	–	(154.7)
Other debt payable	–	–	–	(67.3)	–	(67.3)
Fuel derivatives	–	–	(4.7)	–	–	(4.7)
Foreign exchange derivatives	–	–	(0.5)	–	–	(0.5)
Trade and other payables	–	–	–	(349.9)	–	(349.9)
	–	–	(5.2)	(1,305.7)	–	(1,310.9)

Other receivables and other payables are to be settled in cash in the currency they are held in.

In accordance with IAS 39 Financial Instruments: Recognition and Measurement, the Group has reviewed all contracts for embedded derivatives that are required to be separately accounted for. No embedded derivatives have been identified.

31 Financial instruments (including cash, trade receivables and payables) continued

The Group assesses at each year end reporting date whether a financial asset or group of financial assets is impaired. In the financial year 2013 there was no objective evidence that would have necessitated the impairment of loans and receivables or available-for-sale assets except the provision for impairment of receivables (see note 22).

Hedging activities

The Group uses derivative financial instruments to manage exposures to market risk, such as movements in foreign exchange rates, fuel prices and interest rates. Such derivative financial instruments are initially recognised at fair value and are subsequently re-measured at fair value. In line with IAS 39 the Group classifies hedges as (a) fair value hedges used to hedge exposure to changes in the fair value of a recognised asset or liability, (b) cash flow hedges used to hedge exposure to variability in cash flows associated with a recognised asset or liability or a highly probable forecast transaction, and (c) hedges of a net investment in a foreign operation.

In 2013 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 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**

	Interest rate swaps £m	Foreign exchange forward contracts £m	Fuel swaps £m	Total £m
Net asset at 1 January 2012	23.7	7.8	18.0	49.5
Transfers to the income statement on cash flow hedges	–	–	(20.2)	(20.2)
Cash settlements/accrual	0.3	(4.2)	–	(3.9)
Revaluation through income statement	7.0	–	–	7.0
Revaluation through other comprehensive income	–	–	2.2	2.2
Exchange differences	–	(4.0)	–	(4.0)
Net asset at 31 December 2012	31.0	(0.4)	–	30.6

The movement on the hedging reserve is detailed below:

	2013 £m	2012 £m
At 1 January	**2.8**	15.9
Transferred to income statement – operating costs	**(3.5)**	(20.2)
Revaluation through other comprehensive income	**2.7**	2.2
Exchange differences	**(0.2)**	–
Tax on revaluation	**0.3**	4.9
At 31 December	**2.1**	2.8

31 Financial instruments (including cash, trade receivables and payables) continued

Hedge of net investments in foreign entities

The Group uses foreign currency borrowings and derivative financial instruments to hedge the net investment in material foreign currency net assets of the Group which are used to reduce the exposure to foreign exchange rate movements. At 31 December 2013, the Group had designated €170m of synthetic debt in the form of foreign exchange derivatives; €20m of revolving credit facility drawings; 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 division is hedged using the diesel market. The timing of the swap cash flows match underlying fuel purchases from 2014 through to 2015. There was no significant element of hedge ineffectiveness requiring recognition in the Income Statement.

During the year £2.7m of fair value gains (2012: £2.2m) have been transferred to the hedging reserve due to movements in market fuel prices. Fair value movements of £3.5m (2012: £20.2m) have been transferred from the hedging reserve to the Income Statement following settlement of fuel trades, of which £5.8m was recognised in the hedging reserve at 1 January 2013 and the remainder was generated during the year due to the movement in market fuel prices.

Fuel derivatives can be analysed as follows:

	31 December 2013 Fair value £m	31 December 2012 Fair value £m	**31 December 2013 Volume million litres**	31 December 2012 Volume million litres
Hedge fuel derivatives				
Sterling denominated – UK Bus, UK Coach and Rail	**(0.7)**	(0.2)	**83.5**	76.9
US dollar denominated – North American Bus	**0.8**	0.1	**69.2**	66.9
Euro denominated – Spanish Coach and Bus	**(0.7)**	2.2	**93.0**	93.0
Fuel derivatives included in current assets/(liabilities)	**(0.6)**	2.1	**245.7**	236.8
Sterling denominated – UK Bus, UK Coach and Rail	**(0.8)**	(1.1)	**86.0**	79.0
US dollar denominated – North American Bus	**0.7**	(0.5)	**54.9**	62.0
Euro denominated – Spanish Coach and Bus	**(0.1)**	(0.5)	**89.5**	77.0
Fuel derivatives included in non-current assets/(liabilities)	**(0.2)**	(2.1)	**230.4**	218.0
Total hedge fuel derivatives	**(0.8)**	–	**476.1**	454.8

31 Financial instruments (including cash, trade receivables and payables) continued

Interest rate swaps at fair value through profit or loss

In July 2010 the Group entered into four £50m denominated interest rate swaps on a total of £200m of the Group's Sterling bonds. These interest rate swaps all pay floating interest (LIBOR + a margin) semi-annually, receive fixed interest annually with maturities matching the Group's Sterling bonds (two swaps with total notional value £100m mature in January 2017, two swaps with notional value £100m mature 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 2013 a total fair value loss of £12.2m was recognised in the Income Statement in relation to these swaps. This is offset by a fair value gain of £12.2m 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 2013 a total fair value loss of £2.1m was recognised in the Income Statement in relation to these swaps. This is offset by a fair value gain of £2.1m on the underlying hedged item, in this case changes in fair value of the Euro Private Placement due to changes in the risk free interest rate.

32 Called-up share capital

	2013 £m	2012 £m
At 31 December:		
Authorised:		
800,000,000 (2012: 800,000,000) ordinary shares of 5p each	**40.0**	40.0
Issued called-up and fully paid:		
511,738,648 (2012: 511,732,603) ordinary shares of 5p each	**25.6**	25.6

The total number of share options exercised in the year by employees of the Group was 1,431,193 (2012: 1,984,855) of which 1,431,193 (2012: 1,919,772) exercises were satisfied by transferring shares from the National Express Employee Benefit Trust. The remaining exercises in 2012 were settled via a direct purchase of shares from the open market.

Own shares

Own shares comprises 426,630 (2012: 535,658) 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 1,322,165 (2012: 2,075,000) shares and 1,431,193 (2012:1,919,772) shares were used to satisfy options granted under a number of the Company's share schemes. The market value of these shares at 31 December 2013 was £1.2m (2012: £1.1m). The dividends payable on these shares have been waived.

33 Other reserves

	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**

	Merger reserve £m	Hedging reserve £m	Translation reserve £m	Total £m
At 1 January 2012	15.4	15.9	68.6	99.9
Hedge movements, net of tax	–	(13.1)	–	(13.1)
Exchange differences, net of tax	–	–	(42.6)	(42.6)
At 31 December 2012	15.4	2.8	26.0	44.2

The nature and purpose of the other reserves are as follows:

- the merger reserve includes the premium on shares issued to satisfy the purchase of Prism Rail PLC in 2000;
- the hedging reserve records the movements on designated hedging items, offset by any movements recognised in equity on underlying hedged items; and
- the translation reserve records exchange differences arising from the translation of the accounts of foreign currency denominated subsidiaries offset by the movements on loans and derivatives used to hedge the net investment in foreign subsidiaries.

34 Pensions and other post-employment benefits

(a) Summary of pension benefits and assumptions

The UK Bus and UK Coach divisions operate both funded defined benefit schemes and a defined contribution scheme. The majority of employees of the Rail companies are members of the appropriate shared-cost section of the Railways Pension Scheme (RPS), a funded defined benefit scheme. The assets of all schemes are held separately from those of the Group. Contributions to the schemes are determined by independent professionally qualified actuaries.

Subsidiaries in North America contribute to a number of defined contribution plans. The Group also provides certain additional unfunded post-employment benefits to employees in North America and Spain, which are disclosed in section (c) in the 'Other' category.

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

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

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

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

34 Pensions and other post-employment benefits continued

(a) Summary of pension benefits and assumptions

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

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

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 2010	5 April 2013	31 December 2010
Actuarial method used	Attained age*	Attained age*	Projected unit	Projected unit
Rate of investment returns per annum	4.3%-6.9%	5.0%-7.0%	4.1%	5.5%-7.6%
Increase in earnings per annum	5.0%	4.5%	–	4.2%
Scheme assets taken at market value	£45.5m	£382.0m	£77.3m	£66.8m
Funding level	97%	84%	82%	95%-99%

* 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:

	2013			2012		
	UK Bus	**UK Coach**	**Rail**	UK Bus	UK Coach	Rail
Rate of increase in salaries	**2.5%**	**2.5%**	**2.9%**	2.5%	2.5%	3.0%
Rate of increase of pensions	**2.4%**	**3.4%**	**2.4%**	2.0%	2.8%	2.0%
Discount rate	**4.6%**	**4.6%**	**4.6%**	4.4%	4.4%	4.4%
Inflation assumption (RPI)	**3.4%**	**3.4%**	**3.4%**	2.8%	2.8%	2.8%
Inflation assumption (CPI)	**2.4%**	**2.4%**	**2.4%**	2.0%	2.0%	2.0%
Post-retirement mortality in years:						
Current pensioners at 65 – male	**21.4**	**24.2**		21.0	24.7	
Current pensioners at 65 – male, pension under £9,300 pa or pensionable pay under £35,000 pa			**20.7**			20.6
Current pensioners at 65 – male – others			**22.9**			22.8
Current pensioners at 65 – female	**24.1**	**26.7**		23.7	27.6	
Current pensioners at 65 – female, pension under £3,300 pa or pensionable pay under £35,000 pa			**22.6**			22.5
Current pensioners at 65 – female – others			**25.0**			24.9
Future pensioners at 65 – male	**22.7**	**26.0**		22.4	26.7	
Future pensioners at 65 – male, pension under £9,300 pa or pensionable pay under £35,000 pa			**23.1**			23.0
Future pensioners at 65 – male – others			**25.1**			25.0
Future pensioners at 65 – female	**25.6**	**28.7**		25.3	29.6	
Future pensioners at 65 – female, pension under £3,300 pa or pensionable pay under £35,000 pa			**25.1**			25.0
Future pensioners at 65 – female – others			**27.4**			27.3

34 Pensions and other post-employment benefits continued

(a) Summary of pension benefits and assumptions continued

The demographic assumptions reflect those adopted in the most recent triennial actuarial valuation. For the Rail scheme, mortality assumptions have been set by reference to the recent experience of the scheme. Mortality is assumed to improve in the future in line with the 'core projection' model published by the actuarial profession's Continuous Mortality investigation, incorporating a long term improvement rate of 1.5% pa.

The Directors regard the assumption around the discount rate to be the key assumption in the IAS 19 valuation, and the following table provides an approximate sensitivity analysis of the impact of a 0.1% change in the discount rate assumption.

	UK Bus £m	UK Coach £m	Rail £m
Defined benefit pension (liability)/asset at 31 December 2013	**(40.8)**	**12.6**	**(0.4)**
Effect of a 0.1% increase in the discount rate	**7.4**	**1.3**	**–**
Current service cost for the year ended 31 December 2013	**(3.4)**	**–**	**(2.3)**
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 decreased from £18.1m at 31 December 2012 to £15.5m at 31 December 2013. The principal reason for the decrease is the interest on the franchise adjustment of £0.7m and other net actuarial movements of £1.8m. In the prior year, the franchise adjustment decreased from £59.6m at 31 December 2011 to £18.1m at 31 December 2012. The principal reason for the decrease was the handback of the East Anglia franchise reducing the franchise adjustment by £49.0m. In addition the adjustment increased due to interest on the franchise adjustment of £0.7m and other net actuarial movements of £6.8m.

34 Pensions and other post-employment benefits continued

(c) Financial results for pension benefits

The amounts charged to the Group Income Statement and Group Statement of Comprehensive Income for the years ended 31 December 2013 and 2012 are set out in the following tables.

Group Income Statement	**UK Bus 2013 £m**	**UK Coach 2013 £m**	**Rail 2013 £m**	**Total 2013 £m**
Amounts (charged)/credited to Group operating profit:				
Current service cost	**(3.4)**	**–**	**(2.3)**	**(5.7)**
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)**	**(6.2)**

During the year £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 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)**

Group Income Statement	UK Bus 2012 £m	UK Coach 2012 £m	Rail 2012 £m	Total 2012 £m
Amounts (charged)/credited to Group operating profit:				
Current service cost	(3.3)	–	(3.0)	(6.3)
Expected return on pension scheme assets	23.9	2.2	3.9	30.0
Interest on pension liabilities	(21.9)	(2.4)	(3.5)	(27.8)
Interest on franchise adjustment	–	–	0.7	0.7
Total charge to income statement	(1.3)	(0.2)	(1.9)	(3.4)
Actual return on plan assets	32.5	2.7	11.9	47.1

Group Statement of Comprehensive Income	UK Bus 2012 £m	UK Coach 2012 £m	Rail 2012 £m	Total 2012 £m
Actual return less expected return on pension scheme assets	8.6	0.3	7.8	16.7
Other actuarial gains and losses	(33.1)	(6.3)	(8.4)	(47.8)
Actuarial losses	(24.5)	(6.0)	(0.6)	(31.1)

34 Pensions and other post-employment benefits continued
(c) Financial results for pension benefits continued
The amounts recognised in the Balance Sheet at 31 December are:

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)

As at 31 December 2012	UK Bus 2012 £m	UK Coach 2012 £m	Rail 2012 £m	Other 2012 £m	Total 2012 £m
Equities	85.6	–	62.9	–	148.5
Bonds	58.8	65.8	3.5	–	128.1
Property	3.7	–	–	–	3.7
Insurance policy	242.6	–	–	–	242.6
Diversified growth fund	53.3	–	–	–	53.3
Other	4.0	7.3	0.7	–	12.0
Fair value of scheme assets	448.0	73.1	67.1	–	588.2
Present value of scheme liabilities	(480.9)	(56.5)	(99.3)	(1.2)	(637.9)
Franchise adjustment	–	–	18.1	–	18.1
Defined benefit obligation	(480.9)	(56.5)	(81.2)	(1.2)	(619.8)
Members' share of deficit	–	–	12.3	–	12.3
Defined benefit pension (deficit)/surplus	(32.9)	16.6	(1.8)	(1.2)	(19.3)

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 £645.0m (2012: £618.6m) (including the members' share of the deficit) arising from plans that are wholly or partly funded and £1.5m (2012: £1.2m) from unfunded plans.

	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)

34 Pensions and other post-employment benefits continued
(c) Financial results for pension benefits continued

	UK Bus £m	UK Coach £m	Rail £m	Other £m	Total £m
Defined benefit obligation at 1 January 2012	(448.7)	(49.3)	(363.7)	(1.4)	(863.1)
Current service cost	(3.3)	–	(3.0)	–	(6.3)
Benefits paid	27.4	1.5	3.4	0.2	32.5
Contributions by employees	(1.3)	–	(1.7)	–	(3.0)
Finance charge	(21.9)	(2.4)	(3.5)	–	(27.8)
Interest on franchise adjustment	–	–	0.7	–	0.7
Franchise exit	–	–	307.3	–	307.3
Members' share of movement on liabilities	–	–	(12.3)	–	(12.3)
Actuarial loss recognised in Statement of Comprehensive Income	(33.1)	(6.3)	(8.4)	–	(47.8)
Defined benefit obligation at 31 December 2012	(480.9)	(56.5)	(81.2)	(1.2)	(619.8)

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 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**

	UK Bus £m	UK Coach £m	Rail £m	Total £m
Fair value of scheme assets at 1 January 2012	431.9	67.9	321.0	820.8
Expected return on plan assets	23.9	2.2	3.9	30.0
Cash contributions – employer	9.7	4.2	2.9	16.8
Cash contributions – employee	1.3	–	1.7	3.0
Benefits paid	(27.4)	(1.5)	(3.4)	(32.3)
Members' share of return on assets	–	–	7.8	7.8
Franchise exit	–	–	(274.6)	(274.6)
Actuarial loss recognised in Statement of Comprehensive Income	8.6	0.3	7.8	16.7
Fair value of scheme assets at 31 December 2012	448.0	73.1	67.1	588.2

34 Pensions and other post-employment benefits continued

(c) Financial results for pension benefits continued

The Group expects to contribute £15.4m to its defined benefit pension plans in 2014.

History of experience gains and losses:	**2013 £m**	2012 £m	2011 £m	2010 £m	2009 £m
UK Bus					
Fair value of scheme assets	**456.4**	448.0	431.9	429.5	399.9
Present value of defined benefit obligation	**(497.2)**	(480.9)	(448.7)	(434.8)	(446.3)
Deficit in the scheme	**(40.8)**	(32.9)	(16.8)	(5.3)	(46.4)
Experience adjustments arising on liabilities	**(2.9)**	5.0	(23.3)	(0.1)	0.2
Experience adjustments arising on assets	**1.4**	8.6	(7.3)	21.3	31.3
UK Coach					
Fair value of scheme assets	**74.6**	73.1	67.9	59.6	51.6
Present value of defined benefit obligation	**(62.0)**	(56.5)	(49.3)	(59.6)	(56.8)
Surplus/(deficit) in the scheme	**12.6**	16.6	18.6	–	(5.2)
Experience adjustments arising on liabilities	**(3.8)**	–	0.1	2.7	–
Experience adjustments arising on assets	**(2.8)**	0.5	9.7	2.3	3.8
Rail					
Fair value of scheme assets	**75.0**	67.1	321.0	318.3	284.4
Present value of defined benefit obligation	**(85.8)**	(81.2)	(363.7)	(372.8)	(342.0)
Members' share of deficit	**10.4**	12.3	40.5	50.8	55.7
Deficit in the scheme	**(0.4)**	(1.8)	(2.2)	(3.7)	(1.9)
Experience adjustments arising on liabilities	**(0.1)**	2.7	(8.5)	12.2	(1.1)
Experience adjustments arising on assets	**2.0**	8.0	13.4	6.1	23.2
Other					
Fair value of scheme assets	**–**	–	–	–	–
Present value of defined benefit obligation	**(1.5)**	(1.2)	(1.4)	(1.4)	(1.4)
Deficit in the scheme	**(1.5)**	(1.2)	(1.4)	(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 £69.3m loss (2012: £50.3m 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.

35 Commitments and contingencies

Operating lease commitments

The Group's total operating lease commitments are as follows:

		2013 £m	2012 £m
Future minimum rentals payable under non-cancellable operating leases:			
Within one year:	Land and buildings	**28.9**	23.3
	Plant and equipment	**33.7**	19.5
		62.6	42.8
After one year but not more than five years:	Land and buildings	**30.9**	32.9
	Plant and equipment	**47.1**	23.4
		78.0	56.3
More than five years:	Land and buildings	**47.9**	51.0
	Plant and equipment	**3.3**	–
		51.2	51.0
		191.8	150.1

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		2013 £m	2012 £m	2013 £m	2012 £m
Future minimum rentals payable under non-cancellable operating leases:					
Within one year:	Fixed track access	**10.4**	5.4	**–**	–
	Rolling stock	**–**	–	**16.7**	9.5
	Other	**3.5**	1.9	**0.5**	0.3
		13.9	7.3	**17.2**	9.8
After one year but not more than five years:	Fixed track access	**–**	–	**–**	–
	Rolling stock	**–**	–	**–**	–
	Other	**–**	–	**–**	–
		–	–	**–**	–
		13.9	7.3	**17.2**	9.8

Fixed track access agreements have an average remaining life of 0.7 years (2012: 0.4 years) and other land and buildings have an average duration of 0.7 years (2012: 0.4 years). Rolling stock agreements have an average life of 0.7 years (2012: 0.4 years) and other plant and equipment 0.7 years (2012: 0.4 years).

35 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	**2013 £m**	2012 £m	**2013 £m**	2012 £m	**2013 £m**	2012 £m
Within one year	**15.0**	16.0	**16.3**	9.3	**0.2**	0.4
After one year but not more than five years	**30.9**	32.9	**46.8**	23.0	**0.3**	0.4
More than five years	**47.9**	51.0	**3.2**	–	**0.1**	–
	93.8	99.9	**66.3**	32.3	**0.6**	0.8

The average remaining life of operating lease commitments in the other divisions is 6.3 years (2012: 6.2 years) for land and buildings, 4.1 years (2012: 3.4 years) for public service vehicles and 2.4 years (2012: 2.0 years) for other plant and equipment.

Operating lease agreements where the Group is the lessor

The Group receives rent on properties as follows:

	2013 £m	2012 £m
Future minimum rentals receivable under non-cancellable operating leases:		
Within one year	**0.1**	0.4
After one year but not more than five years	**–**	–
	0.1	0.4

The leases have an average unexpired duration of 0.7 years (2012: 0.3 years).

Finance lease commitments

The Group has finance leases for public service vehicles and various items of plant and equipment. These leases have terms of renewal but no purchase options and escalation clauses. Renewals are at the option of the specific entity that holds the lease.

	2013		2012	
	Minimum payments £m	**Present value of payments £m**	Minimum payments £m	Present value of payments £m
Within one year	**35.4**	**32.2**	28.2	27.5
After one year but not more than five years	**96.0**	**89.3**	113.4	102.8
More than five years	**11.6**	**11.4**	27.5	24.4
Total minimum lease payments	**143.0**	**132.9**	169.1	154.7
Less future financing charges	**(10.1)**	**–**	(14.4)	–
Present value of minimum lease payments	**132.9**	**132.9**	154.7	154.7

Capital commitments

	2013 £m	2012 £m
Contracted	**19.0**	46.3

The Group is committed to vehicle purchases and various land and buildings improvements.

Contingent liabilities

Bonds and letters of credit

In the ordinary course of business, the Group is required to issue counter-indemnities in support of its operations. As at 31 December 2013 there were Rail performance bonds of £9.4m (2012: £4.0m) and Rail season ticket bonds of £21.2m (2012: £21.1m). The Group has other performance bonds which include performance bonds in respect of businesses in the US of £105.1m (2012: £104.7m) and the rest of Europe of £26.2m (2012: £23.5m). Letters of credit have been issued to support insurance retentions of £48.8m (2012: £36.1m).

36 Related party transactions

	Amount of transactions		Amounts due from related parties		Amounts due to related parties	
	2013 £m	2012 £m	**2013 £m**	2012 £m	**2013 £m**	2012 £m
Associates						
ICRRL	**–**	9.0	**–**	–	**–**	–
Spain associates	**1.8**	2.3	**1.1**	0.9	**(0.8)**	(0.8)
Total associates	**1.8**	11.3	**1.1**	0.9	**(0.8)**	(0.8)
Trade investments						
Spain trade investments	**4.4**	4.4	**0.5**	0.5	**(0.7)**	(0.5)
Property transactions						
North America	**0.1**	2.7	**–**	–	**–**	(2.6)
Spain	**6.5**	3.7	**0.5**	0.4	**(0.2)**	(0.5)
Total other related parties	**11.0**	10.8	**1.0**	0.9	**(0.9)**	(3.6)
Total	**12.8**	22.1	**2.1**	1.8	**(1.7)**	(4.4)

A provision of £0.2m (2012: £0.2m) has been booked against amounts due from Spanish Coach and Bus associates, which are presented net.

A number of Spanish companies have leased properties from companies related to the Cosmen family. Jorge Cosmen is a Non-Executive Director of the Group and was appointed as Deputy Chairman in October 2008. These leases were in place before the Group's acquisition of ALSA and are for appropriate market rates.

The details of the post-employment benefit plans operated for the benefit of employees of the Group are disclosed in note 34.

Compensation of key management personnel of the Group

	2013 £m	2012 £m
Total compensation paid to key management personnel (note 7)	**3.7**	3.9

37 Cash flow statement

The net cash inflows from operating activities include outflows of £22.9m (2012: £40.7m) from continuing operations which are related to exceptional costs.

(a) Reconciliation of Group profit before tax to cash generated from operations

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

(b) Analysis of changes in net debt

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

* Excludes accrued interest on long term borrowings.

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

Borrowings include non-current interest-bearing borrowings of £750.7m (2012: £786.8m) as disclosed in note 28.

Other non-cash movements in net debt represent finance lease additions of £0.8m (2012: £26.2m) and a £2.6m negative movement in loan and bond arrangement fees (2012: £0.7m net positive movement). The £14.2m decrease to the fair value of the hedging derivative is offset by equal and opposite movements in the fair value of the related hedged borrowings. This comprises a £12.0m fair value movement in bonds and a £2.2m fair value movement in other debt payable.

37 Cash flow statement continued

(b) Analysis of changes in net debt continued

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

* Excludes accrued interest on long term borrowings.

(c) Reconciliation of net cash flow to movement in net debt

	2013 £m	2012 £m
Decrease in cash and cash equivalents in the year	**(32.4)**	(28.2)
Cash inflow from movement in other debt receivables	**–**	0.3
Cash outflow/(inflow) from movement in debt and finance leases	**120.7**	(156.9)
Change in net debt resulting from cash flows	**88.3**	(184.8)
Change in net debt resulting from acquisitions and disposals	**–**	7.6
Change in net debt resulting from non-cash movements	**(6.2)**	(17.3)
Movement in net debt in the year	**82.1**	(194.5)
Opening net debt	**(828.2)**	(633.7)
Net debt	**(746.1)**	(828.2)

38 Post-Balance Sheet events

There are no post-Balance Sheet events.

Financial Statements

Company Balance Sheet

At 31 December 2013

	Note	**2013 £m**	2012 £m
Fixed assets			
Intangible assets	4	**0.3**	0.5
Tangible assets	5	**0.2**	0.1
Investments	6	**1,117.2**	1,605.1
Derivative financial instruments	7	**17.6**	31.0
		1,135.3	1,636.7
Current assets			
Debtors	8	**711.7**	742.0
Derivative financial instruments	7	**2.2**	0.1
Cash at bank and in hand	9	**27.6**	36.6
		741.5	778.7
Creditors: amounts falling due within one year	10	**(273.6)**	(944.9)
Derivative financial instruments	7	**(0.4)**	(0.5)
Provisions for liabilities and charges	12	**(0.2)**	(2.6)
Net current assets/(liabilities)		**467.3**	(169.3)
Total assets less current liabilities		**1,602.6**	1,467.4
Creditors: amounts falling due after more than one year	11	**(644.0)**	(655.2)
Derivatives more than one year	7	**(0.5)**	–
Provisions for liabilities and charges	12	**–**	(2.7)
Net assets		**958.1**	809.5
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	**(0.8)**	(0.5)
Profit and loss account	16	**400.4**	251.5
Shareholders' equity		**958.1**	809.5

D Finch Group Chief Executive
J K Maiden Group Finance Director
27 February 2014

Company Number 2590560

Notes to the Company Accounts

1 Accounting policies

Basis of preparation

The separate accounts of the parent Company are presented as required by the Companies Act 2006. The accounts have been prepared on the going concern basis and under the historic cost convention, except for the recognition of derivative financial instruments and available for sale investments detailed below, and in accordance with applicable accounting standards in the United Kingdom.

In applying these policies management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the accounts and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

No profit and loss account is presented by the Company as permitted by Section 408 of the Companies Act 2006.

The profit of the Company for the year is £200.4m (2012: £180.7m).

Leases

Leases of tangible fixed assets where substantially all the risks and rewards of ownership of the asset have passed to the Company are classified as finance leases and the assets are capitalised in the Balance Sheet as plant and equipment. Finance leases are capitalised at the present value of the minimum lease payments. The capital element of future obligations under hire purchase contracts and finance leases is included as a liability in the Balance Sheet. The interest element of rental obligations is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding. Assets acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

Leases of assets where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Rentals paid under operating leases are charged to the profit and loss account on a straight-line basis over the term of the lease. Incentives received under operating leases and initial direct costs in negotiating the lease are amortised to the profit and loss account on a straight-line basis over the term of the lease, or to the first review if shorter.

Tangible fixed assets

Tangible fixed assets are stated at historic cost less accumulated depreciation and any impairment. Tangible fixed assets are depreciated on a straight-line basis over their estimated useful lives as follows:

Plant and equipment	– 3 to 5 years

The carrying value of fixed assets is reviewed for impairment if events or changes in circumstances indicate that the current carrying value may not be recoverable, and are written down immediately to their recoverable amount. Repairs and maintenance are charged to the profit and loss account during the financial period in which they are incurred.

Software

Computer software that is not integral to an item of property, plant and equipment is recognised separately as an intangible asset and is carried at cost less accumulated amortisation and accumulated impairment losses. Costs include software licences, consulting costs attributable to the development, design and implementation of the computer software and internal costs directly attributable to the development, design and implementation of the computer software. Costs in respect of training are expensed as incurred. Amortisation is calculated using the straight-line method so as to charge the cost of the computer software to the income statement over its estimated useful life (3 to 7 years).

The carrying value of intangibles is reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable.

Investments in subsidiaries

Investments are held at historic cost less any provision for impairment.

Available for sale investments

Available for sale financial assets are non-derivative financial assets that are designated as such, or that are not classified as a loan or receivable, held to maturity or at fair value through profit or loss. After initial recognition these assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or the investment is determined to be impaired, at which time the previously reported cumulative gain or loss is included in the income statement.

Interest-bearing loans and borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of issue costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Hedge accounting is adopted where derivatives such as fixed to floating interest rate swaps are held as fair value hedges against fixed interest rate borrowings. Under fair value hedge accounting, fixed interest rate borrowings are revalued at each Balance Sheet date by the change in fair value attributable to the interest rate being hedged.

1 Accounting policies continued

Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Company expects a provision to be reimbursed the reimbursement is recognised as a separate asset but only when reimbursement is virtually certain.

Pensions

The Company participates in both the National Express Group multi-employer funded defined benefit scheme and a defined contribution scheme. The Company is unable to identify its share of the underlying assets and liabilities of the multi-employer scheme on a consistent and reasonable basis, and therefore has accounted for the scheme as if it were a defined contribution scheme under the requirements of FRS 17 Retirement Benefits.

Share-based payment

In accordance with the transition provisions, FRS 20 has been applied to all grants after 7 November 2002 that were unvested as of 1 January 2005.

The Company awards equity-settled share-based payment to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant by an external valuer using a stochastic model. Non-market-based performance-related vesting conditions are not taken into account when estimating the fair value; instead those non-market conditions are taken into account in calculating the current best estimate of the number of shares that will eventually vest and at each Balance Sheet date before vesting. The cumulative expense is calculated based on that estimate. Market-based performance conditions are taken into account when determining the fair value and at each balance sheet date before vesting, the cumulative expense is calculated irrespective of whether or not the market conditions are satisfied, provided that all other performance conditions are met.

Deferred tax

Deferred tax is recognised in respect of all material timing differences that have originated, but not reversed, by the Balance Sheet date. Deferred tax is measured on a non-discounted basis at tax rates that are expected to apply in the periods in which the timing differences reverse based on tax rates and laws enacted or substantively enacted at the Balance Sheet date. Deferred tax assets are recognised where it is more likely than not that there will be suitable taxable profits from which the future reversal of underlying timing differences can be deducted.

Foreign currencies

Foreign currency assets and liabilities are translated into Sterling at the rates of exchange ruling at the year end. Foreign currency transactions arising during the year are translated into Sterling at the rate of exchange ruling on the date of the transaction. Any exchange differences so arising are dealt with through the profit and loss account.

Derivative financial instruments

The Company uses derivative financial instruments such as foreign currency contracts and interest rate swaps to hedge its risks associated with foreign currency and interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value and subsequently remeasured to fair value for the reported Balance Sheet. The fair value of forward exchange contracts and interest rate swaps is calculated by reference to market exchange rates and interest rates at the period end.

In relation to cash flow hedges which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity, and the ineffective portion in the profit and loss account. The gains or losses deferred in equity in this way are recycled through the profit and loss account in the same period in which the hedged underlying transaction or firm commitment is recognised in the profit and loss account.

For derivatives that do not qualify for hedge accounting, including the foreign currency contracts, gains or losses are taken directly to the profit and loss account in the period.

Hedge accounting is discontinued when the hedging instrument expires, is sold, terminated or exercised, or no longer qualifies for hedge accounting.

The Company has taken advantage of the exemption under FRS 29 for parent Company accounts. The disclosures are included within the consolidated accounts.

2 Exchange rates

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

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

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 2013	0.6
Disposals	(0.2)
At 31 December 2013	**0.4**
Amortisation:	
At 1 January 2013	0.1
Charge in the year	–
At 31 December 2013	**0.1**
Net book value:	
At 31 December 2013	**0.3**
At 31 December 2012	0.5

5 Tangible fixed assets

	Plant and equipment £m
Cost:	
At 1 January 2013	2.1
Additions	0.3
At 31 December 2013	**2.4**
Depreciation:	
At 1 January 2013	2.0
Charge in the year	0.2
At 31 December 2013	2.2
Net book value:	
At 31 December 2013	**0.2**
At 31 December 2012	0.1

6 Financial assets: investments

	Investments in subsidiaries £m
Cost or valuation:	
At 1 January 2013	2,111.0
Additions	12.0
At 31 December 2013	**2,123.0**
Provisions:	
At 1 January 2013	(505.9)
Provided for in the year	(499.9)
At 31 December 2013	**(1,005.8)**
Net carrying amount:	
At 31 December 2013	**1,117.2**
At 31 December 2012	1,605.1

The provisions in the year primarily relate to the liquidation of a number of dormant subsidiary companies as described in note 10.

The information provided below is given for the Company's principal subsidiaries. A full list of subsidiaries and investments will be annexed to the next Annual Return to Companies House. The principal country of operation in respect of the companies below is the country in which they are incorporated.

The Group's train passenger services in the UK are operated through franchises awarded by DfT Rail, as delegated by the UK Government.

The following holdings are 100% held directly by the Company:

Incorporated in England and Wales	
National Express Intermediate Holdings Limited	Holding company for all Group operating companies except Rail
National Express Trains Limited	Holding company for Rail operating companies

Incorporated in Guernsey	
National Express Guernsey Limited	Insurance captive

7 Derivative financial instruments

	2013 £m	2012 £m
Interest rate derivatives	**17.6**	31.0
Derivative financial assets due over one year	**17.6**	31.0
Foreign exchange forward contracts	**2.2**	0.1
Derivative financial assets due under one year	**2.2**	0.1
Interest rate derivatives	**(0.5)**	–
Derivative financial liabilities due over one year	**(0.5)**	–
Foreign exchange forward contracts	**(0.4)**	(0.5)
Derivative financial liabilities due under one year	**(0.4)**	(0.5)

Full details of the Group's financial risk management objectives and policies can be found in note 30 of the consolidated accounts. As the holding company for the Group, the Company faces similar risks over foreign currency and interest rate movements.

The Company has taken advantage of the exemption under FRS 29 for parent company accounts. The disclosures are included within the consolidated accounts.

8 Debtors

	2013 £m	2012 £m
Amounts owed by subsidiary undertakings	**700.1**	732.2
Corporation tax recoverable	**1.9**	–
Deferred tax asset (see note 13)	**6.0**	9.0
Other debtors	**3.4**	0.5
Prepayments and accrued income	**0.3**	0.3
	711.7	742.0

9 Cash at bank and in hand

	2013 £m	2012 £m
Short term deposits	**–**	28.6
Cash at bank	**27.6**	8.0
	27.6	36.6

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

	2013 £m	2012 £m
Bank overdraft	**46.1**	40.8
Bank loans	**13.0**	107.8
Trade creditors	**0.4**	0.3
Amounts owed to subsidiary undertakings	**166.8**	741.0
Corporation tax payable	**–**	6.8
Accruals and deferred income	**17.0**	17.8
Bonds – accrued interest	**30.3**	30.4
	273.6	944.9

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.

At the start of the year the Company had amounts owing to a number of dormant subsidiary companies that were subsequently entered into liquidation during 2013. The loans were eliminated as part of the liquidation and the carrying value of the investments in these companies was written down (note 6).

11 Creditors: amounts falling due after more than one year

	2013 £m	2012 £m
Bonds	**579.5**	590.0
Other debt payable	**64.5**	65.2
	644.0	655.2

12 Provisions for liabilities and charges

	Claims provision £m
At 1 January 2013	**5.3**
Charged to profit and loss account	**2.4**
Utilised in the year	**(0.3)**
Transferred to subsidiary undertaking	**(7.2)**
At 31 December 2013	**0.2**

On 31 October 2013 the Group's deductible buy-down programme ceased and £7.2m of claims provision was transferred from the Company to the Group's North America division.

13 Deferred tax

The major components of the provision for deferred taxation are as follows:

	2013 £m	2012 £m
Accelerated capital allowances	**0.2**	0.2
Other timing differences	**0.1**	0.2
Losses carried forward	**5.7**	8.6
Net deferred tax asset	**6.0**	9.0

The reconciliation of deferred tax balances is as follows:

	£m
Deferred tax asset at 1 January 2013	**9.0**
Charged to profit and loss	**(3.0)**
Deferred tax asset at 31 December 2013	**6.0**

Timing differences associated with Group investments

No deferred tax (2012: £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 £2.6m (2012: £4.1m), 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:

	2013 £m	Maturity	Effective interest rate	2012 £m	Maturity	Effective interest rate
Current						
Bank overdraft	**46.1**	**On demand**	**LIBOR + 1%**	40.8	On demand	LIBOR + 1%
European bank loans	**13.0**	**July 2018**[1]	**LIBOR +1.10%**	79.4	August 2014[1]	LIBOR + 1.45%
European bank loans	**–**			28.4	Feb 2013	1.2%
Bank loans	**13.0**			107.8		
Accrued interest	**30.3**			30.4		
Total current	**89.4**			179.0		
Non-current						
7 year Sterling bond	**352.0**	**January 2017**	**6.54%**	360.1	January 2017	6.54%
10 year Sterling bond	**227.5**	**June 2020**	**6.85%**	229.9	June 2020	6.85%
Bonds	**579.5**			590.0		
Euro Private Placement	**64.5**	**August 2021**	**4.55%**	65.2	August 2021	4.55%
Other debt payable	**64.5**			65.2		
Total non-current	**644.0**			655.2		

1 This date is the ultimate maturity date of the syndicated credit facility.

Details of the Company's interest rate management strategy and interest rate swaps are included in note 30 and note 31 of the consolidated accounts.

15 Called-up share capital

	2013 £m	2012 £m
At 31 December:		
Authorised:		
800,000,000 (2012: 800,000,000) ordinary shares of 5p each	**40.0**	40.0
Issued called-up and fully paid:		
511,738,648 (2012: 511,732,603) ordinary shares of 5p each	**25.6**	25.6

The total number of share options exercised in the year by employees of the Group was 1,431,193 (2012: 1,984,855) of which 1,431,193 (2012: 1,919,772) exercises were satisfied by transferring shares from the National Express Employee Benefit Trust. The remaining exercises in 2012 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 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**

Own shares

Own shares comprises 426,630 (2012: 535,658) 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 1,322,165 (2012: 2,075,000) shares and 1,431,193 (2012:1,919,772) shares were used to satisfy options granted under a number of the Company's share schemes. The market value of these shares at 31 December 2013 was £1.2m (2012: £1.1m). 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 2012	25.6	532.7	0.2	(14.0)	130.4	674.9
Shares purchased	–	–	–	(4.8)	–	(4.8)
Own shares released to satisfy employee share schemes	–	–	–	4.5	(4.5)	–
Disposal of own shares	–	–	–	13.8	(9.8)	4.0
Share-based payments	–	–	–	–	4.0	4.0
Profit for the year	–	–	–	–	180.7	180.7
Dividends	–	–	–	–	(49.3)	(49.3)
At 31 December 2012	25.6	532.7	0.2	(0.5)	251.5	809.5

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 34 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 £3.1m (2012: £4.2m).

18 Share-based payment

During the year ended 31 December 2013, the Company had the following share-based payment arrangements, which are described in note 7(b) to the consolidated accounts.

For the following disclosure, share options with a nil exercise price have been disclosed separately to avoid distorting the weighted average exercise prices. The number of share options in existence during the year was as follows:

	2013		2012	
	Number of share options	**Weighted average exercise price (p)**	Number of share options	Weighted average exercise price (p)
Options without a nil exercise price:				
At 1 January	–	–	15,035	479
Forfeited during the year	–	–	–	–
Group transfers during the year	–	–	–	–
Expired during the year	–	–	(15,035)	479
Outstanding at 31 December	–	–	–	–
Exercisable at 31 December	–	–	–	–
Options with a nil exercise price:				
At 1 January	**5,469,047**	**nil**	3,819,477	nil
Granted during the year	**3,036,117**	**nil**	2,564,947	nil
Forfeited during the year	**(48,431)**	**nil**	(208,594)	nil
Group transfers during the year	–	**nil**	313,161	nil
Exercised during the year	**(741,976)**	**nil**	(796,482)	nil
Expired during the year	**(542,622)**	**nil**	(223,462)	nil
Outstanding at 31 December	**7,172,135**	**nil**	5,469,047	nil
Exercisable at 31 December	–	**nil**	193,928	nil
Total outstanding at 31 December	**7,172,135**		5,469,047	
Total exercisable at 31 December	–		193,928	

There were no options outstanding at 31 December 2013 excluding options with a nil exercise price (2012: none). The range of exercise prices for options was as follows:

Exercise price (p)	**2013**	2012
300-600	–	–
	–	–

The options have a weighted average contractual life of one year (2012: one year). Options were exercised throughout the year and the weighted average share price at exercise was 200p (2012: 223p).

18 Share-based payment continued

The weighted average fair value of the remaining share options granted during the year was calculated using a stochastic model, with the following assumptions and inputs:

	Share options with nil exercise price	
	2013	2012
Risk free interest rate	**0.35%-0.84%**	0.50%-0.55%
Expected volatility	**29.2%-44.2%**	40.0%-44.5%
Peer group volatility	**36.8%-44.3%**	38.5%-45.5%
Expected option life in years	**3-5 years**	3-5 years
Expected dividend yield	**4.64%-4.88%**	4.16%-4.56%
Weighted average share price at grant date	**202p**	223p
Weighted average exercise price at grant date	**nil**	nil
Weighted average fair value of options at grant date	**130p**	167p

Experience to date has shown that approximately 24% (2012: 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	
	2013 £m	2012 £m
Operating leases which expire:		
Within one year	**–**	0.1
Within two to five years	**0.1**	0.2

Contingent liabilities

(a) Guarantees

The Company has guaranteed credit facilities totalling £190m (2012: £159m) 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 £48.8m (2012: £36.1m).

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 e-mail so that you are able to access future shareholder information, including the Annual Report and Accounts electronically;
- check the balance of your shareholding;
- set up a dividend mandate online;
- change your registered postal address or your dividend mandate details; or
- submit your vote online prior to a general meeting.

To sign up for the first time you should click on 'Register' and follow the simple instructions – you will need your shareholder reference number from your share certificate or dividend voucher or any other correspondence sent to you by Equiniti Limited.

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. The first CTV is included with the 2014 AGM mailing and will contain the tax and payment information for dividends paid during the tax year 2013/14.

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 now only be available via the website.

ShareGift

ShareGift is an independent charity share donation scheme administered by the Orr Mackintosh Foundation (registered charity number 1052686). Those shareholders who hold only a small number of shares, the value of which makes it uneconomic to sell them, can donate the shares to ShareGift who will sell them and donate the proceeds to a wide range of charities. Further information about ShareGift can be obtained from its website at sharegift.org 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.

Additional Information:
Dividends and Financial Calendar

Final dividend ex dividend date	30 April 2014
Final dividend record date	2 May 2014
Annual General Meeting	14 May 2014
Final dividend payment date	23 May 2014
Half-year results announced	30 July 2014*
Interim dividend ex dividend date	3 September 2014*
Interim dividend record date	5 September 2014*
Interim dividend payment date	19 September 2014*

* Provisional dates.

Glossary

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
EBIT	Earnings Before Interest and Tax
EBITDA	is '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 and shares held in treasury 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	is the increase in net debt arising on the purchase of property, plant and equipment and intangible assets less proceeds from disposals of property, plant and equipment. It excludes capital expenditure arising from UK rail franchise entry and exits and discontinued operations, which are included in these headings. Growth capital expenditure is calculated as investment in fleet for new contracts and concessions, after deducting fleet released from contracts and concessions lost and fleet re-used in new contracts and concessions
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	are the statutory results excluding loss on the sale of a business, charges for goodwill impairment, intangible asset amortisation, exceptional items and tax relief thereon. The Board believes that the normalised result gives a better indication of the underlying performance of the Group
Normalised results	are defined as the statutory results before the following, as appropriate: profit or loss on the sale of business, exceptional profit or loss on sale of non-current assets and charges for goodwill impairment, intangible asset amortisation, exceptional items and tax relief thereon
NXEA	National Express East Anglia
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
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	Railway 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

	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Bus and Coach (Core non-rail)					
Revenue	**1,746.2**	1,636.1	1,549.7	1,488.4	1,521.4
Normalised operating profit	**185.5**	185.2	181.8	170.4	147.8
Return on capital (pre tax)	**11.1%**	10.6%	10.6%	10.2%	9.3%
Basic earnings per share	**20.1p**	21.6p	20.7p	18.8p	27.7p
Group normalised					
Revenue	**1,891.3**	1,831.2	2,238.0	2,125.9	2,711.1
Normalised operating profit	**192.9**	211.9	225.2	204.2	159.8
Return on capital (pre tax)	**11.7%**	12.2%	14.1%	13.2%	10.7%
Diluted earnings per share†	**21.4p**	25.4p	26.9p	23.5p	30.4p
IFRS					
Revenue	**1,891.3**	1,831.2	2,238.0	2,125.9	2,711.1
Operating profit	**117.9**	117.6	174.4	85.9	(0.6)
Profit/(loss) before tax	**64.4**	69.8	129.4	40.2	(83.5)
Basic earnings/(loss) per share†	**11.1p**	11.8p	19.9p	12.0p	(17.6)p
Dividends per share – declared	**10.0p**	9.75p	9.50p	6.00p	–
Net (debt)/funds					
Cash at bank and in hand	**40.9**	72.8	92.5	128.8	105.8
Other debt receivable	**1.0**	1.0	0.7	0.7	0.8
Bonds	**(579.5)**	(590.0)	(583.4)	(565.6)	–
Bank and other loans	**(19.3)**	(114.6)	(7.9)	(39.8)	(687.7)
Fair value of bond hedging derivatives	**9.2**	23.4	16.4	(1.1)	–
Finance lease obligations	**(132.9)**	(154.7)	(151.3)	(131.6)	(75.6)
Other debt payable	**(65.5)**	(66.1)	(0.7)	(1.8)	(1.2)
Net debt	**(746.1)**	(828.2)	(633.7)	(610.4)	(657.9)
Gearing ratio	**2.5x**	2.5x	1.9x	2.1x	2.5x

† Earnings per share figures have been restated for the effect of the 2009 Rights Issue.

Additional Information:
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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