Annual Report and Accounts 2011

national express

Continuing the journey

Overview
National Express at a glance

Group

Group revenue by market

Spain 25%
North America 21%
UK Bus 12%
UK Coach 12%
UK Rail 30%

Group operating profit by market

Spain 36%
North America 19%
UK Bus 13%
UK Coach 14%
UK Rail 18%

National Express
The Group operates in the UK, Spain, and North America and during 2011 employed 40,000 people and operated over 22,000 vehicles

Passengers made more than 650 million journeys on our services during the year

Spain

Revenue
£551.1m
Operating profit
£90.1m

Revenue (£m)
+4.9%

Operating profit (£m)
+4.5%

ALSA
Our Spanish business, ALSA, operates long distance, regional and urban bus and coach services across Spain and in Morocco

ALSA was acquired by National Express in 2005, and our position in Spain was strengthened with the acquisition of Continental Auto in 2007 Apart from its bus and coach services, the business also operates service areas and other transport-related businesses, such as fuel distribution

For more details go to **page 12**

North America

Revenue
£481.0m
Operating profit
£47.9m

Revenue (£m)
+4.6%

Operating profit (£m)
+29.8%

Durham School Services
Stock Transportation
Our business in North America is focused solely on student transportation and operates in 30 US states and four Canadian provinces

The 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

For more details go to **page 16**

All profit and margin numbers unless otherwise stated refer to normalised results, which can be found on the face of the Group Income Statement in the first column The definition of normalised profit is as follows

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

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

UK Bus

Revenue
£263.5m

Operating profit
£32.7m

Revenue (£m)
+2.2%

Operating profit (£m)
+15.5%

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 We also run bus services in Coventry and Dundee We operate more than 1,600 vehicles and cover over 70 million miles per year

We operate the Midland Metro light rail service between Birmingham and Wolverhampton

For more details go to **page 20**

UK Coach

Revenue
£259.1m

Operating profit
£34.9m

Revenue (£m)
+3.5%

Operating profit (£m)
+9.1%

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

For more details go to **page 24**

UK Rail

Revenue
£688.3m

Operating profit
£43.4m

Revenue (£m)
+8.0%

Operating profit (£m)
+28.4%

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 We ran National Express East Anglia until February 2012

For more details go to **page 28**

Contents

Who we are

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

Group

Revenue
£2,238.0m

Operating margin
10.1%

Operating profit
£225.2m

Earnings per share
27.0p

Profit before tax
£180.2m

Dividend
9.5p

Revenue (£m)	Operating profit (£m)	Profit before tax (£m)	Operating margin (%)	Earnings per share (p)	Dividend (p)
+5.3%	+10.3%	+12.3%	+50bps	+14.4%	+58.3%

- Record statutory profit before tax and amortisation of £180.2 million (2010: £97.3m)
- Revenue growth of 5.3% to £2,238.0 million (2010: £2,125.9m)
- Operating profit increased by 10.3% to £225.2 million (2010: £204.2m)
- Revenue and profit growth in every division. Record profits in our UK Coach business of £34.9 million
- Industry leading operating margins in Spain, North America, UK Coach and Rail – North America achieved 10% margin; Group margin has almost doubled since 2009
- Passenger journeys rose by 5.4 million journeys to 656.6 million
- Strong balance sheet with long-term funding maturity. Gearing ratio further improved to 1.9x (2010: 2.1x)
- Return on capital (before tax) increased to 14.1% (2010: 13.2%)
- Basic EPS increased 14.4% to 27.0 pence (2010: 23.6p); 20.3 pence delivered from non-rail earnings (2010: 17.9p)
- Final dividend increased 8.3% to 6.5 pence

John Devaney

Dear shareholder,

I am delighted to report that, in 2011, National Express has delivered another successful year of business turnaround and improvement.

I am delighted to report that in 2011 National Express has delivered another successful year of business turnaround and improvement We have now completed the process of recreating a high quality business, building on the foundations that we put in place in 2010 and delivering both improved profitability and strong revenue growth National Express is now the best performing private provider of mass transportation in many of the markets in which it operates

2011 has been a record year for Group statutory profit before tax and amortisation Back in 2009, when I joined as Chairman, the Group was struggling for its business survival However, we reduced our debt, resolved the losses in our East Coast rail franchise, maintained our independence and, with strong shareholder support, put in place an appropriate capital structure

Since his arrival in February 2010, Dean Finch has created a new leadership team which has turned the business around, delivering effective operational control, driving out excess cost and helping to refinance the Group's debt 2011 has seen further margin improvement, organic growth supported by acquisition, and the identification of future growth opportunities 2012 is likely to present difficult economic challenges but we have created a platform from which to grow, both organically and through acquisition, highlighted by our decision to acquire Petermann Partners Inc, which is due to complete during the first half of the year

With our turnaround complete, we are now implementing the next stage of our strategy to continue to improve margin in our existing businesses, to take advantage of the growth opportunities in our current markets, and to identify and develop exciting new market potential It will be delivered by a management team that has proven credentials in every area of our operations and we will strengthen the team further to ensure that we have the skills to deliver each aspect of our strategy Our vision for the Group is to put our customers first, to a level that will clearly differentiate National Express in the mass transport market

During the first half of 2011, the Board took steps to further enhance its skills and experience, particularly recognising the Group's future growth plans for North America and Continental Europe I was very pleased to welcome Chris Muntwyler, Joaquin Ayuso and Lee Sander to the Board, each with credentials in our target markets Since their appointment, they have given valuable insight into these growth areas, as well as helping to manage the risks and opportunities in our existing markets

In recognition of the Group's sound financial footing and improved earnings, we restored the dividend last year with a final payment for 2010 of 6 pence per share We set out a policy that the Board considers both sustainable and progressive in this prolonged period of economic uncertainty – we will aim for our dividend to be at least two times covered by non-rail earnings and fully funded by our free cash flow, across the medium term At the same time, we reiterated our debt policy, to target a gearing ratio of between two and two and a half times earnings before interest, tax, depreciation and amortisation (EBITDA)

We remain committed to these core policies, which provide shareholders with a suitable balance of long-term growing returns whilst retaining sufficient resource in the Group to explore opportunities to grow shareholder value Following payment of our interim 2011 dividend of 3 pence per share in September, I am pleased to announce a recommended final dividend for 2011 of 6 5 pence per share, an increase of 8 3%, taking the full year payment to 9 5 pence per share This will be paid from the 20 3 pence of non-rail earnings per share (EPS) delivered in 2011 and the £84 4 million of free cash flow we generated in the year, both of which we expect to grow in future years

During 2011, our employees have continued to play a major part in the implementation of our strategy, adopting our vision and values, with particular focus on improvements to customer service and in the promotion of a culture of safety across the Group On behalf of the Board, I would like to thank them for the commitment and enthusiasm that they have shown, as we move into the next phase of our development

John Devaney
Chairman
29 February 2012

For more information on Corporate Governance and our Board of Directors, please go to **nationalexpressgroup.com/ar2011**

Business review
Group Chief Executive

Dean Finch

In just two years National Express has moved from reporting losses to the record profits we have announced for 2011 We carried more passengers than in 2010 and are now the best performing operator in many of our markets

Overview of 2011
In 2011 we completed our Business Recovery programme We delivered

- record statutory Group profit before tax and amortisation of £180 2 million (2010 £97 3m),
- three-fold increase in statutory profit before tax, up £89 2 million year-on-year to £129 4 million,
- revenue and profit growth in every division,
- record profits in our UK Coach business,
- industry leading operating margins in Spain, North America, UK Coach and Rail – North America achieved 10% margin, Group margin has almost doubled since 2009, and
- end of year contract order book revenue of £3 7 billion in existing concessions and tendered contracts

Strong increase in profit
Group revenue increased by over 5% to £2 2 billion, despite the backdrop of difficult economic conditions and austerity measures Normalised operating profit increased by 10 3% to £225 2 million (2010 £204 2m) and we achieved a record statutory Group profit before tax and amortisation, delivering no exceptional charges in 2011 Statutory profit before tax rose more than three-fold to £129 4 million (2010 £40 2m)

Secure financial platform
Our basic earnings per share (EPS) increased 14 4% to 27 0 pence (2010 23 6p) and we have increased our full year proposed dividend to 9 5 pence (2010 6 0p), this is an 8 3% increase in the final dividend We generated over £80 million in free cash flow in 2011, supporting the reintroduction of the dividend and investment in organic growth to drive future profitability We maintained a strong financial platform, with over £500 million of undrawn committed facilities and cash at the end of 2011, a secure funding structure of primarily non-bank debt maturing between 2014 and 2020, and a debt gearing ratio below two times EBITDA

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

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

We are now focused on the following core initiatives to drive our progress

- **delivering operational excellence**, with consistent service performance and ongoing cost efficiency improvements,
- **securing organic growth** from our existing portfolio of businesses, and
- **developing new contract opportunities** in targeted businesses and geographies

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

Delivering our strategy in 2011
Last February I set out the first phase of our strategy, which was to complete the rebuilding of National Express and to establish a foundation for profitable and sustainable long-term growth In 2011, I believe we have achieved this – not only have all five Group businesses reported

I believe our portfolio of businesses and track record of success mean we are also well placed to target emerging growth opportunities.

Business review
4 Group Chief Executive continued

Carlos Chiesa, painter and coachbuilder ALSA

Carlos Chiesa works as a painter and coachbuilder in ALSA's central depot in Madrid. Both jobs can pose health hazards Ever since he joined ALSA in 1991, Carlos has been aware of the importance of safety in his daily routine, and has always made sure that he uses the proper safety equipment As a result he has never had an accident.

For more information on our vision and values go to **nationalexpressgroup.com/ourway**

increased profits, with four at industry leading margins, but all have achieved profitable revenue growth

Achieving margin improvement
Over the last two years we have delivered significant improvement in every business UK Bus and North America have both nearly doubled profit since 2009 and have increased operating margins over the two years – UK Bus achieved a margin of 12 4% in 2011 and North America 10 0% In 2011 UK Coach delivered a record profit and a 13 5% margin UK Rail margin rose from 5 3% to 6 3% – a very strong performance in this high revenue, low capital business Spain's margin has remained stable, at an industry leading 16 4%

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

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

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

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

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

The Group has an existing 'order book' of £3 7 billion in its contract businesses, across North American school bus, Spain, and UK Rail This represents over three years of contracted and concession-based revenues for the Group six years in Spain, two years in North America and one year in rail franchising Delivering a 98% retention rate in existing school bus contracts, North America also secured 1,000 new routes in 2011 The conversion of contracts to outsourcing is an increasingly important part of North America's growth, reflecting lower capital requirements and opportunities to tailor a specific service package to the new customer In 2011 we secured ten conversion contracts and integrated the Vogel business in New Jersey, a bolt-on acquisition that consolidated our position and efficiencies in the local market

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

Growth through larger scale acquisition is also considered against specific criteria – in the same or similar modes of transport, in overlapping geographies, where scale gives immediate synergies and only where clear financial criteria will be met. In September 2011 we announced the acquisition of Petermann, a school bus business in the United States that met these criteria With a strong reputation for customer service, a very experienced management team, annual revenue of around US$150 million and annual operating profit of US$13 5 million, Petermann is a high quality business Strong synergies will complement the geographic coverage it adds to our Durham bus operation, whilst adding a contract in our targeted para-transit market The acquisition is expected to complete during the first half of the year

Looking forward – key investment areas

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

Safety

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

Customers

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

People

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

Developing mass transport markets

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

- **cost:** at a time when household budgets are increasingly pressured, the value offered by public transport is increasingly attractive,
- **convenience:** in addition to its traditional strengths, the ability to work on the move – increasingly using smartphone and similar technology – builds on the convenience public transport offers,
- **congestion·** congestion will continue to pose a challenge to policymakers and the public for years to come, strengthening the case for investment in public transport, and

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

Safety

More than anything else, we value the safety of our customers, employees and the public generally.

Customers

We will place customers at the heart of our business. Nobody will try harder for our customers than we do.

People

Enabling all our people to reach their full potential and to give their best as individuals and in teams.

Community

We will advance the social, environmental and economic conditions in the communities where we operate.

Renate Carrington, driver
Durham School Services

When Renate Carrington started driving a school bus, Jimmy Carter was challenging Gerald Ford for the US presidency and Apple was a start-up. That was 1976. At the time she was driving for the school board, in Lewisville near Dallas, Texas When Durham won the contract in 1988, she came to us – and she's stayed ever since. That's 35 years of serving her community.

For more information on our portfolio go to
nationalexpressgroup com/aboutus

- **carbon**· public transport already has a significant carbon advantage over private and air transport, with the adoption of new technologies further reducing its carbon footprint

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

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

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

- delivering operational excellence in our existing businesses, to drive continued margin progress,
- securing organic growth opportunities in existing businesses, and
- developing new contract opportunities in targeted markets

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

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

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

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

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

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

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

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

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

Dean Finch
Group Chief Executive
29 February 2012

Sue Gibbs, station announcer c2c

Fenchurch Street station links south Essex to the City of London. Around 30,000 customers use it every day "But over the years you get to know them and they know you," says station announcer Sue Gibbs. Sue, who was recently awarded an MBE for her work, is known as the 'voice of Fenchurch Street' and is proud of the fact that "we have no recorded announcements here "

8 Generating shareholder value

National Express has achieved its strategic objectives of delivering margin and organic revenue growth and established a platform for profitable and sustainable long-term growth

1. Margin improvement

Over the last two years we have substantially improved our underperforming businesses and maintained our best-in-class margins in other divisions.

2. Organic growth

We are driving our businesses to grow organically Every division has grown revenue in 2011.

3. Opportunities ahead

Our goal is to deliver growth based on our core competence of consistently delivering frequent, high performing mass public transport services which offer excellent value

Delivering operational excellence in our existing businesses, to drive continued margin progress:

- UK Bus – further margin improvement
- North America school bus – further margin improvement
- Spain – minimise impact of concession renewal
- UK Coach – minimise impact of subsidy removal

Key focus divisions

Best-in-class divisions

Margin %
UK Bus

Margin %
North America

Margin %
Spain

Margin %
UK Coach

Margin %
UK Rail

Underlying revenue growth %
Spain

Underlying revenue growth %
North America

Underlying revenue growth %
UK Bus

Underlying revenue growth %
UK Coach

Underlying revenue growth %
UK Rail

Securing organic growth opportunities in existing businesses:

- North America – winning market share and converting outsource tenders
- Spain – domestic concession and contract wins, new cities and expanding services in Morocco
- UK Coach – modal shift away from increasingly expensive rail tickets
- UK Bus – investment in smartcard technology to improve customer ease of use

Developing new contract opportunities in targeted markets:

- North America – accessing the US$5 billion transit and paratransit markets
- Continental Europe – deregulating European markets with coach and rail opportunities
- Rail – UK rail refranchising market worth £6 billion of annual revenues in next four years

Business model
A strategic roadmap

Our portfolio of businesses provides an excellent platform for future value generation

	Spain	North America
Mode	**Urban bus, intercity coach**	**School bus**
Operating model	**Concession, long-term**	**Contract, medium-term**
Market regulation	**Lightly regulated**	**Largely unregulated**
Market share	**20%** of the intercity, regional and outsourced urban contract market	**10%** of the outsourced school bus market
Return on capital	**Strong**	**Acceptable, improving**
Current opportunities	**Continued growth in both businesses**	**Revenue, margin and return on capital growth**

Business model

Spain

ALSA is the largest private operator of buses and coaches in Spain where public transport is seen as an essential public service Its markets are regulated and supported by long-term concession agreements provided in exchange for public service obligations Concessions are operated exclusively, with competition at point of tender Concessions typically run for 10 to 15 years ALSA's 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,
- regional coach operations which may be subsidised by the autonomous governments, and
- urban bus operations operated under programme contracts with city councils and transport consortia

Day-to-day competition is primarily intermodal, ie rail, low cost airlines and the car

North America

The Group's operations are carried out by our subsidiaries, Durham School Services (US) and Stock Transportation (Canada) We are the second largest private operator The outsourced (private operator) market is only around one third of the total, with the remainder being insourced, that is, owned and run by the school boards themselves Contracts typically run for five years and contract retention is high Once secured, contracts have very low revenue risk over the contract life Scale is beneficial – economies can be achieved through procurement, centralisation of administration and business development Access to capital is key, most new contracts require investment in new buses and asset utilisation is low, due to the part time usage of these specialised vehicles

	Spain	North America
Risks to manage in 2012	**Concession re-bidding**	**School board funding**

For more information on our performance, please go to **nationalexpressgroup.com/investors**

UK Bus

Urban bus

Perpetuity, owned business

Unregulated

80%
of the West Midlands bus market

Strong

Passenger volume and further margin growth

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 has a high regional market share, with strong competition from multiple operators on specific routes Modal competition is principally from private cars Revenue and profitability are driven by the scale of operations delivering frequent, reliable and affordable services across a broad network, utilising a high quality fleet

UK Government funding (BSOG)

UK Coach

Intercity coach

Perpetuity, owned business

Unregulated

60%
of the UK scheduled coach market

Strong (capital light)

Organic revenue growth

'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, running 500 coaches a day serving over 1,000 domestic destinations Built on a flexible, outsourced business model, where third party providers supply 80% of the coaches and responsibility for sales lies with the company With 70% unprompted brand recognition, the business benefits from its integrated network and scale, offering breadth and interconnectivity, where competitors offer only point-to-point services with limited infrastructure

UK Government funding (CSOG)

UK Rail

Commuter rail

Franchise, long-term

Highly regulated

10%
of the UK rail franchise market

Strong (capital light)

Manage franchises. Participate in franchise bids

National Express has a strong operational skills base in UK rail, one of the only privatised systems in Europe The UK 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 The Group ran two franchises in 2011, operating as National Express East Anglia and c2c, running until February 2012 and May 2013 respectively

Franchise terms and bidding

Revenue

£551.1m

Operating profit

£90.1m

Javier Carbajo
CEO ALSA

My key objective over the next two years is to renew the intercity concessions due for retendering. Given market trends, in our existing intercity and urban businesses we can deliver robust growth, whilst developing exciting growth opportunities in Morocco and new territories.

Divisional KPIs
We measure our progress against our strategy and goals using the following KPIs

Financial KPIs

Revenue growth* (%)	Margin (%)

Non-financial KPIs**

Passengers numbers (m)	Mileage (m)	Revenue per km (€)
+9.8%	+3.4%	+2.0%

* Local currency
Regular passenger services

Revenue for ALSA, Spain was £551.1 million (2010: £525.6m) and normalised operating profit was £90.1 million (2010: £86.2m). In local currency, revenue was €635.4 million (2010: €612 7m) and normalised operating profit was €103.9 million (2010: €100.5m).

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

Overall revenue growth for the division in local currency was 3 7%, (4 9% in Sterling terms), delivering €635 4 million (2010 €612 7m) in total revenue 3 5% more kilometres were operated than in 2010 as ALSA increased supply to meet passenger demand Growth remained consistent throughout the year, supported by the new Agadir contract in Morocco

Operating profit increased by 3 4% to €103 9 million (2010 €100 5m) Operating margin was maintained at 16 4% Growth and efficiency in the transport business, including a strong performance in Morocco, event services and international, offset reduced profitability in the peripheral non-transport businesses (primarily the fuel distribution and motorway service businesses, which represent only 8% of ALSA's total revenue)

Market overview

Market size

€3.5bn

regulated bus and intercity coach market

Concessions

185

ALSA has 162 intercity coach concessions, 22 urban bus contracts and one other concession

Market composition
ALSA has the leading position in a highly fragmented market

Market trends
Modest passenger growth in coach, reversing recent trends in public transport Resilient urban bus demand

Market features
Regulated and highly segmented market, with three levels of government regulation central (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 (now operating under reduced subsidy) and low cost airlines Bus and coach concessions are awarded through competitive public tender, typically every ten years

Labour
Traditionally less flexible labour market reflecting domestic practice

Cash management continued to be strong A planned increase in working capital reflected repayment of deferred social security In addition, in light of public funding issues, ALSA has also managed outstanding receivables balances carefully to ensure timely collection A key part of our business is the provision of contracts with various public bodies, primarily urban bus operations where we do not take demand risk in the operation of routes At the end of 2011, ALSA's receivable balance from public bodies was €57 5 million (2010 €44 6m) This increase primarily related to a single customer, with which a new legally enforceable payment plan was agreed in December 2011 In addition, the national governing party has confirmed that all public debts will be paid, with the state now providing credit funding to public bodies

Delivering organic growth

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

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

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

For more information on our Spanish business, please go to **alsa.es**

**Iván Gozalo, driver
ALSA**

Since 2007, Iván Gozalo has worked as a bus driver in the Madrid suburb of Torrejón de Ardoz. He is good with passengers and he knows that the addition of new hybrid buses to the fleet will improve Torrejón's environment. He thinks this is good for the community, good for the city and it's good for Iván too, because that is where he lives.

Adela Lupascu, stewardess
ALSA

No two customers are the same, especially on the Madrid City Tour bus where Adela Lupascu is a stewardess. "Every day I get to meet people from all over the world who are visiting Spain." They all have different needs, Adela says, but making sure they are comfortable – and satisfied – is what her job is about. "And that is what I enjoy."

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

Securing targeted expansion

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

Outlook for the future

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

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

ALSA is focused on securing its concession renewals With a forward revenue order book of €3 1 billion, during 2012 currently operated intercity concessions representing 9% of annual revenue are due for tender, alongside other operators' concessions The framework for national tenders was agreed by the Ministry of Transport in 2011, favouring operators who have delivered an excellent performance and compliance with concession conditions

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

Business review
North America

Revenue
£481.0m

Normalised operating profit
£47.9m

David Duke
CEO National Express Corporation

The North American school bus contract market represents an attractive opportunity. Further margin improvement remains a continued focus, but the exciting challenge is delivering value-enhancing growth. I base our approach on the ABC of the industry – Acquisitions, Bidding and Conversion – whilst ensuring that we remain proactive and responsive to our customers and employees.

Divisional KPIs
We measure our progress against our strategy and goals by using the following KPIs

Financial KPIs

Revenue growth* (%)

Margin (%)

Return on net tangible assets (%)

Non-financial KPIs

Routes operated

Retention rate (%)

Spares ratio (%)

+6.4%

* Local currency

Revenue for North America was £481.0 million (2010. £459.8m) and normalised operating profit was £47.9 million (2010. £36.9m) In local currency, revenue was US$772.2 million (2010· US$712 1m) and normalised operating profit was US$76.9 million (2010: US$57.1m).

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

Revenue in local currency grew by 8% to US$772 2 million (2010 US$712 1m) This was driven by annualisation of bid wins in the successful 2010/11 season, supplemented by further success in the 2011/12 season, improved charter income and the bolt-on acquisition of Vogel in New Jersey, which was acquired at the end of 2010 The North American business secured both new conversion contracts, from school board customers outsourcing for the first time, and share shift wins of contracts in the already-outsourced market, which added over 700 buses for the 2010/11 school year Growth from new conversion contracts won in 2011 was approximately twice that of our biggest competitor

Operating profit increased significantly, by 35%, to US$76 9 million (2010 US$57 1m) Operating margin has improved to 10 0%, an increase from 8 0% in 2010 and 5 7% in 2009 This rapid turnaround was executed by a new management team through growth, cost reduction and investment in customer-facing personnel to ensure that local delivery and relationships have been enhanced This margin makes the operation best-in-class in the industry

Market overview

Market size

US$24bn

Total school bus market in North America, represented by 531,000 routes

32% is outsourced, 68% in-house

Market share
10% of outsourced school bus market

National Express operates 15,292 regular routes

Market composition
Top five players operate approximately 90,000 routes

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

Market trends
Growth is traditionally inflation and population driven The recent increase in outsourced conversion is due to public funding pressures

Market 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

30% of National Express staff unionised

Achieving margin improvement

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

Alongside the improved operating margin, we also made significant progress in improving the division's operating profit return on net tangible assets to 16 0% (2010 13 1%) in what is a traditionally capital intensive business This improvement was achieved by working with customers to cascade existing buses both to new contracts and to replace end-of-life vehicles, whilst evaluating possible fleet life extension During 2011, over 900 buses were cascaded within the fleet. Additionally, the spare bus ratio continued to improve, to 12 2% (2010 18 4%) Overall, this programme is estimated to have reduced capital investment in 2011 by US$66 million

Delivering organic growth

Excellent revenue growth in 2011 was achieved through our 'ABC' plan

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

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

Overall we added over 600 new buses to our routes for the 2011/12 school year, whilst protecting margins and achieving an industry-leading 98% retention rate on existing contracts In addition, our initiative to drive higher margin charter revenues was successful, delivering a 30% increase in this revenue in 2011, with scope for further increases in the future

Mark Perry, driver
Durham School Services

Staff at Durham School Services in Dallas have lost the equivalent of an entire person since they started a fitness challenge last September One driver alone, Mark Perry, has shed 45lbs (20kg) and aims to run the New York Marathon. The 30 people who have been taking part in the challenge have lost a total of 149lbs – or 67kg/10.5 stones – between them

**Kathy Hagerman, driver
Durham School Services**

Kathy appreciates the benefits of the Zonar system. The pre-trip and tracking information it provides not only helps reduce costs to the customer, but also helps our supervisors to know where our buses are and how fast they are going. This means they can tell parents when their bus is due If a bus breaks down in service, our technician can log into it and check the diagnostics on the bus before going to the scene. The system also identifies trends in defects, improving our reliability.

Securing targeted expansion
The North America mass transport market offers considerable scope for expansion In September 2011 we announced the acquisition of Petermann Partners Inc , for US$200 million, consolidating our number two position in the school bus market In its fiscal year ending 30 June 2011, Petermann generated revenue of US$149 9 million, EBITDA of US$29 3 million and operating profit of US$13 5 million We are in advanced discussions with regulators regarding competition approval and we expect to be in a position to close this transaction in the first half of 2012 Petermann has an excellent portfolio of customers and an experienced management team, adding new geographic reach to National Express to deliver further growth from a quality earnings base The acquisition is expected to be earnings enhancing in its first full year, with annual synergies of US$7 million by the second year

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

Outlook for the future
With a forward revenue order book of US$1 3 billion and improved capital disciplines evident in the school bus market, we will continue selectively to target market share addition and a strong pipeline of conversion opportunities, whilst achieving high contract retention We expect funding pressures on school boards to continue to drive the conversion market, reflected in the growing number of conversion contracts we have won in the last three years one in 2009, three in 2010 and ten in 2011 The business will focus on improving contract management and operational efficiency, driving further improvements in margin and capital return We also expect to expand our presence in the para-transit market over the coming years, building a second leg to our successful North American operation

Growth from new conversion contracts won in 2011 was approximately twice that of our biggest competitor.

For more information on our North American business, please go to **nationalexpresscorp.com**

UK Bus

Revenue

£263.5m

Normalised operating profit

£32.7m

Peter Coates
Managing Director, UK Bus:

Our turnaround has been achieved, with improved financial progress and a strong safety culture. There is still work to be done; I want to grow revenue and maximise network efficiency, whilst modernising aspects of our service and cost base. We are attracting customers by investing in new vehicles, improving marketing, using technology and raising customer service levels.

Divisional KPIs
We measure our progress against our strategy and goals using the following KPIs

Financial KPIs

Revenue growth (%)	Margin (%)

Non-financial KPIs

Passenger yield (£)	Passenger numbers (m)	Mileage (m)
+11.0%	-7.0%	-2.4%

Revenue for UK Bus was £263.5 million (2010· £257 8m) and normalised operating profit was £32.7 million (2010. £28 3m)

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

Total revenue for the UK Bus business grew by 2 2% to £263 5 million from £257 8 million in 2010 Like-for-like passenger revenue at constant mileage grew 6%, driven by a strong increase in passenger revenue of 4 3%, above the industry average This was achieved despite the West Midlands economy remaining weak Concession income for senior citizen travel was slightly lower year-on-year, as austerity measures impacted public funding

Improvement	
Commercial revenue	4%
Mileage reduction	2%
Like-for-like revenue	6%

Operating profit increased to £32 7 million (2010 £28 3m) Operating margin increased by 140 basis points to 12 4% for the division, with the core West Midlands bus operations achieving over 13% operating margin Our Dundee operation also increased its margin and there was further good progress at the Midland Metro tram service, which was profitable in the year, having broken even for the first time in 2010

Market overview

Market size

£4.8bn

(UK excluding London)

97% is privatised

Market share
1,650 buses operated in the fleet

Focused on the West Midlands and Dundee markets

Market composition
Largest five operators represent around 70% of the UK market

Remainder made up of a large number of private operators

Market trends
Short-term economic pressures from austerity and local unemployment

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

Market 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 operators

Labour
Primarily unionised with strong industrial relations

Delivering organic growth

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

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

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

**Jayne Blower,
Travel Shop Manager
National Express West Midlands**

Travel Shops are "the human face of the business," says Jayne Blower, manager of the busy Dudley shop. As well as selling bus and coach tickets, they give change and information, plan routes and sort out problems The Dudley team has built up a strong relationship with many local residents and one regular customer recently wrote of the staff that "nothing's too much trouble."

For more information on our UK Bus business, please go to **nxbus.co.uk**

Carl Gauntlett,
Schools Liaison Officer and
Special Constable
National Express West Midlands

Last year, Schools Liaison Officer Carl Gauntlett talked to more than 9,000 children in spreading the Safer Travel message to 150 schools. "Talking to Year 6 (10-11 year-olds) is particularly important – giving them reassurance before they start travelling to secondary school by bus. We explain what they need to do to keep safe and that they should trust the driver to help them."

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

Cost efficiencies were delivered across engineering, procurement and the overhead cost base We are leveraging the Group's procurement scale, with £1 5 million of savings delivered in UK Bus in 2011 On-board telemetry monitors driving style and is improving fuel consumption In addition, in 2011 our Driving Out Harm safety programme combined with telemetry and CCTV video to reduce insurance claims by £1 9 million

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

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

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

With its focus on operational control, improved marketing, new services and investment for customers, UK Bus delivered a 15% increase in profit year-on-year.

Revenue

£259.1m

Normalised operating profit

£34.9m

Andrew Cleaves
Managing Director, UK Coach:

My vision is to be the number one in passenger transport for quality and value for our customers. We will differentiate through excellence of customer service and safety We are investing in technology to enhance the customer offer and improve operational efficiency. We can grow passenger numbers through competitive pricing, leveraging the brand, the network and our multiple routes to market.

Divisional KPIs
We measure progress against our strategy and goals using the following KPIs

Financial KPIs

Revenue growth (%)	Margin (%)

Non-financial KPIs

Passenger numbers* (m)	Mileage (m)	Customer satisfaction (%)
+0.6%	+1.0%	

* Core network

Revenue for UK Coach was £259 1 million (2010: £250.3m) and normalised operating profit was £34.9 million (2010: £32.0m).

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

Underlying revenue in the core National Express network grew by over 5% Overall UK Coach revenue increased 3 5% to £259 1 million (2010 £250 3m) Core network yield rose 4% as pricing shifted away from heavily discounted promotional fares to offering simple, consistent, everyday value Revenue in each of the four National Express coach segments (Long haul, Short haul, Regional and Airports) grew during the year

Operating profit increased to £34 9 million, an increase of 9 1% (2010 £32 0m) Operating margin was 13 5%, a 70 basis point increase (2010 12 8%) This reflected both revenue growth and the flexibility of the business model, where 80% of coach service operation is outsourced, providing the opportunity to adjust to changes in demand We continue to see strong interest from private operators to partner in our service delivery

Market overview

Market size

£300m

of contested revenues in the scheduled coach market (almost all privatised)

Market share
Over 1,000 destinations served

National Express is the UK scheduled coach market leader

Market composition
National Express has the only nationwide network of services

Other competitors tend to focus on specific regions or corridors

Market trends
Revenue growth through the recession, reflecting value and convenience of coach

Selected price competition from rail through advance purchase discounted fares

Market 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

Ongoing rail fare increases make coach increasingly attractive

Competition
Selective competition from 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

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

For more information on our UK Coach business, please go to **nationalexpress.com**

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

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

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

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

Mark Hollis, Accessibility and Inclusion Manager National Express

Our new Accessibility and Inclusion Manager, Mark Hollis, is looking at all aspects of our service for disabled travellers – from our booking process to the attitude of drivers By the end of 2012 almost all of our coaches will be wheelchair accessible, and all staff will have been on a disability awareness course – for which Mark was recently recognised with an invitation to No 10 Downing Street.

**Marjorie Wild,
Senior Customer Advisor
National Express**

As a Senior Customer Advisor at our busy Manchester coach station, Marjorie Wild uses the counselling skills she's gained outside of the business to support her work colleagues "listening to their problems and being there for them". As well as doing her full time job, Marjorie is completing a counselling diploma, and also works as a volunteer for ChildLine and Age Concern.

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

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

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

Our strategy is focused on improving customer service and simplifying fares. This has already delivered growth.

Revenue

£688.3m

Normalised operating profit

£43.4m

Andrew Chivers
Managing Director, UK Rail:

We are focused on continuing the success of c2c as the best run franchise in the UK, together with securing additional rail franchises, provided the terms are right.

Divisional KPIs
We measure our progress against our strategy and goals using the following KPIs

Financial KPIs

Revenue growth (%)

+5.4%

Margin (%)

Non-financial KPIs

Passenger numbers (m)

Signals passed at danger (per million miles)

Public performance measure Moving annual average (%)

Year to 7 January 2012

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

In 2011 the UK Rail division reported strong revenue growth and a significant increase in profitability As the leading rail operator in the sector, the divisional profit margin was 6 3% and operational performance exceptional – c2c is the UK's top performing rail franchise with a record-breaking annual punctuality figure of 96 9%, in the year to 4 February 2012 With the handover of the East Anglia franchise successfully completed in February 2012, we are focused on delivering further improvements at c2c and establishing the future potential value that rail may offer in the next franchising round

Revenue in UK Rail rose to £688 3 million in 2011, an increase of 8 0% over the prior year (2010 £637 5m) National Express East Anglia (NXEA) successfully extended its franchise from the Department for Transport (DfT) from October 2011 to February 2012, whilst c2c secured a two year extension to May 2013 on a profit share basis Strong revenue growth saw operating profit increase by 28% to £43 4 million (2010 £33 8m) Operating margin increased by 100 basis points to 6 3% (2010 5 3%)

Market overview

Market size

£6bn

of UK franchise revenues over next five years (based on likely pipeline)

Market share
Two franchises (reducing to 1 in February 2012) – NXEA and c2c

These represent 10% of the UK franchise market

Market composition
Top four players have around 70% of the market

19 UK franchises in total

Market trends
Growth over the past decade driven by passenger volumes and fare increases

Dependent on employment and GDP

Fares will increase by 1 to 3% in real terms over the next three years

Market features
Regulatory environment – expected to change to longer franchises and increased operator autonomy

Highly regulated qualification and operational processes

Customers
Steady growth in passenger volume over time

Competition
Increased international competition in UK franchise bidding

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

**Marion Bridge,
Customer Service Assistant
c2c**

Thousands of ship passengers arriving at the London Cruise Terminal in Tilbury often have just a few hours to see London So c2c's Marion Bridge, who works at Tilbury station, has made it part of her job "to give them a good experience", and for the past seven years has given out goody-bags filled with timetables, maps and discount vouchers which help boost tourism.

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

NXEA successfully completed implementation of its £185 million DfT-funded capacity upgrade programme Adding 11,000 peak-time seats into Liverpool Street and delivering 30 new 379 Electrostar trains to the network on time and on budget, the business received all its project milestone payments, whilst significantly improving the customer experience

c2c successfully implemented a new timetable, providing additional stops at West Ham to provide greater transport connectivity c2c has won or been shortlisted for eight awards in 2011, underlining its industry-leading position

Paul Thomas,
Customer Service Assistant
c2c

For the past 16 years Paul Thomas has sold tickets at London's Fenchurch Street station. He dispatches the c2c trains too. And he makes station announcements, as well helping to train and mentor new colleagues.

Not all at the same time of course. But Paul's versatility and enthusiasm have earned the respect of his colleagues. "Variety's the spice of life," he says.

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

The business is focused on the continued successful operation of the c2c franchise and on securing future rail franchises if the terms of the new bidding process prove attractive for the Group over the long-term

c2c has recently announced an innovative alliance with Network Rail, which builds on its existing joint signalling and operating control partnership The alliance will deliver cost savings to government and ultimately passengers through better planning and implementation of projects, better managed stations and further improvements in train punctuality

The Group has also invested in additional resource to evaluate, bid and operate future UK rail franchises Retaining a core team of experienced rail experts, National Express has submitted pre-qualification bids for the future Essex Thameside (c2c), Great Western and Thameslink services This has been supported by c2c recently being awarded four stars in the British Quality Foundation's Recognised for Excellence (R4E) programme assessed against the European Foundation for Quality Management model

Whilst National Express has a successful platform for future value creation built on its four international bus and coach businesses, we believe that the potential earnings and cash generation from future rail franchises could be a valuable addition to our portfolio, whilst supporting access to other global rail opportunities Participation will, however, depend on the potential returns and risks of the future franchises being acceptable

c2c is the UK's top performing rail franchise with a record-breaking annual punctuality figure of 96.9%.

For more information on our UK Rail business, please go to **c2c-online.co.uk**

Financial review

Continued improvement

Jez Maiden

The Group has delivered a strong performance in 2011, recording a record statutory profit before tax and amortisation of £180 2 million.

Four of our five divisions are now at industry-leading margins, with scope for further progress through a relentless focus on operational efficiency, combined with delivering high margin organic growth.

Revenue

Group revenue in 2011 was £2,238 0 million, an increase of 5 3% from £2,125 9 million in 2010 Revenue growth in every division was primarily driven by yield improvement, on a contractual/regulated basis as in North America, ALSA and UK Rail, and through fare pricing in UK Bus and UK Coach

Operating profit

Group normalised operating profit increased by over 10% to £225 2 million, from £204 2 million in 2010 2011 saw completion of the Group's two-year turnaround programme Over this period, cost reduction programmes have reduced overhead and back office costs, improved driver and engineering efficiencies, and delivered substantial savings by leveraging the Group's global procurement scale

Group normalised operating margin increased in 2011 by 50 basis points to 10 1% (2010 9 6%) Four of our five divisions are now at industry-leading margins, with scope for further progress through a relentless focus on operational efficiency, combined with delivering high margin organic growth

The principal areas that contributed to this increase in profitability were

- profitable organic growth adding £39 million, driven by yield and passenger journey growth and the addition of new contracts in North America and Spain, and
- cost reduction programmes focusing on
  - procurement savings of £12 million across the Group, including vehicle parts, telecoms and IT,
  - insurance savings of £3 million, reflecting safety improvement led by the Driving Out Harm programme, and
  - targeted cost efficiencies savings of £21 million, mainly in overhead costs

Improvement in normalised operating profit 2011

These benefits were partially offset by

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

Normalised result
Net finance costs were £46 4 million (2010 £44 0m), the increase from the previous year reflecting a full year of higher fixed interest rates on the 2010 bonds Profit before tax increased by 12% to £180 2 million (2010 £160 5m)

The tax charge was £41 5 million (2010 £39 2m), an effective tax rate (ETR) of 23 0% (2010 24 4%) Profit for the year was £138 7 million (2010 £121 3m), giving a basic EPS increase of 14 4% to 27 0 pence (2010 23 6p)

Dividends
EPS estimated on non-rail earnings only (that is, excluding the after-tax UK Rail profit and benefit to interest of rail season ticket monies) was 20 3 pence (2010 17 9p) With a paid interim dividend of 3 pence per share and a proposed final dividend of 6 5 pence, the total dividend for 2011 of 9 5 pence (2010 6p) is covered 2 1 times (2010 3 0x) by non-rail earnings and 2 8 times (2010 3 9x) by total earnings The proposed dividend record and payment dates are 27 April and 18 May respectively

Statutory profit
Group statutory profit before tax increased threefold to £129 4 million (2010 £40 2m) The Group incurred no exceptional costs, maximising the benefit to shareholders of profit growth This reflects significant progress delivered in 2010 to reduce or eliminate legacy risks, including resolution of outstanding UK tax issues with HMRC, termination of the Group's onerous contract for Eurostar operations and reduced future exposure to UK pension schemes

Intangible asset amortisation (relating principally to the value of the Group's concessions and contracts in Spain and North America) reduced to £50 8 million (2010 £57 1m) Exceptional charges were £nil (2010 £63 2m) Statutory profit for the year was £102 6 million (2010 £62 3m) Diluted EPS was 19 8 pence (2010 12 0p)

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

For more information on our Group, please go to **nationalexpressgroup.com**

Normalised operating profit £m

Financial review continued

Operatıng cash flow
Group operatıng cash flow ın 2011 was £159 8 mıllıon (2010 £221 7m), reflectıng reınvestment of hıgher profits ın fleet renewal Operatıng cash conversıon ın 2011 was 71% (2010 109%)

An ıncrease ın workıng capıtal of £52 5 mıllıon (2010 ınflow £14 3m) was prımarıly drıven by a £35 mıllıon ıncrease ın Spaın Of thıs, £18 mıllıon related to settlement of deferred socıal securıty, together wıth an ıncrease ın the receıvables balance, due to revenue growth and slower payment, the latter prıncıpally from one publıc body, wıth whom a repayment schedule has been agreed All receıvables are closely managed and legally documented The Spanısh governıng party recently confirmed that publıc body debts would be fully repaıd Ongoıng pensıon deficıt payments ın the UK totalled £9 7 mıllıon

Maıntenance capıtal expendıture ıncreased by £22 5 mıllıon to £110 2 mıllıon (2010 £87 7m), 104% of depreciatıon (2010 88%), wıth spend prımarıly ın the North Amerıca, ALSA and UK Bus dıvısıons ın fleet and real-tıme ınformatıon technology Thıs level of expendıture ıs planned to be sustaıned over the next few years as a key drıver of passenger growth The average age of the Group's fleet reduced ın 2011 to 5 8 years (2010 6 1 years)

Free cash flow
Free cash flow ın 2011 ıncreased to £84 4 mıllıon (2010 £83 7m) Exceptıonal cash payments reduced sıgnıficantly ın 2011 wıth no ın-year expense charge, cash payments of £22 0 mıllıon (2010 £86 7m) relate to final payments for exıt from the East Coast raıl franchıse ın 2009, redundancy and project costs provıded ın 2010, and the termınatıon of an onerous contract between the Group and the Eurostar operator, LCR

Net ınterest payments were £44 6 mıllıon (2010 £42 7m) and cash tax remaıned broadly unchanged at £8 4 mıllıon (2010 £8 6m), well below the Group's ETR due to tax amortısatıon of acquısıtıon goodwıll ın Spaın and tax losses ın North Amerıca

For more ınformatıon on our results, please go to **nationalexpressgroup com/ investors**

Operating cash flow

	2011 £m	2010 £m
Normalısed operatıng profit	225 2	204 2
Depreciatıon	105 5	99 8
Grant amortısatıon, profit on dısposal and share-based payment	2 4	0 2
EBITDA	**333 1**	**304.2**
Net maıntenance capıtal expendıture	(110 2)	(87 7)
Workıng capıtal movement	(52 5)	14 3
Pensıon contrıbutıons above normal charge	(10 6)	(9 1)
Operating cash flow	**159.8**	**221 7**

Free cash flow

	2011 £m	2010 £m
Operating cash flow	**159.8**	**221 7**
Dıscontınued operatıons	–	(3 5)
UK raıl franchıse entry and exıt	(5 8)	(22 0)
Exceptıonal cash flow	(8 2)	(52 6)
Payments to assocıates	(8 0)	(8 6)
Subtotal – exceptıonal cash payments	**(22.0)**	**(86 7)**
Net ınterest	(44 6)	(42 7)
Dıvıdends paıd to mınorıtıes	(0 4)	–
Taxatıon	(8 4)	(8 6)
Free cash flow	**84.4**	**83.7**

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

In 2011, £35 6 million was invested in organic growth capital (2010 £33 9m) – £23 million in North America, to fund fleet investment in new share gain and conversion contracts, and £9 million in ALSA to fund growth in Morocco and the new Madrid Tour service

The Group invested £7 6 million (2010 £2 6m) in acquisitions in North American school bus and in Spain It resumed dividend payments in 2011 Group net funds flow in 2011 was an outflow of £23 3 million (2010 inflow £47 5m)

Group net debt at 31 December 2011 was £633 7 million (2010 £610 4m)

Capital allocation and returns
National Express has a portfolio of businesses that provide a blend of opportunities for sustainable growth, profitability and cash generation The Group's strategy is designed to use the funds at its disposal to make investment decisions that will result in long-term generation of shareholder value The Group uses pre-tax return on capital employed (ROCE) as a core KPI to decide upon and measure the delivery of strategic new investment Internal capital allocation decisions are made with a 12% pre-tax return on capital hurdle rate, based on an estimated post-tax weighted average cost of capital of 8% In 2011 Group ROCE increased to 14 1% (2010 13 2%), with strong incremental returns in Spain and North America, the latter supported by initiatives to improve fleet utilisation The Group is targeting a 15% pre-tax return on capital in the medium term (subject to the proportion of rail business)

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

Funding sources
Long-term funding for the Group is provided from non-bank, long maturity, term financing Two Sterling-denominated public bonds – comprising a 6 25% £350 million bond maturing in 2017 and a 6 625% £225 million bond maturing in 2020 – and long-term amortising finance leases of £129 million provide this capacity In addition, the Group has a £500 million committed unsecured revolving bank facility, maturing in August 2014, which was undrawn at 31 December 2011 The Group is investment grade rated (Moody's Baa3, neutral outlook, Fitch BBB-, stable outlook)

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

- debt gearing ratio (net debt to EBITDA) 1 9 times (2010 2 1x, covenant not to exceed 3 5x), and
- interest cover ratio (EBITDA to net interest) 7 2 times (2010 6 9x, covenant not to be less than 3 5x)

Interest rate and currency hedging
The acquisition of Petermann, when completed, will initially be funded by cash drawn down from the bank facility Following this acquisition and the handover of the East Anglia rail franchise, the Board expects the Group to operate at the upper end of its target gearing ratio of 2 0 to 2 5 times EBITDA over the next 18 months

Net funds flow

	2011 £m	2010 £m
Free cash flow	**84 4**	**83.7**
Net growth capital expenditure	(35 6)	(33 9)
Financial investments and shares	(2 7)	(1 7)
Rights issue	–	(3 9)
Acquisitions and disposals	(7 6)	(2 6)
Cash flow on the maturity of foreign exchange contracts	(12 8)	(2 0)
Dividends	(45 8)	–
Foreign exchange and other non-cash movements	(3 2)	7 9
Net funds flow	**(23.3)**	**47.5**

National Express continues to focus on cash generation as a key driver of long-term shareholder value.

The Group hedges its exposure to interest rate movements to maintain a balance between fixed and floating interest rates on borrowings To achieve the desired fixed/floating ratio, the Group has entered into a series of interest rate swaps that have the effect of converting fixed rate debt to floating rate debt The net effect of these transactions was that, as at 31 December 2011, the proportion of Group net debt at floating rates was 16% (2010 19%)

As its debt is primarily denominated in Sterling, the Group uses foreign currency contracts to create synthetic debt positions to partially hedge the exposure of our Spanish and US EBITDA and assets At 31 December 2011 the principal resultant foreign currency debt exposures were €250 million and US$195 million Further details of the Group's treasury management policies are set out in the Accounts

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

The Group seeks to hedge a minimum of 15 months demand across all exposed businesses Where businesses have freedom to price services, this hedge provides sufficient protection to recover fuel price increases through the fare basket In contract businesses, where price escalation may be restricted by a formula independent of fuel costs, extended cover, up to the life of the contract, may be taken, subject to availability and liquidity in the hedging market The latter is rarely available beyond three years from the trading date

Pensions
The Group's principal defined benefit pension schemes are all in the UK At 31 December 2011 these schemes had a combined deficit under IAS 19 of £1 8 million, an improvement from a deficit position of £10 4 million at 31 December 2010 The National Express Group Staff Pension Plan (UK Coach plan) is now closed to all future accrual A funding plan aimed at bringing the plan to self sufficiency over a six year period was agreed in 2010, National Express contributes £4 2 million per annum to this scheme In 2011 UK Bus agreed a £5 5 million annual deficit repayment plan with the trustees of the West Midlands Passenger Transport Authority Pension Fund (WM plan) to fund a £71 million scheme funding deficit The plan remains open to accrual for existing active members only

The IAS 19 valuations by division at 31 December 2011 were as follows

- UK Bus (under the WM plan and the Tayside Transport Superannuation Fund) £16 8 million deficit (2010 £5 3m deficit),
- UK Coach plan £18 6 million surplus (2010 £nil), and
- UK Rail £2 2 million deficit (2010 £3 7m deficit) The Group's rail business participates in the Railways Pension Scheme This exposure transfers to an incoming operator in the event of a franchise termination, as has happened on the East Anglia franchise

Jez Maiden
Group Finance Director
29 February 2012

National Express has a portfolio of businesses that provide a blend of opportunities for sustainable growth, profitability and cash generation.

Risks
Risks and risk management

The Group has a well established governance structure that has responsibility for the internal control systems and reviewing their effectiveness 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,
- 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 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 review process
Each division, plus the Group function, is required to make a formal review of risks to their business objectives, assess the impact and likelihood of the risk occurring and put in place mitigating actions, processes and systems to manage the risk

Risks
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

Assessment
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

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

Monitoring and control
Risks are considered on a monthly basis at divisional level and formally updated twice a year 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

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

Risk assessment and review
The Group has a well established governance structure that has responsibility for the internal control systems and reviewing their effectiveness

Principal risks and uncertainties

Outlined below are risks that have the potential to affect the Group's performance in a material way, which are monitored through the risk management processes

Principal risks of 2011

During 2011, the Group focused on the following key areas of risk:

Risk	Assessment	Management	Year on year change
Economic conditions and austerity Difficult 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 Group has continued to grow revenue and profit in conditions of sustained high unemployment and low GDP growth	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	
Political and regulatory The Group's businesses are subject to numerous laws in the jurisdictions in which they operate, regulating the operation of concessions, safety procedures, equipment specifications, employment requirements, environmental procedures and other operating issues	Changes in political and regulatory environments can have a significant impact on regulated public transport operators, from adding significant cost to changing the fundamental nature of a market For example, changes in UK government policy will result in material decreases in subsidies paid in 2012 for fuel and senior citizen discounts Changes to the UK Rail franchising regime are also expected	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	

Ongoing risks

The following risks are key ongoing risks within the business.

Risk	Assessment	Management	Year on year change
Fuel cost All of the Group's businesses are exposed to fuel costs – primarily Ultra Low Sulphur Diesel for buses and coaches Fuel prices are subject to significant volatility due to economic, political and climate circumstances	Fuel costs constitute approximately 9% 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 36	
Insurance and claims The Group's policy is to self-insure a number of potential claims within its business	There is a risk that a successful claim or series of successful claims may result in substantial higher charges to profit and cash outflow than expected	Throughout the business a strong safety culture prevails, led by the Board Safety & 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	

Risk	Assessment	Management	Year on year change
Credit risk As contractual operations, the North American and Spanish 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, during 2011 one principal urban council became slower to pay outstanding debts, prompted by issues related to local and federal elections, as well as financial constraints The total days outstanding balance is not significantly higher than normal levels	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 This provision increased during the year to reflect the overall balance increase Additional contractual terms for interest accrual and repayment of outstanding balances were agreed with the major debtors We also anticipate the new federal government will provide credit funding to assist some degree of clearance of long term debt	
Currency The Group's exposure to overseas earnings through its Spanish and North American operations creates a risk that movement in exchange rates may adversely impact translation of profit and cash flows together with Group gearing	The potential impact is limited to the translation of cash flows and balance sheet assets and liabilities. The Group currently pays interest on mainly Sterling denominated debt During 2011 currency fluctuations were relatively small	The Group uses limited overseas debt and currency swaps to reduce the impact and mitigate the risk In addition, Management has flexibility to adjust its Group capital allocation decisions to focus on its highly cash generative UK businesses The Board has also considered options for the Group in the event of a break up of the Eurozone and policies are in place to minimise exposure to this possibility	

Risk	Assessment	Management	Year on year change
Contractual Much of the Group's business is secured through winning contracts and concessions, particularly in its North American school bus business, in Spain and in UK Rail	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 UK Rail	

Corporate responsibility at National Express Group

National Express is fortunate as there is a coincidence of benefit in what we do. What is good for our customers is good for our business and good for society. We are a private sector company that provides public services. The better the services we provide, the more people use them, benefiting the environment and our economies as well as our shareholders.

Our Vision and Values are fundamental to who we are as a business and as an active corporate citizen We know that a safe business is a better business, as it will be run more effectively than an unsafe one Reducing greenhouse gas emissions makes sense – commercially as well as environmentally Investing in people builds stability and loyalty Customer service excellence is both right and helps grow our business

We have defined our values to focus on four areas ensuring the safety of our customers, our employees and the public generally, trying harder than anyone else for our customers, enabling our people to reach their full potential and give their best, and advancing the social, environmental and economic conditions of the communities in which we operate

Corporate responsibility for National Express is living these values

Safety
Nothing matters more than safety It is our number one priority, and our ambition is to have the best safety record in the transport sector

In 2010 we developed a five-year, Group-wide safety improvement programme called Driving Out Harm The approach we are taking is rigorous and the standards we are setting are high – for example, the introduction of Alcolocks on our coaches These breathalyser devices prevent the vehicle from starting until the driver has successfully passed a breath test The limit we are using is exceptionally low – more than four times lower than the legal drink-driving limit – and, during 2011, we completed more than 50,000 tests a month in UK Coach alone

Driving Out Harm is a major culture change programme, and for any such initiative to succeed requires visible commitment from the top Driving Out Harm is being led by our Chief Executive, and during 2011 the frequency of site safety visits by senior managers tripled from four a year to one a month Furthermore, all line managers throughout the Group have now completed formal training designed to equip them to manage the improvements in our safety performance

At the end of the year our new safety management arrangements were independently reviewed by the leading safety consultancy company, Arthur D Little They found that the programme had 'achieved all that was expected so far' and that 'commitment to and strong leadership of safety is evident, and awareness of Driving Out Harm among the workforce is high'

Overall performance against most of our key indicators was better in 2011 than in 2010 across all divisions and geographies Particularly marked improvements were seen in the second half as the impact of the safety programme – still in its first year – began to be felt

The programme is intended to deliver a 50% improvement in safety performance in the five years to 2016 Each of our businesses has annual targets and safety plans which provide both short-term focus and a strategic mechanism for achieving our longer term goal

Edward Dacey, driver
National Express

At the start of every shift, and after every break, coach driver Edward Dacey blows in to his Alcolock system to enable him to start his coach. "The system gives me and my customers the assurance that I am safe to drive," said Edward. The Alcolock system, which is centrally monitored, is now fitted to all National Express coaches and performs thousands of breath checks each day.

Safety KPIs 2011	Signals passed at danger per million train miles	Lost time employee injuries per 1,000 full-time equivalent employees	Preventable vehicle accidents per million miles
Spain			
North America			
UK Bus			
UK Coach			
UK Rail			
NXEA			
c2c			

Living our values Corporate responsibility at National Express Group continued

Customers

Service is at the core of our business The better the service we provide the more likely people are to switch to us either from our competitors or from their cars Our vision is to create real customer loyalty We want people to travel with us as often as possible Increasing customer satisfaction will increase our revenue

So, by the end of 2014 we aim to be the customer service leader in the transport sector, as part of a longer term plan to be a provider of world-class service by the end of 2017

While this is an ambitious target we are starting from a fairly high base Recent research from the Institute of Customer Services indicates that National Express in the UK is already considered to be a top quartile service provider across all industries, with UK Coach second only to Virgin Atlantic in the transport sector

Even world-class service is not rocket science It is about delivering the basics well – but doing it every single time It is about politeness as well as punctuality, making sure that toilets are clean, that our staff are knowledgeable and helpful, that they smile – and mean it We aim to provide service of great consistency so that customers feel they are getting exceptional value for money when weighing the price that they pay with the experience that they have

During 2011 we put in place the tools to help deliver excellence Group-wide service standards have been launched and action plans developed for staff at all levels of each of our businesses We have begun a rolling audit programme at our coach stations, assessing behaviour as well as infrastructure Progress against our KPIs will be reported to the Group Executive every month

People

2011 saw the launch of the Group's vision for its people

- enabling them to reach their full potential and to give their best as individuals and in teams, and
- behave towards each other with the same respect and dignity that we expect for ourselves

We launched five standards and supporting programmes relating to recruitment, induction, performance and talent management and to workplace rights These are designed to modernise the management culture of the Group and ensure that at every level of the organisation we get the right people in the right jobs doing the right things in the right ways We conduct regular surveys of employee opinion to keep in touch with the views and feelings of our people

As part of the talent management programme, each of our top 100 managers has been given an individual development plan, with over half of this cadre also receiving highly tailored one-to-one coaching

Emergency and scheduled succession plans have been established for all of our senior positions In addition we now have around 100 people – generally frontline managers – on our high potential programme as a means of growing our own senior managers of the future

During 2011, we also developed a rigorous performance management process and a management blueprint which defined what we want managers to do – and not to do The intention is to encourage a specific set of behaviours that, in turn, will improve levels of workforce engagement

In 2012 we will be extending our talent management training to include all managers, from frontline supervisors upwards

UK greenhouse gas emissions tCO_2e

tCO_2e Tonnes of carbon dioxide equivalent

Site energy usage UK Bus

55%

reduction in gas consumption

19%

reduction in electricity consumption

Recycling: c2c

87%

On-train waste

96%

Station waste

**Raj Bhutta,
driving training instructor
National Express**

Raj Bhutta is a driving training instructor for National Express in Walsall. Last April he swapped the West Midlands for Tanzania to work with the charity Transaid, training local bus drivers to be driving instructors. "Some Tanzanian bus drivers don't even have a licence!" Raj says. "But the quality of our trainees was high and they really embraced our efforts It was a fantastic experience."

Community
Our 2011 environmental performance is something we are proud of

Our new Birmingham coach station, for example, is the only one in the country to be accredited to the BREEAM Excellent standard BREEAM is the world's leading design and assessment method for sustainable building We are aiming to achieve the same rating for all new developments, which will include two new bus garages and a coach garage in the next two years Our intention is that these new developments will have zero net CO_2 emissions and will therefore be carbon neutral This will be achieved by investment in energy efficiency measures including smart meters, building insulation, and on-site renewable energy regeneration

We are also working with the Chartered Institution of Building Services Engineers and Liverpool John Moores University to create a system for the rail industry to benchmark property efficiency and sustainability No such system currently exists

Investment in our c2c rail business has already seen us become the industry leader in energy efficiency and in waste recycling – and coaches are the greenest form of transport We have medium-term targets for reducing our carbon emissions – and deliberately so We believe medium-term targets are more meaningful than targets set many years hence, and make us more accountable During 2011 we installed voltage optimisation equipment at all of our bus garages, which has resulted in a saving of 1 million kWh or 19% of the electricity used at these sites, and almost 550 tonnes of CO_2 a year

Gas consumption has fallen even more steeply Installing automated gas control systems at our bus garages saved almost 2,200 tonnes of CO_2 and cut gas usage by 55% We are now looking to roll this out to our coach and rail operations

As well as emitting significantly less carbon than other modes of transport, our buses, coaches and trains significantly reduce congestion – and its economic cost For example, a third of all commuters in Birmingham travel on National Express operated buses If they were to drive instead, that would add a traffic jam equivalent to the distance between Birmingham and Moscow

National Express is an international business, and takes its community responsibilities seriously wherever it operates Across the Group, more than 100 community organisations and charities were supported, either through a donation or support in kind A total of £228,000 was donated to charities during the year

In Morocco, for example, we are supporting a UNICEF project which focuses on improving the care offered to mothers and newborn children with the aim of reducing neonatal mortality

In the USA, 14 of our school bus fleets have achieved Green School Bus Fleet Certification from the National School Transportation Association This is the only programme of its kind to recognise school transportation companies for providing environmentally responsible transportation through the use of new technologies

Throughout our North American operations we launched an Adopt-a-School programme in 2011 This has seen our employees volunteering to help schools in their communities from New York to New Mexico, California to South Carolina, and Oklahoma to Ontario

The range of activities varies greatly, from collecting food, clothing and toys for needy families to taking part in reading programmes But they are all based on finding ways to build strong relationships with our communities and our customers

In the UK, our Employee Charity Panel continues to encourage staff to get involved in the community, with a total of £20,000 donated during the year

Overall, we made real progress across our community agenda during 2011, and have the structures in place to do even better in 2012

Across the Group, more than 100 community organisations and charities were supported, either through a donation or support in kind.

Quick reference guide to the contents of the Governance section

John Devaney

Dear shareholder

2011 was another successful year for National Express and another year during which we saw an ever increasing focus on standards of corporate governance. The Board as a whole recognises that good governance results in a good business and goes further than simply following a series of rules. At National Express we seek to make good governance an integral part of our business philosophy

In the following section of this report we have sought to give a clear description of our Board and committee structure and the processes that support it which are at the heart of good governance I have asked my colleagues who chair our various Board committees to highlight for you some of the work that has been undertaken by the Committees during the year Their reviews follow later in this report In this letter I would like to deal with some issues that I mentioned in my letter to you last year

Refreshment of the Board

During 2011 we have continued and accelerated the process of Board refreshment After carefully reviewing the appropriate balance of skills, expertise, experience and knowledge required by the Company we conducted a search, using two firms of independent search consultants, for two new Non-Executive Directors with international experience Such was the quality of the candidates whom we encountered, we decided finally to appoint three new, independent Non-Executives to the Board, Chris Muntwyler, Joaquin Ayuso and Lee Sander These appointments have increased the diversity of the Board and enhanced both its continental European and North American experience In June 2011 Roger Devlin decided to step down as a Non-Executive Director and I would like to thank Roger for his tremendous contributions during his time on the Board The arrival of three new Non-Executives has been a significant change which it is my duty to manage The new Board has developed well and we will continue to monitor the balance of skills and experience on the Board to ensure that it meets the changing needs of the business

Other committee letters

My colleagues chairing other Board committees provide an overview of their activities this year as well These can be found as follows

Audit Committee p54
Nomination Committee p56
Safety & Environment Committee p57
Remuneration Committee p58

For more information on Corporate Governance and our Board of Directors, please go to **nationalexpressgroup.com/aboutus/corporategovernance**

Board gender split 2011

Male	90%
Female	10%

Board gender split – target 2015

Male	70%
Female	30%

Diversity

On the more general issue of gender diversity, the Nomination Committee of the Board has reviewed the report of Lord Davies published in February 2011 on Board Room Diversity National Express is determined to ensure that all people – regardless of background or gender – are well represented at all levels of our business Not only is that the right thing to do, it is also good business practice Therefore, while maintaining our existing policy of selecting the best available candidates for any position, National Express is content to set the aspirational target that by 2015, 30% of its Board will be women, in line with the recommendations of the Davies Report

At National Express we seek to make good governance an integral part of our business philosophy.

Review of Board performance

During 2011 the Board has conducted an externally facilitated review of its effectiveness which is reported on in more detail in the following sections of this report For us, the use of an external facilitator has been a positive one An externally facilitated evaluation is not an opportunity for the Company to be told by a third party what it should or should not be doing Rather, it is more about providing a process through which Directors can speak candidly at length to our facilitator and in doing so analyse our performance over the past year The facilitator presents his findings to the Board and it is then the Board's collective responsibility to discuss this and agree any actions required to improve our effectiveness

UK Corporate Governance Code

For the first time this year we will be reporting against the UK Corporate Governance Code that was brought into effect in May 2010

John Devaney
Chairman
29 February 2012

Chris Muntwyler – on the road

Chris Muntwyler, Chairman of the Safety Committee for National Express, visited UK operations for three days as part of his induction programme The programme is aimed at developing newly appointed Directors' understanding of the business and markets, while simultaneously building relationships with Group employees and customers Being on-site offered Chris an insight into the UK Bus business's potential Although identifying prospective areas for growth are welcome outcomes of the induction programme, Chris stresses "surrounding all of this activity is our drive to improve safety"

Overview of Board of Directors

The Board is regularly reviewed to ensure that the mix of skills and experience is appropriate to meet the current needs of the Group An overview of the Directors' experience is summarised below.

John Devaney
Chairman

Dean Finch
Group Chief Executive

Jez Maiden
Group Finance Director

Joaquin Ayuso
Non-Executive Director

Miranda Curtis
Non-Executive Director

Sir Andrew Foster
Non-Executive Director

Name	Position/Committee membership	Age	Length of service (as at 31 December 2011)	Independent	Public Board experience	Operational experience
John Devaney	Chairman Nomination (Chair) Safety & Environment	65	2 years 8 months	N/A	✓	✓
Joaquin Ayuso	Safety & Environment	56	6 months	✓	✓	✓
Miranda Curtis	Remuneration (Chair) Safety & Environment	56	3 years 6 months	✓	✓	✓
Jorge Cosmen	Deputy Chairman Nomination Safety & Environment	43	6 years 1 month	N/A	✓	✓
Sir Andrew Foster	Audit Safety & Environment Nomination	67	7 years 4 months	✓	✓	✓
Chris Muntwyler	Audit Safety & Environment (Chair)	59	7 months	✓	✓	✓
Lee Sander	Remuneration Safety & Environment	55	6 months	✓		✓
Tim Score	Senior Independent Director Audit (Chair) Remuneration Safety & Environment	51	6 years 10 months	✓	✓	✓
Dean Finch	Group Chief Executive	45	1 year 10 months	N/A	✓	✓
Jez Maiden	Group Finance Director	50	3 years 1 month	N/A	✓	✓

For detailed biographies of our Board of Directors and Company Secretary, please go to **nationalexpressgroup.com/aboutus/ourmanagement**

Or refer to your **2012 Notice of AGM**

Tim Score
Senior Independent Director

Jorge Cosmen
Deputy Chairman

Chris Muntwyler
Non-Executive Director

Lee Sander
Non-Executive Director

Michael Hampson
Company Secretary

International experience	Legal/M&A experience	Finance experience	Government/ regulatory experience	Commentary
✓	✓	✓	✓	• Senior management and operational experience • Extensive Board experience at a range of major organisations • Industrial and infrastructure experience
✓	✓	✓	✓	• Significant Board experience at senior level • Extensive knowledge of the transportation industry in both continental Europe and internationally
✓	✓		✓	• Significant Board experience eg Liberty Global, Telewest and Flextech
✓	✓	✓	✓	• Expertise in transportation industry • Key shareholder representative
✓		✓	✓	• Significant public sector and infrastructure experience
✓	✓		✓	• Extensive senior management experience in transport and logistics industries both in the UK and international • Senior Board experience both UK and international
✓			✓	• Senior management and operational experience in the US transportation industry • Significant experience at US government advisory level on transportation policy and management
✓	✓	✓		• Financial expertise from CFO positions • Has acted as Interim Chairman
✓	✓	✓	✓	• Significant transportation experience • Chartered Accountant
✓	✓	✓	✓	• Significant financial expertise • Chartered Management Accountant

Corporate governance

The systems that the Board has established are designed to safeguard both the shareholders' investment and the assets of the Group

2 **The role of the Board**
The Board leads and controls the Group within a sound governance framework The Board is responsible for setting the Group's strategic aims, its values and standards and ensuring the necessary financial and human resources are in place to achieve its goals To help discharge its key responsibilities the Board has a defined list of key governance and business matters for which it is responsible, as summarised opposite

In addition to the matters above, which form the core of the Board's agenda the timeline on pages 52 to 53 shows the main items of business addressed by the Board during the year

3 **The structure of the Board**
The Board consists of a 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 A summary of the members of the Board including the mix of skills and experience each Director brings to the Board is given on pages 46 to 47 and full biographical details are included in the Notice of AGM

The full terms of reference of the principal Committees are available on the Company's website at **nationalexpressgroup.com**

4 **Key governance and business matters**

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 structure
- 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 major accounting policies
- 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 Group's businesses against plan and budget
- Approval of major capital expenditure projects
- Approval of material contracts

Board Membership, Remuneration and Committees
- Approval of the Company's remuneration policy and principles
- Appointments of Directors
- Approval of remuneration of the Executive and Non-Executive Directors and senior management
- Approval of the Chairman's fees
- Setting of committee terms of reference
- Approval of new share incentive plans

Corporate Governance
- Undertaking of formal performance reviews of Board, committee 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

Management structure
The main committees of the Board are the Audit, Safety & Environment, Remuneration and Nomination Committees

The UK, Spain and North America Executives report to the Group Executive Committee

Board Committee

Executive Committee

5 **Independence**
The Board considers all of the Non-Executives to be independent other than Jorge Cosmen and considered John Devaney 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 Non-Executive Directors do not participate in any of the Company's share option or bonus schemes and their service is non-pensionable

6 **Principal committees of the Board**
The principal committees established by the Board are the Audit Committee, the Remuneration Committee, the Nomination Committee and the Safety & Environment Committee Each Committee has defined terms of reference and reports on its proceedings to the Board In addition there is an Executive Committee with authority to approve routine matters of business and a Tax and Treasury Committee which reviews the Group's tax planning, banking facilities and treasury reports All of the 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 Company in order to perform their duties The full terms of reference of the principal Committees are available on the Company's website at nationalexpressgroup com

The UK, Spain and North America Executives meet on a monthly basis and matters dealt with at these meetings are reported to the Group Executive Committee

The members of each principal Committee and main duties are shown in each Committee report on pages 54 to 58 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

Composition of the Board

Executive Directors	2
Non-Executive Directors	2
Independent Non-Executive Directors	6

Board meetings	The Board of Directors	Audit Committee	Nomination Committee	Remuneration Committee	Safety & Environment Committee
Total meetings in 2011	11	4	5	3	4
Executive Directors					
Dean Finch, Group Chief Executive	11	–	–	–	–
Jez Maiden, Group Finance Director	11	–	–	–	–
Non-Executive Directors					
John Devaney	11	–	5	–	4
Joaquin Ayuso[2]	3 (5)	–	–	–	1 (2)
Jorge Cosmen	11	–	5	–	4
Miranda Curtis	11	–	–	3	4
Roger Devlin[1]	6 (7)	1 (2)	–	1 (1)	2 (2)
Sir Andrew Foster	11	4	5	–	4
Chris Muntwyler[3]	5 (6)	1 (1)	–	–	3 (3)
Lee Sander[2]	3 (5)	–	–	1 (1)	1 (2)
Tim Score[4]	10 (11)	4	–	3	4

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

1 Resigned from the Board on 28 June 2011 Maximum possible meetings shown in brackets
2 Appointed to the Board on 1 June 2011 Maximum possible meetings shown in brackets
3 Appointed to the Board on 11 May 2011 Maximum possible meetings shown in brackets
4 Tim Score was unable to attend an unscheduled Board meeting on 8 September 2011 due to a prior engagement

Seeing the front line by Sir Andrew Foster

Non-Executive Directors spend masses of time reading Board papers and helping to develop strategy and challenge performance

All valuable stuff, but it can be much helped by seeing the sharp end of service delivery I visited our school yellow bus service centre in Chicago meeting drivers, mechanics, dispatchers, safety trainers and managers Nothing beats chatting with the staff, understanding operational issues, safety concerns and how to link well with students and schools There was tremendous spirit and motivation behind their work to renew their contract

After this, I spent a day with ten CEOs of School Boards, talking about how our student transport services could be improved School Boards are squeezed financially and are seeking sustained service levels at lower cost It was satisfying to explore joint ways we can work through tough economic times protecting safe service delivery

The chance to meet front line staff, students and CEOs, adds to report understanding and demonstrates support both ways A number of staff commented "It is good to know that there is real interest and understanding at board level"

7 The Chairman and the Group Chief Executive

The roles of Chairman and Group Chief Executive are held separately The Chairman is responsible for leading the Board and ensuring its effectiveness The Group Chief Executive is responsible for the leadership of the Group and implementation of the strategy and policies adopted by the Board The division of responsibilities between the Chairman and Group Chief Executive is shown in the table below

8 Senior Independent Director

The Board appoints one of the Non-Executive Directors to act as Senior Independent Director and this role has been held by Tim Score since April 2009 The role of the Senior Independent Director is to provide a sounding board for the Chairman and to serve as an intermediary for the other Directors where necessary The Senior Independent Director is also available to address shareholders' concerns if they have been unable to resolve these through normal channels or when such channels would be inappropriate During the year the Senior Independent Director has discussed the performance of the Chairman with the Non-Executive Directors and has participated in meetings with significant institutional investors

9 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, involving the Executive Directors and senior management from the divisions are held regularly to discuss current issues

10 Information and professional development

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 give presentations to the Board on significant matters during the year

Under the direction of the Chairman, the Company Secretary is responsible for ensuring Board procedures are followed and applicable rules and regulations are complied with and advises the Board on governance matters All Directors have access to the advice and services of the Company Secretary and the appointment or removal of the Company Secretary is a matter for the Board as a whole There is a procedure in place for any Director to take independent professional advice where considered necessary

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 aims of which are to

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
- ensuring there is an effective contribution from the Non-Executive Directors and a constructive relationship between the Executive and Non-Executive Directors

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
- liaising with the Chairman to ensure effective dialogue with investors and stakeholders

- build an understanding of the nature of the Company, its business 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

For example, as part of Chris Muntwyler's introduction to the Group, he spent three days visiting UK operations

11 **Performance evaluation**
Formal evaluation of the Board's performance is periodically carried out An internal evaluation was commenced in late 2010 and completed in the first quarter of 2011 The Board review concluded that generally the Board was considered to be working very well The Board felt that it was receiving high quality information to aid its decision-making both in terms of the Board papers and specialist information provided Board Committees were also felt to be generally well-managed The findings of the evaluation report resulted in a number of recommendations for improvement in the way the Board operates, examples of which are shown in the table below

In late 2011 the Board commenced an externally facilitated Board review process Structured meetings were held with each Non-Executive Director and the Company Secretary and during the meetings the following areas were considered

- balance of skills and experience,
- independence and knowledge of the Company,
- diversity including gender,
- how the Board works together as a unit, and
- other factors relevant to its effectiveness

Following this, individual draft meeting reports were circulated for individual Directors to sign A draft omnibus report was then prepared for discussion by the Chairman and Company Secretary prior to submission of a final report for debate at the Board Action plans are being developed based on the outcome of the evaluation process and the recommendations and outcomes arising from the evaluation process will be reported on in next year's Annual Report

12 **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 announcement, the Notice of AGM, 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 simultaneously available on the Company's website nationalexpressgroup com

The Company's website houses wide-ranging 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 In 2011 the Company held an Analyst and Investor event in Madrid as well as hosting a visit to school bus operations in the USA

The Company has introduced an electronic communications facility to enable shareholders to receive documentation such as the Annual Report and Accounts electronically and also to cast their votes by proxy electronically The Company has also introduced an electronic proxy appointment service for CREST members

13 **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

Areas for improvement	Actions taken
• The 2012 schedule of Board meetings should be reviewed to ensure a more regular pattern and a closer link to the Company's reporting and events calendar	A review was undertaken and the schedule of meetings was adjusted as proposed
• Additional Non-Executive Directors should be appointed to the Board to add North American and European experience and expertise and strengthen the breadth of skills and experience around the Board table	Search consultants were briefed and a shortlist of candidates was drawn up Three high-calibre candidates were identified and appointed as Non-Executive Directors to the Board Chris Muntwyler (appointed 11 May 2011), Joaquin Ayuso (appointed 1 June 2011) and Lee Sander (appointed 1 June 2011)
• Board papers should be circulated at least four days prior to the meeting (two of which must be working days)	Board papers are now circulated according to the recommendation, electronic dissemination of Board papers is currently being trialled
• Board members should not schedule other meetings on Board days to remove some pressure from the schedule and enable time to be allocated to Non-Executive Directors to meet on their own in advance of Board meetings	Board members are scheduling their commitments according to the recommendation

Corporate governance continued

The Board has a regular schedule of meetings and convenes additional meetings as required. Details of the number of meetings held and attendance at these meetings is on page 49. The average attendance rate of the members of the Board in 2011 was 93%.

Board activity throughout the year

2011 January
- Review of Strategic five-year plan

2011 February
- Presentation on UK Bus business
- Review of Non-Executive Directors' fees
- Review of Board and Committee terms of reference
- Review of dividend policy
- Approval of full year results Recommendation of final dividend

2011 March

2011 April
- Visit to Spain and meetings with local management Presentation on Spanish Business
- Internal review of Board effectiveness
- Consideration of shortlisted Non-Executive Director candidates
- Pre-AGM engagement with major shareholders

2011 May
- Appointment of Chris Muntwyler as a Non-Executive Director
- Review and approval of Group Anti-Bribery Act Policy
- Approval of appointment of new Auditor, Deloitte LLP

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 receives a presentation at each of its meetings from either a business Managing Director or a functional head

For more information on our strategy, please go to **nationalexpressgroup.com/investors**

Non-Executive Directors are also given the opportunity to meet institutional shareholders and are available by contact through the normal channels During 2011 the Chairman and Senior Independent Director have both 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

14 **Analyst coverage**

The Company is aware of 21 analysts who have published equity research notes covering National Express Group PLC during 2011 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 by telephone or through our website at nationalexpressgroup com 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 (shareview co uk) which enables shareholders to view and manage their shareholder account online

15 **Annual General Meeting**

Notice of the AGM and related papers are sent to shareholders at least 20 working days before the meeting Last year's AGM included a presentation by the Group Chief Executive on the progress of the business and an opportunity for shareholders to ask questions All 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 85% of the shares in issue were voted and the resolutions were passed The results are published on the Group's website shortly after the meeting

We look forward to welcoming shareholders to our 2012 AGM and updating them on the progress of the business this year

Key to Board business

- Group Strategy and Risk Management
- Financial and internal controls
- Board membership, Remuneration and Committees
- Corporate Governance
- Review and approval of Group policies

2011 June

- Presentation on North American Business
- Review of potential acquisition, pricing and due diligence and approval to proceed
- Review of Board committee membership
- Review of pre-close statement for half year results
- Appointments of Joaquin Ayuso and Lee Sander as Non-Executive Directors

2011 July

- Proposal for interim dividend
- Review of Spanish fleet replacement programme
- Update on Group Staff Pension Plan
  Treasury Policy update
  Review of half-year financial statements

2011 August

2011 September

- Review of proposal to acquire Petermann and approval to proceed
- Review of North American Business
- Review of opportunities in German Rail Market
- Review of Group insurances/structure

2011 October

2011 November

- Review and approval 2012 budget
- Review of Non-Executive Director fees (excluding the Chairman)
- Review of Executive Directors' and senior executives' salaries

16 Major shareholdings

As at 29 February 2012, 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
Elliott International LP Liverpool Ltd Partnership	97,269,654	19.07	Direct
European Express Enterprises Ltd	87,095,062	17.08	Direct
Prudential Plc	61,189,177	11.99	Direct
Legal and General Group Plc	18,564,889	3.64	Direct
Norges Bank	15,309,775	3.00	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 66

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Analysis of ordinary shareholdings at 29 February 2012	Number of accounts	Percentage of total number of accounts	Number of shares	Percentage of ordinary capital
By size of holding				
1-500	6,712	48.47	989,929	0.19
501-1,000	1,782	12.87	1,400,537	0.27
1,001-5,000	3,669	26.50	8,498,369	1.66
5,001-50,000	1,452	10.49	16,962,385	3.32
50,001-1,000,000	169	1.22	40,970,053	8.01
Over 1,000,000	62	0.45	442,904,753	86.55
	13,846	**100.00**	**511,726,026**	**100.00**
By investor type				
Individuals	13,004	93.92	25,203,485	4.92
Institutional investors	734	5.30	469,126,475	91.68
Other corporate investors	108	0.78	17,396,066	3.40
	13,846	**100.00**	**511,726,026**	**100.00**

Audit Committee overview

Tim Score

The Audit Committee is confident that the Group has a well-established governance structure with full control and direction over appropriate strategic, financial, operational and compliance issues

Main activities during the year
During the year the Committee considered the following

- oversight of the tender and selection process for the role of external auditor
- review of compliance with the UK Corporate Governance Code
- review and update of the Committee's terms of reference
- approval of the Group's Anti-Bribery Policy
- review of the Group Risk Register
- review of UK Data Protection Act Compliance
- review and update of Policy on Provision of Audit and Non-Audit Services
- consideration of the results of internal audit compliance testing of financial controls (Annual Fitness Checks) within the subsidiaries
- review of the external auditor's fees
- review of financial accounts and accounting policies

Dear shareholder

2011 has seen the Company continue to build upon the progress made in 2010 as reflected in the results presented to you in this document.

Given the length of time since the role of external auditor had been put out to tender, it was agreed that the time was opportune to tender the position early in 2011 An invitation to tender was issued to four major accounting firms and following this process Deloitte LLP was appointed as the Company's auditor on 14 June 2011 following the resignation of Ernst and Young LLP on 10 June 2011

The Audit Committee, supported by senior management, conducted a rigorous tender process focussing on quality, resources, independence and value The tendering firms were invited to put forward a proposal to the Audit Committee, following briefing meetings with key management and the Audit Committee Chairman Following the review of these proposals by management and the Audit Committee Chairman and after careful consideration, the Audit Committee concluded that the proposal from Deloitte LLP was the best overall in terms of quality, resources, independence and value and would better meet the Group's requirements for external audit services going forward

The Audit Committee therefore recommended to the Board that Deloitte LLP be appointed as the Group's external auditor

The Committee has no set policy on the tendering frequency of their external auditor or of the tenure of their external auditor but will ensure that good corporate governance is maintained and that the Committee is regularly considering the marketplace, benchmarking the current level of service the Company receives along with the fees they pay and the value being delivered There were no contractual obligations that acted to restrict the Committee's choice of external auditor

I would like to take this opportunity to thank Ernst & Young for their many years of excellent service to the Company and to welcome Deloitte as the Company's auditor

In 2011 the Committee dealt with its usual programme of business as well as a range of new issues such as the Company's new Anti-Bribery Policy, envisaged in my letter to you last year, to ensure compliance with the Bribery Act 2010 This policy, together with new whistle blowing arrangements, is now in place and compliance with the policy will be monitored going forward

For the first time in a number of years there has been a change to the membership of the Committee following Roger Devlin's retirement from the Board Chris Muntwyler has joined the Committee bringing it back to full strength and keeping it in compliance with the UK Corporate Governance Code

Tim Score
Audit Committee Chairman
29 February 2012

Audit Committee

Name of Director	Position
Tim Score	Chairman, Senior Independent Director
Roger Devlin	Non-Executive Director (resigned 28 June 2011)
Sir Andrew Foster	Non-Executive Director
Chris Muntwyler	Non-Executive Director (appointed 21 November 2011)

The Role of the Audit Committee

The duties of the Committee are those delegated to it by its terms of reference, details of which are summarised below

- oversees the process for selecting the external auditor, assesses the continuing independence of the external auditor and recommends approval of the audit fee to the Board,
- responsible for ensuring that provision of non-audit services does not impair the external auditor's independence or objectivity,
- discusses with the external auditor the nature and scope of the audit and any issues or concerns arising from the audit process,
- reviews 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
- reviews the half-year and annual financial statements including accounting judgements and policies

The Committee met four times in 2011

The Committee's agenda reflects the duties delegated to it by its terms of reference There are a number of standing items considered 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 announcements, and review of the Corporate Governance Report

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 Outside of the meeting process the Committee Chairman has regular contact with the Executive Directors, other Committee members and the auditors on a variety of topics

Review of independence of external auditor

The Audit Committee assesses and reviews on a regular basis the independence 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

Policy on auditor providing non-audit work

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 auditing firm is best placed to provide an effective and efficient service, given its familiarity with 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 These items the Committee believes would be impractical and costly to provide through another party

John Devaney

All candidates for Board positions participate in a proper evaluation process managed by the Nomination Committee to ensure that the best candidates are appointed

Dear shareholder

2011 has been a busy year for the Nomination Committee. In the early part of the year, as indicated in my letter to you last year, the Committee reviewed the existing balance of skills and experience on the Board and concluded that additional expertise of Continental European and North American markets would further strengthen the Board going forward.

The Committee then undertook an externally facilitated search process to identify suitable candidates I am pleased to report to you that the search was successful in identifying three exceptional candidates in Joaquín Ayuso, Chris Muntwyler and Lee Sander, all of whom we have now appointed as independent Non-Executive Directors of your Company

The Committee has also undertaken further work on reviewing the succession plans for the senior executive roles within the Company's management together with the development plans in place for such executives to seek to ensure that, when the need arises, good internal candidates are available to compete for Board and senior management positions

We have also considered the issue of diversity this year The Committee has recommended to the Board that it should retain its existing policy of seeking to find the very best candidate for any Board level position, irrespective of the gender of that candidate However, the Committee recognises that diversity at Board level is a positive thing and so the Board has set an aspirational target that by 2015, 30% of its members will be women, in line with the recommendations of the Davies Report published in early 2011

In 2012 the Committee will continue to assess the balance of skills, experience, knowledge and expertise of the Board to ensure it continues to meet the needs of the Company going forward

John Devaney
Nomination Committee Chairman
29 February 2012

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 role of Non-Executive Director
- appointed search consultants to identify a shortlist of candidates for the role of Non-Executive Director and interviewed candidates, following which three candidates were recommended for appointment, Joaquín Ayuso, Chris Muntwyler and Lee Sander
- considered Lord Davies' report on Diversity, published in February 2011 and recommended the Board adopt the aspirational target that by 2015 30% of the Board should be women
- the Chairman, as Chairman of the Nomination Committee appointed search consultants to draw up a shortlist of candidates for the role of Group Company Secretary and interviewed candidates, following which Michael Hampson was appointed on 30 January 2012
- reviewed succession planning across the Group

Nomination Committee

Name of Director	Position
John Devaney	Chairman
Sir Andrew Foster	Non-Executive Director
Jorge Cosmen	Non-Executive Director

The Role of the Nomination Committee

The key responsibilities of the Nomination Committee are summarised below

- responsible for identifying and nominating, for the approval of the Board, candidates to fill Board vacancies as and when they arise,
- gives full consideration to succession planning, and keeps under review the leadership needs of the organisation, both Executive and Non-Executive,
- reviews the time required from a Non-Executive Director and uses performance evaluation to assess whether the Non-Executive Director is spending enough time on fulfilling their duties,
- leads the process for Board appointments and makes recommendations to the Board, and
- prepares a description of the role and requirements for any particular appointment based on its evaluation of the Board as a whole

The terms and conditions of appointment of the Non-Executive Directors are available for inspection at the Company's registered office during normal business hours and at the AGM of the Company and are available on the Company's website The Non-Executive Directors disclose to the Board their other significant commitments The procedures adopted by the Company in relation to Directors' conflicts of interest are detailed on page 72

External advisors are appointed when recruiting Board members, they use as a basis for their search a description of the role and capabilities required for a particular appointment proposed by the Nomination Committee

Safety & Environment Committee overview

Chris Muntwyler

Safety is important in any business but it is particularly so in this Company Seeking to ensure the safety of our employees and customers is both morally and financially correct.

Main activities during the year
During the year the Committee

- approved the launch of the Group's Global Safety Standards
- reviewed progress on implementation of the Group's Driving out Harm Initiative
- commissioned an independent review of safety in Morocco and monitored its recommendations
- visited Group locations to review safety practices and procedures
- reviewed the Group's Environment Strategy Plan
- considered the Group's safety KPIs

Dear shareholder

I have recently taken over the chair of the Safety & Environment Committee and would like to thank Miranda Curtis for overseeing the many initiatives that were commenced during her time as Chair of this Committee.

Safety is important in any business but it is particularly so in this Company Seeking to ensure the safety of our employees and customers is both morally and financially correct It is for this reason that the Board has a special committee dedicated to this issue In my view it is imperative that leadership from the top is shown in this area if a concern for safety is to be taken seriously within a business, and I would like to commend Dean Finch for the leadership he and his executive team have shown in keeping this issue at the very top of the Company's agenda

During 2011 the Committee has been monitoring the progress of the 'Driving Out Harm' programme referred to by Miranda in her letter to you last year Excellent progress has been made in many areas and the Committee is committed to ensuring that this progress is consolidated and built upon

The Committee has once again this year been paying particular attention to the Company's operations in Morocco which, in some regards, present the most challenges from a safety perspective I am pleased to report that the recommendations of the original Arthur D Little (ADL) review referred to last year have now been fully implemented and a further review and audit undertaken by ADL, showed significant progress made by the management team in improving driver competence

During the year the Committee also approved a new environmental policy for the Group and reviewed plans for a new corporate environmental framework

Chris Muntwyler
Safety & Environment Committee Chairman
29 February 2012

Safety & Environment Committee

Name of Director	Position
Chris Muntwyler	Chairman (appointed 25 July 2011)
Miranda Curtis	Non-Executive Director
Jorge Cosmen	Non-Executive Director
Roger Devlin	Non-Executive Director (resigned 28 June 2011)
John Devaney	Non-Executive Director
Sir Andrew Foster	Non-Executive Director
Tim Score	Senior Independent Director

The Role of the Safety & Environment Committee

The key responsibilities of the Committee are summarised below

- responsible 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,
- reports periodically to the Board its observations on the safety management arrangements in place and reviews and makes recommendations to the Board on any specific safety management issues relating to the Group or any subsidiary company, and
- reviews and monitors the Company's environmental performance and targets

Miranda Curtis

We are very aware of the continuing need to ensure the Company's remuneration policies and practices are in line with best practice whilst at the same time ensuring that our highly regarded management team are retained and rewarded appropriately

Dear shareholder

This is my first letter to you as Chairman of the Remuneration Committee, a role I took over when Roger Devlin left the Board during 2011. I would like to thank Roger for his contribution during his time as Chair of the Committee.

As in previous years the Committee has been very conscious of the continuing focus of both individual and institutional investors on the issue of executive remuneration. I and my fellow Non-Executive Directors on the Remuneration Committee are very aware of the continuing need to ensure the Company's remuneration policies and practices are in line with best practice whilst at the same time ensuring that our highly regarded management team are retained and rewarded appropriately for the delivery of the Company's strategic objectives

This year the Committee did undertake its usual review of remuneration (including considering the results of an independent benchmarking of executive salaries and the Non-Executive Chairman's fees) However, in view of the current macro-economic environment in which we are operating and the Company's determination to control costs, all Board members, both executive and non-executive, have decided to freeze their current salary and fee levels for 2012 notwithstanding the potential for increases noted as a result of the Committee's review process

The Committee considers that the bonuses awarded to the Executive Directors for 2011 to be justified given the Company's financial performance in 2011 Bonuses were paid at 100% of the maximum for the Chief Executive and 100% of the maximum for the Finance Director with these bonuses arising as a result of a growth in normalised profit of 10%, continuing improvement in the Group's margin and the substantial progress achieved against specific key strategic objectives

With regard to future remuneration policy, the Committee believes that the long term incentive and bonus structures agreed for 2012 to be appropriate and as such will properly incentivise the Executive Directors to achieve the Company's mid- and short-term objectives

Miranda Curtis
Remuneration Committee Chairman
29 February 2012

Main activities during the year
During the year the Committee considered the following items of business

- Executive Directors' and senior executives' salary levels
- annual bonus scheme terms for 2011
- review of the Non-Executive fees
- performance targets to apply to the 2011 Long Term Incentive Plan awards (including the total shareholder return comparator group used and the range of earnings per share targets set)
- 2011 award levels under the Company's share plans
- recruitment packages for new senior executives
- testing of performance conditions and vesting of Long Term Incentive Plan awards granted in 2008
- Long Term Incentive Plan entitlements upon redundancy
- outline of 2012 bonus scheme

Remuneration Committee

Name of Director	Position
Miranda Curtis	Chairman
Roger Devlin	Non-Executive Director (resigned 28 June 2011)
Lee Sander	Non-Executive Director (appointed to the Committee 22 November 2011)
Tim Score	Senior Independent Director
Management attendees	
Dean Finch	Group Chief Executive
Stephen Connock MBE	Group HR Director
Michael Hampson	General Counsel and Company Secretary

Role of the Remuneration Committee
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,
- approve the remuneration and conditions of employment of the Divisional Chief Executives 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 nationalexpressgroup com

The members of the Committee who served during the year were all independent Directors

The Committee members and management attendees did not participate in any discussions directly relating to their own remuneration or performance during the year This report sets out the policy for the financial year just ended, for the forthcoming year and, subject to ongoing review, for subsequent years The report has been approved by the Board and the Remuneration Committee (the 'Committee') Shareholders will be invited to approve the report at the 2012 AGM

Advisors to the Committee
The Committee has appointed independent remuneration consultants, New Bridge Street (NBS) to advise on all aspects of senior executive remuneration 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 Corporation

18 **Remuneration of Non-Executive Directors**
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 in both cases following an annual review The review takes account of fees paid for similar positions in the market, the time commitment required from the Director (estimated to be 100 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 share option schemes

In late 2011 the Committee undertook its usual review of remuneration (including considering the results of an independent benchmarking of executive salaries and the Non-Executive Chairman's fees) However, in view of the current macro-economic environment and the Company's clear focus on cost control, all Board members, both Executive and Non-Executive, agreed to freeze their current salary and fee levels for 2012 This freeze takes place notwithstanding the potential for increases noted as a result of the Committee's normal review process In taking this decision, the Board noted the Group-wide salary increase budget which was set at 2% for 2012

19 **Remuneration policy for Executive Directors**
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

The objective of this policy is aligned with the recommendation of the UK Corporate Governance Code on Directors' remuneration That is to provide a level of remuneration 'to attract, retain and motivate Directors of the quality required to run the Company successfully, but avoid paying more than is necessary for this purpose A significant proportion of Executive Directors' remuneration should be structured so as to link rewards to corporate and individual performance '

In implementing its policy, the Committee gives full consideration to the principles set out in the UK Corporate Governance 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 A substantial proportion of the current remuneration packages of the executive directors is weighted towards long-term performance with annual bonus also the subject of part deferral into the Company's shares Clawback provisions also apply in the event of a mis-statement 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' (ABI's) 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

Remuneration of Non-Executive Directors

	2011 £	2010 £
Chairman's fee	**225,000**	225,000
Non-Executive Director basic fee	**45,500**	44,000
Senior Independent Director additional fee	**5,000**	5,000
Committee Chairman additional fee	**10,000**	7,000

(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 2011 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

20 **Fixed versus variable remuneration**

A substantial proportion of the Executive Directors' pay is performance related The charts below show the balance between fixed and performance related pay at target and maximum performance levels based on the elements of National Express's remuneration package set out overleaf Maximum performance assumes achievement of maximum bonus and full vesting of shares under the LTIP

21 **Elements of remuneration**

The components of the Executive Directors' remuneration are summarised overleaf

(i) Basic salary

The salary of individual Executive Directors is reviewed at 1 January each year Account is taken of the performance of the individual concerned, together with any change in responsibilities that may have occurred and the rates for similar roles in two comparator groups of companies The comparator groups for the 2011 financial year were (i) a group of transport/leisure sector companies and (ii) a group of companies from the FTSE Mid 250 drawn from across all sectors The constituents of each group were selected to be broadly reflective of the size (market capitalisation and turnover) and complexity of National Express at the time of completing the review For 2012 the comparator groups will be based on similar groups of transport/leisure and general sector companies drawn from the FTSE 250 when considering pay increases for 2013

In setting the Executive Directors' remuneration, due account is taken of the salary budget for the Group as a whole and the policy that is applied across all employees when setting individual salary levels In line with this policy, the performance of each Executive Director is taken into account along with the results of comparative benchmarking In light of these factors, and after taking into account broader economic conditions, salary levels are then set by the Committee As noted earlier, the Board agreed that no increases in salary or fees levels would take place for 2012 given current macro-economic conditions and the Company's clear focus on cost control

(ii) Performance related bonus

The maximum potential bonus payable to Executive Directors in 2011 was 125% of salary for Dean Finch and 112 5% of salary for Jez Maiden A maximum of 60% of salary was payable based on achievement against a sliding scale of challenging normalised profit targets (the definition of normalised profit is set out in the Glossary on page 153) and a maximum of 40% of salary was payable based on non-financial targets that encompassed customer, operational excellence and people objectives (To achieve standardisation of bonus structure across the Group the split between financial and non-financial objectives was adjusted to 60% financial objectives and 40% non-financial objectives for the Executive Directors)

The additional maximum of 25% of salary available to the Group Chief Executive and 12 5% of salary available to the Group Finance Director was payable based on achievement against a challenging sliding scale of margin improvement targets (the definition of margin is set out in the Glossary on page 153) which, along with normalised profit, reflect the key short-term financial objectives of the Group

In relation to the proportion of the bonus determined by performance against financial targets, Executive Directors receive 25% of the bonus upon achieving 95% of budget, 50% of the bonus upon achieving budget and 100% upon achieving a stretch target which, for 2011, was 110% of budget

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 In addition, no bonus in respect of non-financial performance is payable unless 95% of the Group's normalised profit budget is achieved It is a pre-condition to the award of any bonus that the Remuneration Committee has determined that there has been a material improvement in safety processes, procedures and outcomes during the year in the relevant business unit before any bonus is paid

Bonuses are subject to a 25% deferral requirement into the Company's shares for a period of one year Deferred shares are awarded under the Executive Deferred Bonus Plan (EDBP) 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 2011 bonus also included clawback provisions that require the deferred shares to be forfeited or repaid should it be necessary for the Company to restate materially its 2011 results within a two year period following the deferred bonus being awarded The proportion of the bonus that would be the subject to a clawback would depend on the extent to which the original bonus payment turned out to be false following the publication of corrected results

In terms of an overview of the 2011 bonus plan and the extent to which targets were met, this is set out in the table overleaf

22 **Summary of Executive Director's remuneration**

Element	Objective	Performance period	Policy
Basic salary	To position at a competitive level for similar roles within comparable markets	Annually	Individual pay levels (using comparable mid-market data for guidance) as appropriate are determined by reference to the individual's performance, experience in post and potential
Performance related bonus	To incentivise delivery of performance objectives	1 year	Bonus payments are based on the achievement of specified corporate (60% financial and 40% non-financial) objectives 25% subject to mandatory deferral into shares for one year from award
Pension	To provide competitive benefits in line with market practice and to act as a retention mechanism and reward long service	Ongoing	Both Executive Directors are excluded from the pension scheme and are provided with a cash alternative with which they make their own arrangements Only basic salary is pensionable
Long Term Incentive Plan	To drive performance, aid retention and align the interests of Executive Directors with shareholders	3 years	Half of any award is subject to EPS growth The remaining half is subject to the relative total shareholder return (TSR) of the Company compared against a bespoke peer group
Other benefits	To provide competitive benefits in line with market practice	Ongoing	Executive Directors receive private health and long-term sickness insurance and a cash alternative to a fully expensed car
Share ownership guidelines	To align Executive Directors with shareholders	N/A	A shareholding of 100% of current salary should be achieved within five years

As described in the table below bonuses were payable at 125% of salary for the Group Chief Executive and 112 5% of salary for the Finance Director In calculating these bonuses, the Committee considered the safety performance of the Company and concluded that a continued improvement in safety processes, procedures and outcomes during the year had been achieved

Deferred bonuses awarded in 2011 (based on performance to 31 December 2010) vested, subject to the terms of the award on 25 February 2012 as set out in the table on page 68

For 2012 bonus payments will be based on a similar structure as detailed above Any material changes to the Company's annual bonus policy for 2012 from the policy described above would, as a minimum, be disclosed and explained in next year's Directors' Remuneration Report

(iii) Pensions
Under the terms of their service agreements, Executive Directors are not entitled to become members of one of the Group pension schemes instead they receive payment of a fixed percentage of salary Dean Finch receives a 35% salary supplement and Jez Maiden receives a 25% salary supplement in lieu of pension contributions

(iv) Incentive scheme and share options
(a) Long-term incentive arrangements
The National Express Group Long Term Incentive Plan ('LTIP') was approved by shareholders at the 2005 AGM and operates as the Company's sole type of executive long-term incentive arrangement The LTIP consists of annual awards of Performance and Matching shares Details of the plan are provided below

The Committee approved minor changes to the LTIP during the year to allow a proportion of future awards to be made as approved share options under a HMRC approved option plan structure This change does not increase the gross benefit to the participant or the costs to the Company or shareholders

Performance shares
Executive Directors are eligible to receive a conditional award of shares up to an equivalent of 100% of basic salary The vesting of the award is conditional on meeting the performance conditions set out below

Matching shares
Executive Directors are also 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 pledging of shares held not already allocated to the LTIP Matching awards are made on the basis of up to two Matching shares being awarded (based on the pre-tax value of the investment) for each National Express share pledged or purchased The maximum value of investment in any year is 30% of basic salary Matching

23 **Summary of Bonus Scheme 2011**

	% of Salary	Details	Achievement
Maximum Bonus Potential	Group Chief Executive 125% Group Finance Director 112 5%	25% of bonus subject to mandatory deferral into Company shares for one year from award*	Group Chief Executive 125% and Group Finance Director 112 5%
Bonus Potential at 95% of budgeted normalised profit before tax (PBT)	15%		Proportion of normalised profit budget achieved 110% Bonuses payable at 60% of salary
On target bonus potential at 100% of budgeted normalised PBT	30%	Awarded on achieving budget	
Stretch bonus for 110% of budgeted normalised PBT	60%	Awarded on achieving a stretch target of 110% of budgeted, normalised PBT	
Margin improvement bonus potential	0% to 25% of salary Group Chief Executive 0% to 12 5% of salary Group Finance Director	Awarded by reference to challenging margin targets	Margin targets achieved** Bonuses payable at 25% of salary for Group Chief Executive and 12 5% of salary for Group Finance Director
Non-financial targets (underpinned by achievement of 95% of budgeted normalised PBT)	40%	Awarded on meeting key strategic Group objectives tailored to each Executive Director's responsibilities	Targets achieved 100% Bonuses payable at 40%

Notes

It is a pre-condition to the award of any bonus that the Remuneration Committee has determined that there has been a material improvement in safety processes, procedures and outcomes during the year in the relevant business unit before any bonus is paid

* Deferred shares would be required to be forfeited or repaid should it be necessary to restate materially the Company's 2011 results within a two year period following the award of the bonus The proportion of the bonus subject to clawback would depend on the extent to which the original bonus turned out to be false following the publication of corrected results

** Margin improvements in four out of five divisions and margins maintained in Spain against a challenging macro-economic backdrop share awards are also conditional on the performance conditions set out below

If a participant ceases employment before vesting for a 'compassionate' reason (eg redundancy, retirement, death in service, sale of business out of the Company's group) his/her awards will ordinarily vest The extent of vesting will be determined by applying the relevant performance conditions to the date of cessation and scaling back the number of shares awarded on a pro rata basis (rounded up to the next complete six month period from the date of grant) unless the Committee determines that it would be inappropriate to apply a pro rata reduction Awards lapse on cessation of employment for any other reason

24 **LTIP performance conditions**
There are normally two distinct performance conditions applying to awards of both Performance Shares and Matching Shares made

First, the performance condition attached to one-half of an award (Part 'A') is based on the Company's normalised diluted earnings per share (EPS) growth performance in excess of inflation over a fixed three-year period (three 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 three-year period relative to the TSR performance of a bespoke comparator group of transport companies taken predominantly from the FTSE Industrial Transportation and FTSE Travel & Leisure sectors The companies comprising the comparator group have been chosen on the basis of their comparability to National Express Group PLC (based on their size and scope of business operations) The Committee has retained the power in respect of this element of an award to apply an earnings underpin

There is no ability to retest either performance condition EPS and TSR have generally 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 objective of providing superior long-term returns to shareholders

For awards granted in 2011 the EPS performance conditions applying to Part A of the Awards and the TSR performance conditions applying to part B of the Awards are set out in the table below

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 table below sets out the percentage of each extant award that would have vested if the performance conditions had been tested at 31 December 2011 (without making any allowance for pro rata reduction for any period of less than three years)

Performance conditions for LTIP awards granted in 2011

Part A of Award – EPS conditions		Part B of Award – TSR conditions	
EPS for the financial year ending 31 December 2013	**Percentage of part A of the Award that vests**	**Rank of the Company's TSR (as noted above)**	**Percentage of part B of the Award that vests**
Less than 26 1p	0%	Below median	0%
26 1p	30%	Median	30%
29 3p	100%	20th percentile	100%
Between 26 1p and 29 3p	30%-100% pro rata	Between median and 20th percentile	30%-100% pro rata

Indicative percentage of LTIP awards vesting based on performance to 31 December 2011

Year of Award	TSR element[1]	EPS element[1]	Total (max 100%)
2009	85 33%	Not applicable	85 33%
2010	38 02%	37 40%	75 42%
2011	30 86%	37 50%	68 36%

1 For 2009 TSR applies to 100% of the award For 2010 and 2011 TSR applies to 50% of the award and EPS applies to 50% of the award

Performance criteria
The Committee believes that budgeted profit and/or EPS growth as performance measures for the discretionary bonus scheme and long term incentives, in most normal circumstances, provide a transparent and accessible method of gauging the financial performance of the Company. The Company calculates performance against these performance measures by reference to the profit or earnings per share figures reported in the Company's audited accounts, which the Company believes to be the most transparent and objective measure of the Company's profit or EPS. The Committee also monitors the Group's TSR against the FTSE All-Share Travel & Leisure Index as a broad measure of the Company's performance. TSR measured against a more tailored group of comparators has been used by the Company as a primary performance measure for awards made to Executive Directors under the LTIP as outlined on page 67.

It is currently intended that the performance targets that will apply to awards granted in 2012 will again be an equal blend of EPS and TSR. If it were considered appropriate to make any fundamental changes to the performance targets in 2012, it is anticipated that this would be accompanied by a consultation with major shareholders.

25 **Directors' minimum shareholding**
In order to align the interests of the Directors more closely with the shareholders, the Remuneration Committee has also determined that the Executive Directors should build up a share fund equal to at least one year's current salary over a period of five years.

The graphs below show a comparison of National Express Group PLC total cumulative shareholder return against that achieved by the FTSE All-Share Travel & Leisure Index and the FTSE 250 Index. These indices have been selected because the Company is a constituent of each index (with the former including many members of the LTIP TSR peer group) and the Committee, therefore, feels that these are the most appropriate indices to represent the Company's relative performance.

27 **Directors' service contracts, notice periods and termination payments**
Executive Directors
The contract dates and notice periods for the Executive Directors are shown in the table on page 65.

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 early 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 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.

In any event the Committee's policy is that payments to Directors on termination should reflect the circumstances that prevail at the time, also taking account, if applicable and appropriate, the Director's duty to mitigate.

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.

28 **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 2011 are shown below.

26 **Total shareholder return versus FTSE All-Share Travel & Leisure Index**
Source: Thomson Reuters

Each point plotted on the above graph represents the total cumulative shareholder return on an investment made in National Express Group on 31 December 2006 compared with an investment in the FTSE All Share Travel & Leisure Index, with the corresponding annual returns.

Total shareholder return versus FTSE 250 Index
Source: Thomson Reuters

Each point plotted on the above graph represents the total cumulative shareholder return on an investment made in National Express Group on 31 December 2006 compared with an investment in the FTSE 250 Index, with the corresponding annual returns.

29 **Non-Executive Directors' appointments**
The Non-Executive Directors do not have service contracts with the Company but 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 to serve for a further period after the expiry of two three-year terms All Directors are required to stand at least once every three years for re-appointment by shareholders The original appointment dates of the Chairman and Non-Executive Directors are shown below

Senior executive remuneration
The Remuneration Committee reviews and notes the salaries of senior executives within the Group The salaries of this group of employees by band are as shown below

Conditional award of shares to Dean Finch
As disclosed in prior years, Dean Finch was granted a share award in relation to his appointment as Group Chief Executive under a one-off arrangement in accordance with Listing Rule 9 4 2 (2)

The share award comprised two parts, an award of 28,023 shares (the 'First Award') and an award of 18,281 shares (the 'Second Award') Each award is structured as an award of forfeitable shares in compensation for forfeited remuneration in relation to joining the Company The First Award vested on 1 April 2011 and the Second Award will ordinarily vest on 1 April 2012, subject to the terms of the award At the time of vesting the relevant shares subject to the awards will cease to be subject to a risk of forfeiture

Conditional award of shares to Jez Maiden
As disclosed in prior years, Jez Maiden was granted a share award under a similar one-off arrangement to that described above for Dean Finch in respect of his appointment as Group Finance Director in 2008

The award comprised three parts, an award over 21,074 shares (the 'First Award'), an award over 21,075 shares (the 'Second Award') and an award over 28,666 shares (the 'Third Award') Each award was structured as a conditional right to free shares, the terms of which were set after taking account of Jez Maiden's forfeited awards (which included performance and non-performance awards) The First and Second Awards have now vested The Third Award, which was due to vest on 17 November 2011, did not vest as the performance targets applicable, which were identical to those set for the 2008 LTIP awards were not met Details of the performance targets (a mix of earnings per share and shareholder return targets are set out in note 4 to the LTIP awards table on page 67

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

Executive Directors' external appointments

Director	Fee	External appointment
Jez Maiden	£46,500	Yule Catto & Co plc

Non-Executive Directors' appointment dates

Director	Date of appointment
Joaquin Ayuso	1 June 2011
Jorge Cosmen	1 December 2005
Miranda Curtis	1 June 2008
John Devaney	2 April 2009
Sir Andrew Foster	1 August 2004
Chris Muntwyler	11 May 2011
Lee Sander	1 June 2011
Tim Score	21 February 2005

Senior Executive remuneration

Salary band £000	Number of executives 2011
201–410	7
151–200	13
101–150	44
75–100	51

Information subject to audit: Directors' remuneration

30 **Directors' emoluments**

	Salary/fees £000	Performance related bonus[2] £000	Benefits[1] £000	Benefits in lieu of pension £000	**Total 2011 £000**	Total 2010 £000
Executive Directors						
Dean Finch	550	687	25	192	**1,454**	1,356
Jez Maiden	420	472[3]	24	105	**1,021**	923
Former Executive Director						
Ray O'Toole (resigned 5 May 2010)	–	–	–	–	**–**	1,072
Non-Executive Directors						
John Devaney (Chairman)	225	–	–	–	**225**	250
Tim Score (Senior Independent Director)	60	–	–	–	**60**	56
Jorge Cosmen (Deputy Chairman)	45	–	–	–	**45**	44
Joaquin Ayuso (appointed 1 June 2011)	30[4]	–	–	–	**30**	–
Miranda Curtis	55	–	–	–	**55**	51
Roger Devlin (resigned 28 June 2011)	32	–	–	–	**32**	51
Sir Andrew Foster	45	–	–	–	**45**	44
Chris Muntwyler (appointed 11 May 2011)	37[4]	–	–	–	**37**	–
Lee Sander (appointed 1 June 2011)	30[4]	–	–	–	**30**	–

1 Benefits in kind include a cash alternative to a fully expensed car, life assurance and health insurance

2 25% of the bonus awarded is deferred into the Company's shares for a period of one year

3 Jez Maiden sacrificed part of his cash bonus entitlement before its award. Pension contributions equal to the amount given up were made into pension plans for the benefit of his dependants. The amount shown in the bonus column reflects the full bonus earned

4 An additional fee of £4,000 is paid for attendance at Board meetings held outside the continent in which the Non-Executive Director is resident

31 **Directors' shareholdings**

Directors' interests and transactions

The beneficial and non-beneficial interests of the Directors in office as at 31 December 2011 are shown below:

	At 31 December 2011	At 1 January 2011 or on appointment if later	Change from 31 December 2011 to 29 February 2012
Executive Directors			
Dean Finch	**114,579**	68,275	–
Jez Maiden	**116,347**	116,347	–
Non-Executive Directors			
Joaquin Ayuso (appointed 1 June 2011)	–	–	–
Jorge Cosmen[2]	**88,860,685**	88,860,685	–
Miranda Curtis	–	–	–
John Devaney	**76,666**	66,666	–
Roger Devlin (resigned 28 June 2011)[1]	–	65,916	–
Sir Andrew Foster	**22,893**	22,893	–
Chris Muntwyler (appointed 11 May 2011)	–	–	–
Lee Sander (appointed 1 June 2011)	–	–	–
Tim Score	–	–	–

(The above table is not subject to audit.)

1 For Roger Devlin as at date of resignation

2 Jorge Cosmen's holding includes shares held by European Express Enterprises Ltd which are shown on page 53 in the list of major shareholdings in the Company

Awards of shares granted under one-off arrangements to Dean Finch and Jez Maiden in relation to their appointments are shown in the table below

32 **Long Term Incentive Plan ('LTIP') awards**

Performance shares of 1 x salary are awarded to Executive Directors as nil cost options under the Long Term Incentive Plan In addition Matching shares are also awarded as nil cost options based on up to two Matching shares being awarded for each invested share (as described earlier) to a maximum of 100% of salary under the share matching element of the LTIP Further details of the LTIP and the performance conditions that have applied to each award below are shown on page 63 and in the notes to the LTIP awards table below

33 **Conditional awards of shares to Executive Directors**

		At 1 January 2011	During year Exercised	Expired	**At 31 December 2011**	Option price	Market price at date of exercise	Date of vesting
Dean Finch	First Award[1]	28,023	28,023[2]	–	**–**	–	233 6p	1 4 11
	Second Award[1]	18,281	–	–	**18,281**	–	–	1 4 12
Jez Maiden	Third Award[3]	55,176	–	55,176	**–**	–	–	17 11 11

Notes

1 Each award is structured as an award of forfeitable shares At the time of vesting the relevant shares subject to the awards will cease to be subject to a risk of forfeiture

2 The aggregate gain on the shares which were exercised in 2011 was £65 000

3 The extent of vesting of the Third Award was dependent on the satisfaction of performance targets assessed over a three year performance period The performance targets applying to the Third Award were identical to those set for the 2008 LTIP awards (a mix of earnings per share and shareholder return targets) At the end of the Performance Period, the TSR performance and the EPS performance had both been such as to cause 0% of the relevant part of the award to vest

LTIP Awards to Executive Directors

	LTIP Share Awards	At 1 January 2011	During year Granted	Exercised	Expired	**At 31 December 2011**	Market price on date of award	Market price at date of exercise	Date from which exercisable	Expiry date
Dean Finch	Performance shares	227,272	–	–	–	**227,272**	220 3p	–	15 03 13	15 09 13
	Matching shares	227,270	–	–	–	**227,270**	220 3p	–	15 03 13	15 09 13
	Performance shares	–	222,672	–	–	**222,672**	247 0p	–	25 02 14	25 08 14
	Matching shares	–	267,204	–	–	**267,204**	247 0p	–	25 02 14	25 08 14
Jez Maiden	Performance shares	176,342	–	–	–	**176,342**	210 4p*	–	01 09 12	01 03 13
	Matching shares	132,637	–	–	–	**132,637**	210 4p*	–	01 09 12	01 03 13
	Performance shares	174,672	–	–	–	**174,672**	230 0p	–	01 04 13	01 10 13
	Matching shares	174,670	–	–	–	**174,670**	230 0p	–	01 04 13	01 10 13
	Performance shares	–	170,040	–	–	**170,040**	247 0p	–	25 02 14	25 08 14
	Matching shares	–	204,048	–	–	**204,048**	247 0p	–	25 02 14	25 08 14

Notes

1 Details of the performance conditions applicable to the 2011 awards are shown on page 63

2 The TSR performance conditions applicable to the 2010 awards are the same as for the 2011 awards and the relevant maximum and minimum EPS figures are 28 pence and 23 pence

3 EPS targets were not applicable to 2009 awards as the prevailing economic conditions made it difficult to set a robust range of EPS targets and the TSR performance condition (as described on page 63) was applied as the sole performance condition to 100% of the award To ensure that the relative condition was supported by improved underlying financial performance awards made in 2009 were also subject to an earnings underpin that applies to the extent that the TSR performance condition is met

4 The TSR performance conditions applicable to the 2008 awards were the same as for the 2011 awards and the relevant maximum and minimum EPS figures were 6% and 3% inflationary growth Performance and Matching shares granted under the LTIP on 10 April 2008 expired on 10 April 2011 At the end of the performance period TSR performance and EPS performance had been such as to result in 0% of the relevant part of the award to vest

* Market price at date of award restated to reflect the rights issue on 15 December 2009

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

Deferred bonuses awarded in 2011 (based on performance to 31 December 2010) vested, subject to the terms of the award on 25 February 2012 as set out in the table below

			As at 1 January 2011						
	% of total bonus	Deferred Shares Award	Granted	Exercised	Expired	**At 31 December 2011**	Option price	Market price at date of vesting	Date of vesting
Dean Finch	25%	–	49,427	–	–	**49,427**	–	222 1p	25 02 12
Jez Maiden	25%	–	39,541	–	–	**39,541**	–	222 1p	25 02 12

Notes

1 The vesting of the awards is subject to continued service and standard Good Leaver provisions

2 Clawback provisions apply as explained on page 61

In respect of the operation of the Long Term Incentive Plan the Company operates the National Express Group Employee Benefit Trust which currently holds 314,528 shares as at 29 February 2012

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 No LTIPs vested during the year The mid-market price of the Company's ordinary shares at 31 December 2011 was 223 pence (2010 251p) and the range during the year ended 31 December 2011 was 270 2 pence to 201 6 pence

By order of the Board

Miranda Curtis
Director and Chairman of the Remuneration Committee
29 February 2012

Principal activities
National Express Group PLC is the holding company of the National Express Group of companies Its subsidiary companies provide mass passenger transport services in the UK and overseas

Business review
Reviews of the business, likely future developments and details of principal risks and uncertainties can be found in the following pages and are incorporated by reference into this report

- Group Chief Executive's review on pages 3 to 7
- Financial Review on pages 32 to 36

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 2011 was £129 4 million (2010 £40 2m) and a profit attributable to equity shareholders of £101 2 million (2010 £61 4m) was transferred to reserves

The Directors recommend a final dividend for the year of 6 5 pence per ordinary share (2010 6p) which, together with the interim dividend of 3 pence per ordinary share (2010 0p), paid on 23 September 2011, gives a total dividend for the year of 9 5 pence per share (2010 6p) Subject to shareholder approval, the final dividend will be paid on 18 May 2012 to ordinary shareholders on the register of members at the close of business on 27 April 2012

Directors
The Directors of the Company who served during the year were

John Devaney
Joaquin Ayuso (appointed 1 June 2011)
Miranda Curtis
Jorge Cosmen
Roger Devlin (resigned 28 June 2011)
Dean Finch
Sir Andrew Foster
Jez Maiden
Chris Muntwyler (appointed 11 May 2011)
Lee Sander (appointed 1 June 2011)
Tim Score

Directors are appointed by ordinary resolution at a general meeting of ordinary shareholders The Directors have the power to appoint a Director during the year but any person so appointed must be put up for appointment at the next AGM In accordance with the provisions of the Articles of Association of the Company and the relevant corporate governance codes Directors will retire at the upcoming AGM Details concerning their re-election will be set out in the Notice of AGM Details of the remuneration of the Directors, their interests in shares of the Company and service contracts are contained in the Directors' Remuneration Report on pages 59 to 68

Corporate governance
A full report on corporate governance can be found in the Governance section of this document and the Company's corporate governance statement is on page 72 Both are incorporated by reference into this report

Directors' interests in contracts
Except as stated in note 36 on page 134, no contract existed during the year in relation to the Company's business in which any Director was materially interested

Directors' 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

Events after the balance sheet date
On 5 February 2012, the Group passed over the running of the East Anglia rail franchise to Abellio Greater Anglia Limited

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 Employees are able to share in the Group's results through various employee share schemes

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's Innovation programme gives high priority to employee engagement as well as seeking the opinions of our customers

The Group places considerable emphasis on the development of its employees through individual development plans

A scheme to focus on the identification and development of our high potential staff was launched in 2010 Succession plans are in place in each business and these are monitored by the Board

Environmental policy
Information on the Group's environmental initiatives can be found in the Corporate Responsibility Review on page 40 and in the Corporate Responsibility section of the Company's website, nationalexpressgroup com, where you will find Corporate Responsibility reports, policies and other information

Charitable and political contributions
Charitable donations made during the year totalled £228,000 (2010 £151,000) 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 £6,000 (2010 £14,000)

Creditors' payment policy and practice
It is the Company's policy to agree terms of payment prior to commencing trade with any supplier and to abide by those terms based on the timely submission of satisfactory invoices

Trade creditor days of the Company for the year ended 31 December 2011 were 17 days (2010 23 days) based on the ratio of Company trade creditors at the end of the year to the amounts invoiced during the year by trade creditors

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 81 to 136 and are incorporated by reference into this report

Major shareholdings
Disclosures of major shareholdings notified to the Company pursuant to DTR5 are shown on page 53 and these disclosures are incorporated by reference into this report

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)

At 31 December 2011, the Company's issued share capital consisted of a single class of ordinary shares with a nominal value of 5 pence 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 32 on page 124

As at 29 February 2012, the Company held a total of 1,668,688 ordinary 5 pence shares (nominal value £83,434) in treasury equal to 0 33% of the issued share capital

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 2012 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 2011 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 2012 for its renewal Further details are set out in the Notice of AGM accompanying this document

Share schemes
The IFG Trust (Jersey) Limited, as Trustee of the National Express Group Employee Benefit Trust, as at 29 February 2012 held 314,528 shares (0 06% of the 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 95 and are incorporated by reference into this report The Trustee may vote the shares held by the Trust at its discretion

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 Annual General Meeting (AGM) will be held at 2 00pm on 10 May 2012 at Kings Place, 90 York Way, London, N1 9AG 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

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

Material contracts and change of control agreements
The Company is party to a number of banking agreements which allow for notification of change of control within five days of becoming aware of the event following which repayment of outstanding commitments is to be made within 30 days

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, 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 Group currently runs one DfT franchise c2c The National Express East Anglia franchise was transferred to Abellio Greater Anglia Limited on 6 February 2012 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

Auditor
Following a competitive tender process during the year, Ernst & Young LLP resigned as auditor of the Company on 10 June 2011 and Deloitte LLP was appointed in their place on 14 June 2011 Resolutions to re-appoint Deloitte LLP as auditor of the Company and to authorise the Directors to fix their remuneration will be proposed at the 2012 AGM

Disclosure of information to auditor
The Directors confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditor is 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

Risks
A summary of the Company's risk management framework and an overview of its principal risks are detailed on pages 37 to 39 and are incorporated by reference into this report

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 Business Review 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 3 to 7 and the Financial Review on pages 32 to 37 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

For more information please go to **nationalexpressgroup.com**

35 **Statement of Compliance with the UK Corporate Governance Code**

In the opinion of the Directors, the Company has complied with the provisions of the UK Corporate Governance Code issued by the Financial Reporting Council in 2010 save in respect of the following provisions.

B.2.1 The Composition of the Nomination Committee

Jorge Cosmen, who is a member of the Nomination Committee, is not considered to be independent. However, as Deputy Chairman and the representative of one of the Company's largest shareholders, the Board considers Mr Cosmen should be a member of the Nomination Committee in order to be involved in the recruitment process for Board appointments.

C.3.1 The Composition of the Audit Committee and D.2.1 The Composition of the Remuneration Committee

Following the resignation of Roger Devlin the Audit Committee and the Remuneration Committee consisted of two Non-Executive Directors for a short period until the appointment of Chris Muntwyler to the Audit Committee and Lee Sander to the Remuneration Committee in November 2011.

36 **Re-election of Directors**

In accordance with the Company's Articles of Association, and the principles of the UK Corporate Governance Code published by the Financial Reporting Council in 2010, Directors of the Company will offer themselves for 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.

Remuneration and service contracts of Directors

The Directors' Remuneration Report, including details of remuneration policy and service contracts, is set out on pages 58 to 68.

37 **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/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.

Accountability and audit

Statements of the respective responsibilities of the Directors and auditors are set out on pages 74 and 75.

Directors' and Officers' Liability Insurance

The Company purchases Directors' and Officers' Liability Insurance for the Company and its subsidiaries, which gives appropriate cover for any legal action brought against its Directors.

38 **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 – 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 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 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 auditors and 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.

39 **Whistle blowing policy**

'Whistle blowing' 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 2011 no issues of significance were raised.

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 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 hotline.

40 **Share capital**

Information about the share capital of the Company is included in the Directors' report on page 70.

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 accounts 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 is 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, and
- the business review, which is incorporated into the Directors' 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

By order of the Board

Dean Finch
Chief Executive Officer
29 February 2012

Jez Maiden
Group Finance Director
29 February 2012

Financial statements
Independent Auditor's Report to the Members of National Express Group PLC

We have audited the Group financial statements of National Express Group PLC for the year ended 31 December 2011 which comprise the Group Income Statement, the Group Statement of Comprehensive Income, the Group Balance Sheet, the Group Statement of Changes in Equity, the Group Cash Flow Statement and the related notes 1 to 38 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

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

Respective responsibilities of directors and auditor
As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the Group 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 Group 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

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 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 If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements
In our opinion the Group financial statements

- give a true and fair view of the state of the Group's affairs as at 31 December 2011 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements

Matters on which we are required to report by exception
We have nothing to report in respect of the following

Under the Companies Act 2006 we are required to report to you if, in our opinion

- certain disclosures of Directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Under the Listing Rules we are required to review

- the Directors' statement, set out on page 71, in relation to going concern,
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review, and
- certain elements of the report to shareholders by the Board on Directors' remuneration

Other matters
We have reported separately on the parent Company financial statements of National Express Group PLC for the year ended 31 December 2011 and on the information in the Directors' Remuneration Report that is described as having been audited

Nigel Mercer

Nigel Mercer (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Birmingham, UK
29 February 2012

Group Income Statement
For the year ended 31 December 2011

	Note	Total before intangible amortisation and exceptional items 2011 £m	Intangible amortisation and exceptional items 2011 £m	Total 2011 £m	Total before intangible amortisation and exceptional items 2010 £m	Intangible amortisation and exceptional items 2010 £m	Total 2010 £m
Continuing operations							
Revenue	4	**2,238.0**	**–**	**2,238.0**	2,125 9	–	2,125 9
Operating costs before intangible amortisation and exceptional items		**(2,012.8)**	**–**	**(2,012.8)**	(1,921 7)	–	(1,921 7)
Intangible amortisation	5,14	**–**	**(50.8)**	**(50 8)**	–	(57 1)	(57 1)
Exceptional items	5	**–**	**–**	**–**	–	(61 2)	(61 2)
Total operating costs	6	**(2,012.8)**	**(50 8)**	**(2,063 6)**	(1,921 7)	(118 3)	(2,040 0)
Group operating profit/(loss)		**225.2**	**(50.8)**	**174.4**	204 2	(118 3)	85 9
Share of post tax results from associates and joint ventures accounted for using the equity method	18	**1.4**	**–**	**1.4**	0 3	–	0 3
Finance income	4,9	**6.7**	**–**	**6.7**	4 8	–	4 8
Finance costs	9	**(53.1)**	**–**	**(53.1)**	(48 8)	(2 0)	(50 8)
Profit/(loss) before tax		**180.2**	**(50.8)**	**129.4**	160 5	(120 3)	40 2
Tax (charge)/credit	10	**(41.5)**	**14 7**	**(26 8)**	(39 2)	61 7	22 5
Profit/(loss) after tax for the year from continuing operations		**138.7**	**(36.1)**	**102.6**	121 3	(58 6)	62 7
Loss for the year from discontinued operations	11	**–**	**–**	**–**	–	(0 4)	(0 4)
Profit/(loss) for the year		**138.7**	**(36.1)**	**102.6**	121 3	(59 0)	62 3
Profit/(loss) attributable to equity shareholders		**137.3**	**(36.1)**	**101.2**	120 4	(59 0)	61 4
Profit attributable to non-controlling interests		**1.4**	**–**	**1.4**	0 9	–	0 9
		138.7	**(36.1)**	**102.6**	121 3	(59 0)	62 3
Earnings per share							
– basic earnings per share	13			**19.9p**			12 0p
– diluted earnings per share	13			**19.8p**			12 0p
Normalised earnings per share							
– basic earnings per share	13	**27.0p**			23 6p		
– diluted earnings per share	13	**26.9p**			23 5p		
Earnings per share from continuing operations							
– basic earnings per share	13			**19.9p**			12 1p
– diluted earnings per share	13			**19.8p**			12 1p

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

	Note	2011 £m	2010 £m
Profit for the year		**102.6**	62 3
Other comprehensive income			
Exchange differences on retranslation of foreign operations (net of hedging)		**(26.4)**	(1 8)
Exchange differences on retranslation of non-controlling interests		**(0.2)**	(0 2)
Actuarial (losses)/gains on defined benefit pension plans	34	**(8.6)**	34 3
Gain on cash flow hedges		**24.2**	21 1
Transfers to the income statement on cash flow hedges		**(25.3)**	2 3
Tax on exchange differences		**2.9**	(6 0)
Deferred tax on actuarial (losses)/gains		**0.4**	(9 8)
Deferred tax on cash flow hedges		**(0.6)**	(6 6)
Other comprehensive (expenditure)/income for the year net of tax		**(33.6)**	33 3
Total comprehensive income for the year		**69.0**	95 6
Total comprehensive income attributable to			
Equity shareholders		**67.9**	94 9
Non-controlling interests		**1 1**	0 7
		69.0	95 6

Group Balance Sheet
At 31 December 2011

	Note	2011 £m	2010 £m
Non-current assets			
Intangible assets	14	**1,212.5**	1,284 2
Property, plant and equipment	15	**754.5**	714 1
Available for sale investments	17	**7 6**	7 8
Derivative financial instruments	17	**31.0**	7 2
Investments accounted for using the equity method	18	**6.6**	6 6
Trade and other receivables	20	**5.9**	6 0
Deferred tax asset	27	**–**	2 8
Defined benefit pension asset	34	**18.6**	–
		2,036.7	2,028 7
Current assets			
Inventories	21	**18 8**	17 6
Trade and other receivables	22	**248 1**	226 8
Derivative financial instruments	17	**21 1**	18 3
Current tax assets		**0.9**	3 4
Cash and cash equivalents	23	**92.5**	128 8
		381.4	394 9
Total assets		**2,418 1**	2,423 6
Non-current liabilities			
Borrowings	28	**(718.4)**	(674 4)
Derivative financial instruments	28	**(2.4)**	(5 1)
Deferred tax liability	27	**(95.2)**	(86 9)
Other non-current liabilities	25	**(4.9)**	(25 2)
Non-current tax liabilities		**(5.4)**	(12 3)
Defined benefit pension liability	34	**(20.4)**	(10 4)
Provisions	26	**(24 0)**	(35 7)
		(870 7)	(850 0)
Current liabilities			
Trade and other payables	24	**(466.4)**	(470 6)
Borrowings	28	**(54.8)**	(94 8)
Derivative financial instruments	28	**(0.2)**	(12 4)
Current tax liabilities		**(19.7)**	(12 1)
Provisions	26	**(40.9)**	(43 9)
		(582.0)	(633 8)
Total liabilities		**(1,452.7)**	(1,483 8)
Net assets		**965.4**	939 8
Shareholders' equity			
Called up share capital	32	**25.6**	25 6
Share premium account		**532.7**	532 7
Capital redemption reserve		**0.2**	0 2
Own shares		**(14.0)**	(14 1)
Other reserves	33	**99.9**	125 1
Retained earnings		**313.1**	263 7
Total shareholders' equity		**957.5**	933 2
Non-controlling interest in equity		**7.9**	6 6
Total equity		**965.4**	939 8

D Finch Group Chief Executive
J K Maiden Group Finance Director
29 February 2012

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

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Own shares (note 32) £m	Other reserves (note 33) £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
At 1 January 2011	**25.6**	**532.7**	**0.2**	**(14.1)**	**125.1**	**263.7**	**933.2**	**6.6**	**939.8**
Shares purchased	**–**	**–**	**–**	**(2.7)**	**–**	**–**	**(2.7)**	**–**	**(2.7)**
Own shares released to satisfy employee share schemes	**–**	**–**	**–**	**2.8**	**–**	**(2.8)**	**–**	**–**	**–**
Total comprehensive income	**–**	**–**	**–**	**–**	**(25.2)**	**93.1**	**67.9**	**1.1**	**69 0**
Share-based payments	**–**	**–**	**–**	**–**	**–**	**5.0**	**5.0**	**–**	**5.0**
Tax on share-based payments	**–**	**–**	**–**	**–**	**–**	**(0.1)**	**(0 1)**	**–**	**(0.1)**
Dividends	**–**	**–**	**–**	**–**	**–**	**(45.8)**	**(45 8)**	**–**	**(45.8)**
Dividends paid to non-controlling interest	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(0.3)**	**(0.3)**
Purchase of non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**0 5**	**0 5**
At 31 December 2011	**25.6**	**532.7**	**0.2**	**(14 0)**	**99.9**	**313.1**	**957.5**	**7.9**	**965.4**

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Own shares (note 32) £m	Other reserves (note 33) £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
At 1 January 2010	25 6	533 2	0 2	(14 6)	116 1	175 8	836 3	6 0	842 3
Costs of Rights Issue	–	(0 5)	–	–	–	–	(0 5)	–	(0 5)
Shares purchased	–	–	–	(1 7)	–	–	(1 7)	–	(1 7)
Own shares released to satisfy employee share schemes	–	–	–	2 2	–	(2 2)	–	–	–
Total comprehensive income	–	–	–	–	9 0	85 9	94 9	0 7	95 6
Share-based payments	–	–	–	–	–	3 9	3 9	–	3 9
Tax on share-based payments	–	–	–	–	–	0 3	0 3	–	0 3
Dividends paid to non-controlling interest	–	–	–	–	–	–	–	(0 1)	(0 1)
At 31 December 2010	25 6	532 7	0 2	(14 1)	125 1	263 7	933 2	6 6	939 8

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

	Note	**2011 £m**	2010 £m
Cash generated from operations	37	**247.0**	222 1
Tax paid		**(8.4)**	(8 6)
Net cash from operating activities		**238.6**	213 5
Cash flows from investing activities			
Payments to acquire businesses, net of cash acquired	19(a)	**(0.4)**	0 1
Deferred consideration for businesses acquired and disposed	19(a)(b)	**(5.7)**	(2 4)
Purchase of property, plant and equipment		**(104.5)**	(49 9)
Proceeds from disposal of property, plant and equipment		**6 3**	7 4
Payments to acquire intangible assets	14	**(3.9)**	(2 0)
Payments to acquire available for sale investments		**–**	(0 3)
Receipts in respect of discontinued operations	11	–	0 3
Dividends received from associates		**1 0**	0 2
Interest received		**5 6**	1 1
Net cash used in investing activities		**(101.6)**	(45 5)
Cash flows from financing activities			
Payments incurred on the issue of ordinary shares		**–**	(3 8)
Purchase of treasury shares		**(2.7)**	(1 7)
Interest paid		**(50.2)**	(43 8)
Finance lease principal payments		**(24 9)**	(18 7)
Net loans repaid		**(35.6)**	(74 0)
Payments for the maturity of foreign currency contracts		**(12.8)**	(2 0)
Dividends paid to non-controlling interests		**(0 4)**	–
Payments for equity in non-controlling interests		**(0.5)**	–
Dividends paid to shareholders of the Company		**(45.8)**	–
Net cash used in financing activities		**(172.9)**	(144 0)
(Decrease)/increase in cash and cash equivalents		**(35.9)**	24 0
Opening cash and cash equivalents		**128.8**	105 8
(Decrease)/increase in cash and cash equivalents		**(35.9)**	24 0
Foreign exchange		**(0.4)**	(1 0)
Closing cash and cash equivalents	23	**92.5**	128 8

1 Corporate information
The consolidated accounts of National Express Group PLC and its subsidiaries ('the Group') for the year ended 31 December 2011 were authorised for issue in accordance with a resolution of the Directors on 29 February 2012 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 Business Review that accompanies these accounts

2 Accounting policies
Statement of compliance
These accounts 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 Acts 2006 applicable to companies reporting under IFRS

The Group has previously disclosed that its accounting policy relating to the Railways Pension Scheme (RPS) represents a departure from the requirements of IAS 19 This was principally based on an assessment performed at the time of adoption of IFRS in 2005 During the current period, the Directors have reviewed the accounting standards and current industry practice, and have concluded that the Group's accounting policy complies with IAS 19

Basis of preparation
The financial statements have been prepared on the going concern basis (see Directors' report on page 71) under the historical cost convention, except for the recognition of derivative financial instruments and available for sale investments

The consolidated accounts 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 the accounts for the year ended 31 December 2011 is set out below

Significant accounting judgements and key sources of estimation uncertainty
The preparation of accounts 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 accounts 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 most significant judgements were

Tax provisions
Assessing the outcome of uncertain tax positions requires judgements to be made regarding the result of negotiations with and enquires 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

The key accounting estimates are

Goodwill and 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 are set out in note 14 to the accounts

Retirement benefit obligations
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

2 Accounting policies continued

Basis of consolidation

The consolidated accounts comprise the accounts 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

Intragroup 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

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

Accounts of jointly controlled entities are prepared for the same reporting period as the Group Adjustments are made in the Group's accounts 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 accounts include the appropriate share of these associates' results and net assets based on their latest accounts under the equity method

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year and there have been no changes in accounting standards during the year that have had a material effect on the Group

Income statement presentation

The 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

UK 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 European Coach & 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, UK Rail, North American Bus, European Coach & Bus, and Central functions These segments are described in more detail in the Operating Review accompanying these accounts

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

2 Accounting policies continued

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

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 expenses

The existing 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)

Intangible assets with indefinite lives are tested annually for impairment and 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 indefinite life intangible assets include customer relationships and goodwill Customer relationship intangible assets are recognised only on contracts where historical experience has shown that these contracts are consistently renewed

2 Accounting policies continued

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 (seven 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

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

2 Accounting policies continued

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

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

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 swaps 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 directly 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 swaps 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 contacts are not hedge accounted and all gains and losses are taken direct 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 FIFO 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, they 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 uncollectible 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 stop loss within the Group's insurance arrangements The majority of provisions will be utilised within six years, and the provision has 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 The finance elements of the pension cost, comprising the expected return on assets of funded defined benefit schemes and the interest on pension scheme liabilities, are also included in operating 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 accounts 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

The IASB and IFRIC have issued the following standards, interpretations and amendments with an effective date after the date of these financial statements, which the directors expect may have a material impact on the accounts of the Group in future periods

IFRS 10 Consolidated Financial Statements (effective for annual periods beginning on or after 1 January 2013) – the standard establishes the principles for the presentation of consolidated accounts when an entity controls one or more other entities

IFRS 11 Joint Arrangements (effective for annual periods beginning on or after 1 January 2013) – 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 (effective for annual periods beginning on or after 1 January 2013) – 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 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 Employee benefits (revised) (effective for annual periods beginning on or after 1 January 2013) – the standard will impact the measurement of the various components representing movements in the defined benefit pension obligation and associated disclosures, but not the Group's total obligation It is likely that following the replacement of expected returns on plan assets with a net finance cost in the income statement, the profit for the period will be reduced and accordingly other comprehensive income increased

IFRS 9 Financial Instruments (effective for annual periods beginning on or after 1 January 2015) – the standard deals with the classification, recognition and measurement of financial assets and liabilities, but has yet to be adopted by the EU

3 Exchange rates

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

	2011 Closing rate	2011 Average rate	2010 Closing rate	2010 Average rate
US dollar	**1.55**	**1.61**	1 56	1 55
Canadian dollar	**1.58**	**1.58**	1 56	1 61
Euro	**1.20**	**1.15**	1 17	1 17

If the results for the year to 31 December 2010 had been retranslated at the average exchange rates for the year to 31 December 2011, North American Bus would have achieved normalised operating profit of £35 8m on revenue of £447 9m, compared to normalised operating profit of £36 9m on revenue of £459 8m as reported, and European Bus & Coach would have achieved a normalised operating profit of £87 2m on revenue of £531 4m, compared to normalised operating profit of £86 2m on revenue of £525 6m as reported

4 Revenue

	2011 £m	2010 £m
Rendering of services	**2,231.3**	2,118 8
Rental income	**6.7**	7 1
Revenue	**2,238.0**	2,125 9
Finance income	**6.7**	4 8
Total revenue from continuing operations	**2,244.7**	2,130 7

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 Business Review

Analysis by class and geography of business

	External revenue 2011 £m	Inter-segment sales 2011 £m	Segment revenue 2011 £m	External revenue 2010 £m	Inter-segment sales 2010 £m	Segment revenue 2010 £m
UK Bus	**263.1**	**0.4**	**263.5**	257 3	0 5	257 8
UK Coach	**254.5**	**4.6**	**259.1**	245 7	4 6	250 3
UK Rail	**688.3**	**–**	**688.3**	637 5	–	637 5
Inter-segment sales elimination	**–**	**(5.0)**	**(5.0)**	–	(5 1)	(5 1)
UK operations	**1,205.9**	**–**	**1,205.9**	1,140 5	–	1,140 5
North American Bus	**481.0**	**–**	**481.0**	459 8	–	459 8
European Coach & Bus	**551.1**	**–**	**551.1**	525 6	–	525 6
Total revenue	**2,238.0**	**–**	**2,238.0**	2,125 9	–	2,125 9

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

5 Segmental analysis continued

	Continuing Normalised operating profit 2011 £m	Continuing Intangible amortisation and exceptional items 2011 £m	Continuing Segment result 2011 £m	Discontinued Segment result 2011 £m	Continuing Normalised operating profit 2010 £m	Continuing Intangible amortisation and exceptional items 2010 £m	Continuing Segment result 2010 £m	Discontinued Segment result 2010 £m
UK Bus	**32.7**	**–**	**32.7**		28 3	(6 7)	21 6	
UK Coach	**34.9**	**–**	**34.9**		32 0	(0 1)	31 9	
UK Rail	**43.4**	**(1.7)**	**41.7**		33 8	(20 7)	13 1	
UK operations	**111.0**	**(1.7)**	**109 3**		94 1	(27 5)	66 6	
North American Bus	**47.9**	**(3.3)**	**44.6**		36 9	(34 3)	2 6	
European Coach & Bus	**90.1**	**(45.8)**	**44 3**		86 2	(47 8)	38 4	
Central functions	**(14 6)**	**–**	**(14.6)**		(13 0)	(8 7)	(21 7)	
Project costs	**(9.2)**	**–**	**(9.2)**		–	–	–	
Result from continuing operations	**225.2**	**(50.8)**	**174.4**		204 2	(118 3)	85 9	
Result from discontinued operations			**–**	**–**			–	(0 5)
Total result			**174.4**	**–**			85 9	(0 5)
Loss on disposal of non-current assets			**–**	**–**			–	–
Profit/(loss) from operations			**174.4**	**–**			85 9	(0 5)
Share of post tax results from associates and joint ventures			**1.4**	**–**			0 3	–
Net finance costs			**(46.4)**	**–**			(46 0)	–
Profit/(loss) before tax			**129.4**	**–**			40 2	(0 5)
Tax (charge)/credit			**(26.8)**	**–**			22 5	0 1
Profit/(loss) for the year			**102.6**	**–**			62 7	(0 4)

One off project related costs of £9 2m have been charged within operating costs £5 2m relates to the settlement and associated legal expenses of a working time claim in North America, the remainder relates to external fees in response to the Competition Commission enquiry into the UK bus industry, costs associated with the acquisition of Petermann and professional fees relating to the strategic and Board debate ahead of the 2011 Annual General Meeting

5 **Segmental analysis** continued

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

	Intangible asset amortisation 2011 £m	**Operating exceptional items 2011 £m**	**Total 2011 £m**
UK Bus	–	–	–
UK Coach	–	–	–
UK Rail	**1 7**	–	**1.7**
North American Bus	**3 3**	–	**3.3**
European Coach & Bus	**45 8**	–	**45 8**
Central functions	–	–	–
Total continued operations	**50 8**	–	**50.8**
Discontinued operations (note 11)	–	–	–
Total	**50 8**	–	**50.8**

	Intangible asset amortisation 2010 £m	Operating exceptional items 2010 £m	Total 2010 £m
UK Bus	–	6 7	6 7
UK Coach	0 2	(0 1)	0 1
UK Rail	2 4	18 3	20 7
North American Bus	8 6	25 7	34 3
European Coach & Bus	45 9	1 9	47 8
Central functions	–	8 7	8 7
Total continued operations	57 1	61 2	118 3
Discontinued operations (note 11)	–	0 5	0 5
Total	57 1	61 7	118 8

There have been no exceptional costs incurred during 2011

In the year to 31 December 2010, exceptional costs of £18 3m were incurred in UK Rail This comprised additional costs following a full and final settlement with the Department for Transport in relation to the National Express East Coast franchise exit and costs associated with related contracts

Exceptional restructuring and redundancy costs of £25 7m were incurred in North American Bus in delivering the Business Recovery programme

Restructuring costs of £15 3m were incurred in the UK following changes in management in UK Coach and Central functions, the relocation of the head office from London to Birmingham and other operational and corporate projects In addition, rationalisation costs of £1 9m were incurred in European Coach & Bus

5 **Segmental analysis** continued

Assets, liabilities and capital expenditure can be analysed by class and geography of business as follows

	Assets 2011 £m	**Of which non-current assets* 2011 £m**	**Liabilities 2011 £m**	**Capital** expenditure 2011 £m**	Assets 2010 £m	Of which non-current assets* 2010 £m	Liabilities 2010 £m	Capital** expenditure 2010 £m
UK Bus	**137.7**	**117.3**	**(105.6)**	**24 0**	129 0	109 3	(85 0)	8 8
UK Coach	**72.1**	**53.1**	**(43.4)**	**12.8**	57 4	45 5	(38 9)	5 4
UK Rail	**71.6**	**11.3**	**(186.4)**	**2.3**	83 2	17 5	(202 6)	3 0
Intercompany elimination	**(0.9)**	**–**	**0 9**	**–**	(1 3)	–	1 3	–
UK operations	**280.5**	**181 7**	**(334.5)**	**39.1**	268 3	172 3	(325 2)	17 2
North American Bus	**720.1**	**656.9**	**(168.6)**	**63.1**	712 1	642 8	(164 9)	95 8
European Coach & Bus	**1,244.4**	**1,128.3**	**(150.4)**	**54.5**	1,276 2	1,183 1	(158 2)	37 7
Central functions	**33 1**	**0 1**	**(67.7)**	**0.1**	11 7	0 1	(82 1)	0 1
Unallocated	**153.8**	**–**	**(745.3)**	**–**	169 1	–	(767 2)	–
Intercompany elimination	**(13.8)**	**–**	**13.8**	**–**	(13 8)	–	13 8	–
Total	**2,418.1**	**1,967 0**	**(1,452.7)**	**156.8**	2,423 6	1,998 3	(1,483 8)	150 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 £145 8m (2010 £121 6m)

Capital expenditure comprises property, plant and equipment additions as disclosed above and in note 15 In 2011 software intangible assets of £1 3m (2010 £2 0m) were acquired in North America and disclosed in note 14

Unallocated assets and liabilities comprise the following items

	Unallocated assets 2011 £m	**Unallocated liabilities 2011 £m**	Unallocated assets 2010 £m	Unallocated liabilities 2010 £m
Cash and cash equivalents	**92.5**	**–**	128 8	–
Other debt receivables	**0.7**	**–**	0 8	–
Current tax	**0.9**	**(19.7)**	3 4	(12 1)
Non-current tax	**–**	**(5.4)**	–	(12 3)
Available for sale investments	**7.6**	**–**	7 8	–
Derivative financial assets/(liabilities)	**52.1**	**(2.6)**	25 5	(17 5)
Borrowings, excluding finance leases	**–**	**(621.9)**	–	(637 9)
Dividend payable	**–**	**(0.5)**	–	(0 5)
Deferred tax	**–**	**(95.2)**	2 8	(86 9)
Total	**153.8**	**(745.3)**	169 1	(767 2)

6 Operating costs

		2011 £m	2010 £m
Cost of inventories recognised in expense		**66.0**	75.8
Staff costs (including exceptional cost of £nil (2010 £12.8m))		**816.7**	801.8
Depreciation – Owned assets		**92.8**	84.4
– Leased assets		**12.7**	15.4
Amortisation of fixed asset grants		**(1.5)**	(1.7)
Operating lease charges	Rolling stock capital element	**101.2**	87.4
	Rolling stock non-capital element	**45.6**	37.3
	Public service vehicles	**4.3**	4.4
	Other	**7.6**	10.9
	– Plant and equipment	**158.7**	140.0
	Fixed track access	**57.3**	57.0
	Other	**33.3**	41.9
	– Land and buildings	**90.6**	98.9
Foreign exchange differences		**(0.9)**	–
Other charges (including exceptional expense of £nil (2010 £48.4m))		**777.7**	768.3
Operating costs before intangible asset amortisation		**2,012.8**	1,982.9
Intangible asset amortisation		**50.8**	57.1
Total operating costs		**2,063.6**	2,040.0

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

	2011 £m	2010 £m
Fees payable to the Company's auditors for the audit of the consolidated and parent Company accounts	**0.3**	0.5
Fees payable to the Company's auditors and its associates for other services		
The audit of the Company's subsidiaries	**0.6**	0.7
Tax services	**–**	1.0
Corporate finance services	**–**	0.1
Other services	**–**	0.6
	0.9	2.9

7 Employee benefit costs

(a) Staff costs

	2011 £m	2010 £m
Wages and salaries	**704 4**	691 8
Social security costs	**95.6**	90 8
Pension costs (note 34)	**11.7**	15 3
Share-based payment (note 8)	**5.0**	3 9
	816.7	801 8

Included within staff costs are exceptional costs of £nil (2010 £12 8m)

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

	2011	2010
Managerial and administrative	**3,318**	3,341
Operational	**35,603**	34,063
	38,921	37,404

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

	2011 £m	2010 £m
Fees	**–**	0 4
Basic salaries	**1.0**	1 2
Benefits	**0.3**	0 5
Performance-related bonuses	**1.2**	1 3
Share-based payment	**1.0**	1 3
	3.5	4 7

(b) Share schemes

Details of options or awards outstanding as at 31 December 2011 under the Group's share schemes are as follows

	Number of share options 2011	Number of share options 2010	Exercise price	Future exercise periods
Executive Share Option Plan	**57,042**	149,211	**207p-448p**	**2012-2014**
Long Term Incentive Plan	**5,093,870**	4,043,170	**nil**	**2012-2014**
Share Matching Plan	**1,026,550**	1,037,951	**nil**	**2012-2014**
Deferred Annual Share Bonus Plan	**1,075,762**	1,027,658	**nil**	**2012-2014**
WMT Long Service Option Scheme	**–**	7,530	**nil**	**n/a**
WMT Long Service Option Scheme	**296,361**	308,330	**129-604p**	**2012-2020**
Sharesave Scheme	**923,603**	1,003,187	**479p**	**2012**
Executive Deferred Benefit Plan	**88,968**	–	**nil**	**2012**
	8,562,156	7,577,037		

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 10 years The options vest after three years subject to the satisfaction of certain performance criteria[1] 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 an HMRC approved share option plan was 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

(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 2 1 basis with the number of shares that could have been purchased with the pre-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, 908 (2010 908) 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) Savings Related Share Option Scheme (Sharesave Scheme)

The National Express Group approved Sharesave Scheme enabled eligible UK employees, including Executive Directors, to acquire shares in the Company through monthly savings over a three-year period, at the end of which they also received a tax free bonus The savings and bonus could be used to purchase shares at a discounted option price set at the beginning of the savings contract The options matured three years after the grant date and could be exercised for a period of up to six months after this date There are no cash settlement alternatives

[1] Performance criteria for Executive Share Option Plan

(a) Options granted under the 2002 National Express Group Executive Share Option Plan Part 2 Unapproved

(b) For options granted in 2002 and 2003, the performance condition is as follows (a) for awards up to 50% of salary, EPS growth of RPI + 4% pa, (b) for awards between 51% of salary and up to 100% of salary, EPS growth of RPI + 6% pa, (c) for awards between 101% of salary and up to 150% of salary, EPS growth of RPI + 8% pa, (d) for awards between 151% of salary and up to 200% of salary, EPS growth of RPI + 10% pa Parts (a) and (b) are initially tested over years 0-3 with a facility to retest over years 0-4 and 0-5 Parts (c) and (d) are not subject to retesting Straight-line vesting occurs between EPS levels

(c) For options granted in 2004, the performance condition is as follows (a) for awards up to 50% of salary, EPS growth of RPI + 4% pa, (b) for awards between 51% of salary and up to 100% of salary; EPS growth of RPI + 5% pa, (c) for awards between 101% of salary and up to 150% of salary; EPS growth of RPI + 6% pa, (d) for awards between 151% of salary and up to 200% of salary, EPS growth of RPI + 10% pa Performance is tested over years 0-3 Straight-line vesting occurs between EPS levels Retesting is not permitted

(viii) 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 payment

The charge in respect of share-based payment transactions included in the Group's income statement for the year is as follows

	2011 £m	2010 £m
Expense arising from share and share option plans – continuing operations	**5.0**	3 9

There were no exceptional costs included within the charge during the year (2010 £0 9m)

During the year ended 31 December 2011, the Group had eight 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

	2011		2010	
	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	**1,460,728**	**442**	1,900,806	449
Granted during the year	**14,140**	**242**	17,820	116
Forfeited during the year	**(133,551)**	**410**	(424,406)	472
Exercised during the year	**(2,735)**	**143**	(2,330)	129
Expired during the year	**(61,576)**	**434**	(31,162)	345
Outstanding at 31 December[1]	**1,277,006**	**445**	1,460,728	442
Exercisable at 31 December	**247,755**	**241**	359,568	405
Options with a nil exercise price				
At 1 January	**6,116,309**	**nil**	5,700,517	nil
Granted during the year	**4,143,972**	**nil**	3,272,571	nil
Forfeited during the year	**(1,245,344)**	**nil**	(1,083,685)	nil
Exercised during the year	**(1,172,720)**	**nil**	(1,299,223)	nil
Expired during the year	**(557,067)**	**nil**	(473,871)	nil
Outstanding at 31 December	**7,285,150**	**nil**	6,116,309	nil
Exercisable at 31 December	**444,461**		10,357	
Total outstanding at 31 December	**8,562,156**		7,577,037	
Total exercisable at 31 December	**692,216**		369,925	

[1] Included within this balance are options over 21,342 (2010 92,209) shares for which no expense has been recognised in accordance with the transitional provisions of IFRS 2 as the options were granted before 7 November 2002 Although there has been subsequent modification to the options, no IFRS 2 charge has been recognised as the amounts are not material

The options outstanding at 31 December 2011 had exercise prices that were between 129p and 604p (2010 between 117p and 604p) excluding options with a nil exercise price The range of exercise prices for options was as follows

Exercise price (p)	**2011**	2010
0-300	**127,710**	132,914
300-350	**33,483**	40,509
350-650	**1,115,813**	1,287,305
	1,277,006	1,460,728

The options have a weighted average contractual life of one year (2010 one year) Options were exercised regularly throughout the year and the weighted average share price at exercise was 241p (2010 229p)

8 **Share-based payment** 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	
	2011	2010	**2011**	2010
Risk free interest rate	**2.70%**	1 8%-3 0%	**1 30%-1 44%**	1 8%-3 0%
Expected volatility	**36.4%**	37 6%	**51.5%-51.6%**	52 7%
Peer group volatility	**-**	-	**55 1%-57.0%**	49 6%-50 8%
Expected option life in years	**8 years**	8 years	**3 years**	3 years
Expected dividend yield	**3.60%**	0%	**3.47%-3.64%**	0%
Weighted average share price at grant date	**242p**	226p	**242p**	229p
Weighted average exercise price at grant date	**242p**	225p	**nil**	nil
Weighted average fair value of options at grant date	**56p**	76p	**153p**	202p

Experience to date has shown that approximately 24% (2010 15%) 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**

	Normalised 2011 £m	**Exceptional 2011 £m**	**Total 2011 £m**	Normalised 2010 £m	Exceptional 2010 £m	Total 2010 £m
Bond and bank interest payable	**(46.2)**	**-**	**(46.2)**	(43 7)	(2 0)	(45 7)
Finance lease interest payable	**(5 0)**	**-**	**(5.0)**	(3 8)	-	(3 8)
Other interest payable	**(0.2)**	**-**	**(0.2)**	(0 2)	-	(0 2)
Unwind of provision discounting	**(1.7)**	**-**	**(1.7)**	(1 1)	-	(1 1)
Finance costs	**(53.1)**	**-**	**(53.1)**	(48 8)	(2 0)	(50 8)
Other financial income	**6.7**	**-**	**6.7**	4 8	-	4 8
Net finance costs	**(46 4)**	**-**	**(46.4)**	(44 0)	(2 0)	(46 0)
Of which, from financial instruments						
Cash and cash equivalents	**(0.1)**	**-**	**(0 1)**	(0 4)	-	(0 4)
Financial liabilities measured at amortised cost	**(40.2)**	**-**	**(40.2)**	(38 8)	-	(38 8)
Financial liabilities at fair value through profit or loss	**-**	**-**	**-**	(0 2)	-	(0 2)
Derivatives used for hedging	**3.8**	**-**	**3.8**	0 5	-	0 5
Loan fee amortisation	**(2.2)**	**-**	**(2.2)**	(2 5)	(2 0)	(4 5)

The 2010 exceptional charge of £2 0m relates to residual unamortised loan fees as a result of refinancing the Group's syndicated credit facility On 12 July 2010, the Group's £800m multi-currency syndicated credit facility (maturity June 2011), was replaced with a new four year £500m facility The remaining unamortised fees relating to the £800m facility were taken to the income statement as an exceptional cost

10 Taxation

(a) Analysis of taxation charge/(credit) in the year

	2011 £m	2010 £m
Current taxation		
UK corporation tax	**13.2**	4 4
Overseas taxation	**7.9**	3 6
Current income tax charge	**21.1**	8 0
Adjustments with respect to prior years – UK and overseas	**(1 1)**	(36 2)
Total current income tax charge/(credit)	**20.0**	(28 2)
Deferred taxation (note 27)		
Origination and reversal of temporary differences – continuing operations	**6.8**	(5 4)
Adjustments with respect to prior years – UK and overseas	**–**	11 0
Deferred tax charge	**6.8**	5 6
Total tax charge/(credit)	**26.8**	(22 6)
The tax charge/(credit) in the income statement is disclosed as follows		
Income tax charge/(credit) on continuing operations	**26.8**	(22 5)
Income tax credit on discontinued operations	**–**	(0 1)
	26.8	(22 6)
The tax charge/(credit) on continuing operations is disclosed as follows		
Tax charge on profit before intangible asset amortisation and exceptional items	**41.5**	39 2
Tax credit on intangible asset amortisation and exceptional items	**(14.7)**	(61 7)
	26.8	(22 5)
Tax credit on intangible asset amortisation and exceptional items is analysed as follows		
UK tax settlement (note 10h)	**–**	(32 1)
Tax credit on intangible asset amortisation	**(14.7)**	(17 1)
Tax credit on exceptional item	**–**	(12 5)
	(14.7)	(61 7)

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

	2011 £m	2010 £m
Current taxation		
Credit/(debit) on exchange movements offset in reserves	**7.0**	(6 0)
	7.0	(6 0)
Deferred taxation		
Deferred tax credit on share-based payment	**0.1**	0 3
Deferred tax credit/(debit) on actuarial (losses)/gains	**0.4**	(9 8)
Deferred tax charge on cash flow hedges	**(0.6)**	(6 6)
Deferred tax charge on exchange	**(4.1)**	–
	(4.2)	(16 1)

10 Taxation continued

(c) Reconciliation of the total tax charge/(credit)

	2011 £m	2010 £m
Profit from continuing operations before income tax	**129.4**	40 2
Loss from discontinued operations before income tax	–	(0 5)
Accounting profit before income tax	**129.4**	39 7
Notional charge at UK corporation tax rate of 26 5% (2010 28 0%)	**34.3**	11 1
Non-deductible goodwill impairment and intangible amortisation	**0.5**	0 1
UK tax settlement (note 10h)	–	(32 1)
Utilisation of unrecognised tax losses	**(1.2)**	(0 1)
Effect of reduction in UK tax rates (note 10g)	**(0.4)**	0 1
Prior year adjustments within current and deferred tax	**(1.1)**	8 7
Spanish reinvestment relief and other tax credits	**(0.9)**	(5 1)
Effect of overseas tax rates	**5.7**	1 7
Tax on Spanish goodwill and intangibles	**(6.2)**	(6 0)
Overseas financing deductions	**(5.8)**	(6 4)
Non-deductible expenditure	**1.9**	5 4
Total tax charge/(credit) reported in the income statement (note 10a)	**26.8**	(22 6)

(d) Temporary differences associated with Group investments

No deferred tax (2010 £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 (2010 £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 accounts amount to £40 3m (2010 £37 0m), which arise in tax jurisdictions where the Group does not expect to generate sufficient suitable future profits In addition, there are capital losses of £7 1m (2010 £7 5m) which have not been recognised, recoverability of which is dependent on capital gains arising

(f) Deferred tax included in the income statement

	2011 £m	2010 £m
Accelerated capital allowances	**6 8**	(9 2)
Other short-term temporary differences	**(3.6)**	(13 1)
Utilisation of losses	**3 6**	27 9
	6 8	5 6

Details on the balance sheet position of deferred tax are included in note 27

(g) Factors that may affect future tax charges

In the June 2010 Budget Statement, it was announced that the main rate of UK corporation tax would reduce from 28% to 27% on 1 April 2011 The legislation was enacted in July 2010 On March 2011, the UK Chancellor of the Exchequer announced a further 1% reduction in the UK corporation tax rate to 26% effective from 1 April 2011, along with subsequent reductions of 1% each year to a final rate of 23% from 1 April 2014

At the balance sheet date, a rate of 25% (2010 27%) was substantively enacted The change in rate from 27% to 25% has resulted in a tax credit of £0 4m to the income statement

The proposed changes to reduce the UK corporation tax rate from 25% to 23% on 1 April 2014 will have a similar effect in future years

10 Taxation continued

(h) UK tax settlement

Dunng 2011, there have been no exceptional tax charges or credits

Dunng 2010, the Group entered into discussions with HM Revenue & Customs (HMRC) to settle a number of UK corporation tax issues Negotiations were concluded and the Group agreed to a liability of £16 8m, including interest, to be paid in instalments This resulted in an exceptional tax release of £32 1m

11 Discontinued operations

In 2011 there were no material movements arising from discontinued operations

The 2010 cash flows from discontinued operations include an outflow of £1 8m in relation to North America Public Transit (disposed in 2005), an outflow of £1 6m in relation to Dot2Dot (disposed in 2009) and an outflow of £0 1m in relation to the Group's Australian operations (discontinued in 2009)

In 2010 a £0 3m loss from discontinued operations was recognised in relation to Dot2Dot and a £0 1m loss in relation to the Australian operations

12 Dividends paid and proposed

	2011 £m	2010 £m
Declared and paid during the year		
Ordinary final dividend for 2010 paid of 6 00p per share	**30.5**	-
Ordinary interim dividend for 2011 of 3 00p per share	**15.3**	-
	45.8	-
Proposed for approval (not recognised as a liability at 31 December)		
Ordinary final dividend for 2011 6 5p per share (2010 6 0p per share)	**33 3**	30 6

13 Earnings per share

	2011	2010
Basic earnings per share – continuing operations	**19.9p**	12 1p
Basic loss per share – discontinued operations	-	(0 1p)
Basic earnings per share – total	**19 9p**	12 0p
Normalised basic earnings per share	**27 0p**	23 6p
Diluted earnings per share – continuing operations	**19.8p**	12 1p
Diluted loss per share – discontinued operations	-	(0 1p)
Diluted earnings per share – total	**19.8p**	12 0p
Normalised diluted earnings per share	**26.9p**	23 5p

Basic earnings per share is calculated by dividing the earnings attributable to equity shareholders of £101 2m (2010 £61 4m) by the weighted average number of ordinary shares in issue during the year, excluding those held by employee share ownership trusts and those held as treasury shares which are both treated as cancelled

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

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

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

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

13 Earnings per share continued

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

	2011			2010		
	£m	Basic EPS p	Diluted EPS p	£m	Basic EPS p	Diluted EPS p
Profit attributable to equity shareholders	**101.2**	**19.9**	**19.8**	61 4	12 0	12 0
Loss from discontinued operations	**–**	**–**	**–**	0 4	0 1	0 1
Profit from continuing operations						
Attributable to equity shareholders	**101.2**	**19.9**	**19.8**	61 8	12 1	12 1
Intangible asset amortisation	**50 8**	**10 0**	**10.0**	57 1	11 2	11 1
Exceptional items	**–**	**–**	**–**	61 2	12 0	12 0
Exceptional finance costs	**–**	**–**	**–**	2 0	0 4	0 4
Tax relief on goodwill and exceptional items (including exceptional tax)	**(14.7)**	**(2.9)**	**(2.9)**	(61 7)	(12 1)	(12 1)
Normalised profit from continuing operations and attributable to equity shareholders	**137.3**	**27.0**	**26.9**	120 4	23 6	23 5

14 Intangible assets

	Customer contracts £m	Rail franchise £m	Software £m	Finite life assets £m	Contractual relationships £m	Goodwill £m	Indefinite life assets £m	Total £m
Cost								
At 1 January 2011	**426.3**	**9 9**	**22.0**	**458.2**	**57.8**	**1,104.4**	**1,162.2**	**1,620.4**
Additions	**2.6**	**–**	**1.3**	**3.9**	**–**	**0.4**	**0.4**	**4.3**
Foreign exchange	**(11.0)**	**–**	**(0.3)**	**(11.3)**	**(0.8)**	**(21.9)**	**(22.7)**	**(34.0)**
At 31 December 2011	**417.9**	**9 9**	**23.0**	**450.8**	**57 0**	**1,082.9**	**1,139.9**	**1,590.7**
Amortisation and impairment								
At 1 January 2011	**233.4**	**8.0**	**9.3**	**250.7**	**–**	**85.5**	**85.5**	**336 2**
Charge for year	**46.6**	**1 7**	**2.5**	**50.8**	**–**	**–**	**–**	**50 8**
Foreign exchange	**(7 7)**	**–**	**–**	**(7.7)**	**–**	**(1.1)**	**(1.1)**	**(8.8)**
At 31 December 2011	**272.3**	**9 7**	**11 8**	**293.8**	**–**	**84.4**	**84.4**	**378.2**
Net book value								
At 31 December 2011	**145.6**	**0 2**	**11.2**	**157.0**	**57.0**	**998.5**	**1,055.5**	**1,212.5**
At 1 January 2011	**192.9**	**1 9**	**12.7**	**207.5**	**57.8**	**1,018.9**	**1,076.7**	**1,284.2**

14 Intangible assets continued

	Customer contracts £m	Rail franchise £m	Software £m	Finite life assets £m	Contractual relationships £m	Goodwill £m	Indefinite life assets £m	Total £m
Cost								
At 1 January 2010	434 0	9 9	18 6	462 5	55 8	1,116 4	1,172 2	1,634 7
Disposals	4 7	–	–	4 7	–	0 9	0 9	5 6
Additions internally generated	–	–	2 0	2 0	–	–	–	2 0
Foreign exchange	(12 4)	–	1 4	(11 0)	2 0	(12 9)	(10 9)	(21 9)
At 31 December 2010	426 3	9 9	22 0	458 2	57 8	1,104 4	1,162 2	1,620 4
Amortisation and impairment								
At 1 January 2010	191 0	5 7	1 3	198 0	–	86 8	86 8	284 8
Charge for year	47 0	2 4	7 7	57 1	–	–	–	57 1
Foreign exchange	(4 6)	(0 1)	0 3	(4 4)	–	(1 3)	(1 3)	(5 7)
At 31 December 2010	233 4	8 0	9 3	250 7	–	85 5	85 5	336 2
Net book value								
At 31 December 2010	192 9	1 9	12 7	207 5	57 8	1,018 9	1,076 7	1,284 2
At 1 January 2010	243 0	4 2	17 3	264 5	55 8	1,029 6	1,085 4	1,349 9

Indefinite life intangible assets and goodwill have been allocated to individual cash-generating units for annual impairment testing on the basis of the Group's business operations The carrying value of indefinite life intangible assets by cash-generating unit is as follows

	2011 Contractual relationships £m	**2011 Goodwill £m**	**Total £m**	2010 Contractual relationships £m	2010 Goodwill £m	Total £m
UK Coach	**–**	**13.2**	**13 2**	–	13 2	13 2
North American Bus	**39.7**	**276.1**	**315.8**	40 0	276 4	316 4
European Coach & Bus	**17.3**	**709.2**	**726.5**	17 8	729 3	747 1
	57.0	**998.5**	**1,055.5**	57 8	1,018 9	1,076 7

The useful economic lives of contractual relationships in North American Bus and European Coach & Bus are deemed to be indefinite where historical experience has shown that these contracts are consistently renewed The customer contract and rail franchise intangible assets are amortised over the finite duration of the contract or franchise as appropriate All amortisation charges in the year have been charged to operating costs

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 Key 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 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	
	2011	2010	**2011**	2010
UK Coach	**9.8%**	9 9%	**2.0%**	2 0%
North American Bus	**11.3%**	11 1%	**2.0%**	2 0%
European Coach & Bus	**9.0%**	8 4%	**2.0%**	2 0%

The calculation of value in use for each cash-generating unit is most sensitive to the assumptions over operating profit margin, discount rates and revenue growth rates

The value in use of the North American Bus division exceeds its carrying amount by £31 5m (2010 £32 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 a reduction in operating profit margin of 50 basis points (2010 50 basis points), an increase in the discount rate of 30 basis points (2010 30 basis points) or a reduction in revenue growth rates of 100 basis points (2010 110 basis points) The continued non-impairment of North America is dependent upon continuing to deliver the margin recovery in future years

The value in use of the European Coach & Bus division exceeds its carrying amount by £176 8m (2010 £252 3m) 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 a reduction in operating profit margin of 260 basis points (2010 380 basis points), an increase in the discount rate of 90 basis points (2010 130 basis points) or a reduction in revenue growth rates of 410 basis points (2010 620 basis points) The decrease in headroom and increased sensitivity reflects the Spanish macro-economic risks, which have been incorporated into the future cash flow assumptions (see Principal risk and uncertainties section for further details regarding how Group management recognises, prioritises and puts in place measures to mitigate these risks)

It is believed that any reasonably possible movement on assumptions will not lead to an impairment of goodwill allocated to UK Coach

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 2011	**95.2**	**3 7**	**906.8**	**165.7**	**1,171 4**
Additions	**1 9**	**0.5**	**139 7**	**14 7**	**156.8**
Acquisitions of businesses	**-**	**-**	**1.5**	**-**	**1.5**
Disposals	**-**	**-**	**(15.2)**	**(5.4)**	**(20.6)**
Foreign exchange	**(2.0)**	**-**	**(7.3)**	**(1.4)**	**(10.7)**
At 31 December 2011	**95.1**	**4.2**	**1,025 5**	**173.6**	**1,298.4**
Depreciation					
At 1 January 2011	**11 2**	**1.6**	**327.9**	**116 6**	**457 3**
Charge for the year	**1.9**	**0.5**	**86.7**	**16.4**	**105 5**
Disposals	**-**	**-**	**(10.7)**	**(4.7)**	**(15.4)**
Foreign exchange	**(0.1)**	**(0.1)**	**(2.6)**	**(0.7)**	**(3.5)**
At 31 December 2011	**13.0**	**2.0**	**401.3**	**127.6**	**543 9**
Net book value					
At 31 December 2011	**82.1**	**2.2**	**624.2**	**46.0**	**754.5**
At 1 January 2011	**84.0**	**2.1**	**578.9**	**49.1**	**714.1**

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 2010	95 5	4 4	816 9	158 6	1,075 4
Additions	3 2	0 6	131 8	15 2	150 8
Acquisitions of businesses	–	–	2 4	–	2 4
Disposals	(1 4)	(1 5)	(56 4)	(8 6)	(67 9)
Foreign exchange	(2 1)	0 2	12 1	0 5	10 7
At 31 December 2010	95 2	3 7	906 8	165 7	1,171 4
Depreciation					
At 1 January 2010	11 0	2 5	286 6	102 7	402 8
Charge for the year	1 8	0 5	79 5	18 0	99 8
Disposals	(1 6)	(1 5)	(45 6)	(4 2)	(52 9)
Foreign exchange	–	0 1	7 4	0 1	7 6
At 31 December 2010	11 2	1 6	327 9	116 6	457 3
Net book value					
At 31 December 2010	84 0	2 1	578 9	49 1	714 1
At 1 January 2010	84 5	1 9	530 3	55 9	672 6

Property, plant and equipment held under finance lease agreements are analysed as follows

		2011 £m	2010 £m
Land and buildings	– cost	**1 4**	1 5
	– depreciation	**(0 1)**	(0 1)
Net land and buildings		**1.3**	1 4
Public service vehicles	– cost	**245.6**	215 1
	– depreciation	**(61.5)**	(54 0)
Net public service vehicles		**184.1**	161 1
Plant and equipment	– cost	**0.9**	1 3
	– depreciation	**(0 8)**	(1 2)
Net plant and equipment		**0.1**	0 1
Total net book value		**185 5**	162 6

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 result 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
National Express Rail Replacement 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
London Eastern Railway Limited (trading as National Express East Anglia)	Operation of train passenger services (ceased operating on 4 February 2012)

Incorporated in Scotland	
Tayside Public Transport Co Limited (trading as Travel Dundee)	Operation of bus services

Incorporated in the USA	
Durham School Services LP	Operation of school 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

* The main holding companies of the ALSA Group

Notes to the Consolidated Accounts continued

17 Derivative financial assets and available for sale investments

	2011 £m	2010 £m
Available for sale investments – Unlisted ordinary shares	**7.6**	7 8
Derivative financial instruments – Interest rate derivatives	**23.7**	–
Derivative financial instruments – Fuel derivatives	**7.3**	7 2
Derivative financial instruments included in non-current assets	**31.0**	7 2
Derivative financial instruments – Interest rate derivatives	**–**	3 8
Derivative financial instruments – Fuel derivatives	**13.1**	14 1
Derivative financial instruments – Foreign exchange derivatives	**8.0**	0 4
Derivative financial instruments included in current assets	**21 1**	18 3

Further information on the Group's use of fuel, interest rate and foreign exchange derivatives is included in note 31

Available for sale investments

	2011 £m	2010 £m
Cost or valuation and net book value		
At 1 January	**7.8**	7 7
Additions	**–**	0 3
Foreign exchange	**(0.2)**	(0 2)
At 31 December	**7.6**	7 8

The principal available for sale investments are as follows

Name	Country of registration	Class of share	2011 Proportion held %	2010 Proportion held %
Bosnjak Holdings Pty Ltd	Australia	Ordinary shares	**86**	86
Prepayment Cards Limited (PCL)	England and Wales	Ordinary shares	**–**	23 5
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

	2011 £m	2010 £m
Joint ventures	**2.0**	2 0
Associates	**4.6**	4 6
Total investments accounted for under the equity method	**6.6**	6 6

The Group's share of post tax results from associates and joint ventures accounted for using the equity method is as follows

	2011 £m	2010 £m
Share of joint venture's profit	**0.1**	0 1
Share of associates' profit	**1.3**	0 2
Total share of results from associates and joint ventures	**1.4**	0 3

(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

	Ibero	
Share of joint venture's balance sheet and results	2011 £m	2010 £m
Non-current assets	**3.5**	3 7
Current assets	**–**	0 1
Share of gross assets	**3.5**	3 8
Non-current liabilities	**(1.2)**	(1 5)
Current liabilities	**(0.3)**	(0 3)
Share of gross liabilities	**(1.5)**	(1 8)
Share of net assets	**2.0**	2 0
Revenue	**0.1**	0 1
Share of profit	**0.1**	0 1

The carrying amount of the investment in joint ventures matches the Group's share of the net assets

Notes to the Consolidated Accounts continued

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 %
Inter-Capital and Regional Rail Limited	England and Wales	40
European Coach & Bus associates	Spain	20-50

Inter-Capital and Regional Rail Limited (ICRRL) was contracted to manage the operations of Eurostar UK until 2010 In 2006 and 2009, onerous contract provisions were recognised in relation to the Group's obligation to fund the losses of ICRRL As a result, the Group ceased to recognise the share of results of ICRRL

European Coach & 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	**2011 £m**	2010 £m
Non-current assets	**4.7**	5 1
Current assets	**5.9**	6 1
Share of gross assets	**10.6**	11 2
Non-current liabilities	**(2.4)**	(2 4)
Current liabilities	**(3.6)**	(4 2)
Share of gross liabilities	**(6.0)**	(6 6)
Share of net assets	**4.6**	4 6
Total revenue	**15.6**	15 5
Share of profit	**1.3**	0 2

19 Business combinations

(a) Acquisitions

2011 Acquisitions

During the year the Group paid £0 4m to acquire a controlling interest in Dainco S A , a company that operates coach services in Spain Goodwill arising on the acquisition was £0 4m Included in the acquired balance sheet was £1 0m of bank borrowings

2010 Acquisitions

On 31 December 2010, in the United States, the Group acquired the entire share capital of school bus operator Vogel (Vogel Bus Company Inc) Details of the acquisition are disclosed in the 2010 Annual Report and Accounts In 2011, £6 6m of deferred consideration was paid in relation to the acquisition

(b) Disposals

There were no business disposals in the Group in 2011 or 2010

During 2011, £0 9m of deferred consideration was received in relation to the Group's Portuguese transport business that was disposed of in 2008

20 Non-current assets – other receivables

	2011 £m	2010 £m
Trade receivables	**4.7**	4 7
Prepayments and accrued income	**–**	0 1
Other receivables	**1.2**	1 2
	5.9	6 0

21 Inventories

	2011 £m	2010 £m
Raw materials and consumables	**18 8**	17 6

The movement on the provision for slow moving and obsolete inventory is immaterial

22 Current assets – trade and other receivables

	2011 £m	2010 £m
Trade receivables	**155 8**	150 3
Less provision for impairment of receivables	**(10.2)**	(14 3)
Trade receivables – net	**145 6**	136 0
Amounts due from associates and joint ventures (note 36)	**1.0**	0 8
Amounts owed by other related parties (note 36)	**1.0**	1 3
Other receivables	**47.2**	30 5
Prepayments and accrued income	**53.3**	58 2
	248.1	226 8

An analysis of the provision for impairment of receivables is provided below

	2011 £m	2010 £m
At 1 January	**(14.3)**	(12 1)
Utilised/(provided) in the year	**4.1**	(2 2)
At 31 December	**(10.2)**	(14 3)

23 Cash and cash equivalents

	2011 £m	2010 £m
Cash at bank and in hand	**64.8**	81 5
Overnight deposits	**25.0**	36 8
Other short-term deposits	**2.7**	10 5
Cash and cash equivalents	**92.5**	128 8

Cash and cash equivalents include restricted balances of £14 0m (2010 £21 7m) held by the UK 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

	2011 £m	2010 £m
Trade payables	**168.6**	175 3
Amounts owed to associates and joint ventures (note 36)	**1.0**	1 1
Amounts owed to other related parties (note 36)	**0.7**	0 7
Other tax and social security payable	**17.2**	36 0
Accruals and deferred income	**182.8**	171 1
Other payables	**96.1**	86 4
	466.4	470 6

Trade payables are non-interest bearing and are normally settled on 30 day terms and other payables are non-interest bearing and have an average term of two months Included within other payables are deferred fixed asset grants from government or other public bodies of £2 6m (2010 £2 3m)

Accrued interest on bonds of £30 4m was presented in other payables in the 2010 financial accounts In 2011, this has been included within bonds – accrued interest, shown in note 28

25 Other non-current lıabılıtıes

	2011 £m	2010 £m
Deferred fixed asset grants	**3 7**	3 7
Other lıabılıtıes	**1.2**	21 5
	4 9	25 2

26 Provısıons

	Insurance claıms[1] £m	Eurostar onerous contract provısıon[2] £m	Other[3] £m	**Total £m**
At 1 January 2011	**45.8**	**18.2**	**15.6**	**79.6**
Charged/(released) to the ıncome statement	**20 6**	**(0.2)**	**4.8**	**25.2**
Utılısed ın the year	**(24.0)**	**(9 0)**	**(8 7)**	**(41 7)**
Amortısatıon of dıscount	**1.7**	**–**	**–**	**1 7**
Exchange dıfference	**0.1**	**–**	**–**	**0 1**
At 31 December 2011	**44.2**	**9 0**	**11.7**	**64 9**
Current 31 December 2011	**21.4**	**9.0**	**10.5**	**40 9**
Non-current 31 December 2011	**22.8**	**–**	**1 2**	**24 0**
	44.2	**9.0**	**11.7**	**64 9**
Current 31 December 2010	26 1	9 0	8 8	43 9
Non-current 31 December 2010	19 7	9 2	6 8	35 7
	45 8	18 2	15 6	79 6

1 The ınsurance claıms provısıon arıses from estımated exposures at the year end, the majorıty of whıch wıll be utılısed ın the next five years, and comprıses provısıons for exıstıng claıms arısıng ın the UK and North Amerıca

2 A provısıon was recognısed ın 2006 for the Group's onerous contract for Eurostar wıth ICRRL £9 0m (2010 £8 7m) was paıd to ICRRL durıng the year The remaınder has been settled ın 2012

3 Other ıncludes amounts provıded for onerous property contracts, lıabılıtıes for future franchıse exıts wıthın the UK Raıl dıvısıon, costs arısıng from restructurıng actıvıtıes and £4 6m of expected lıabılıtıes for a workıng tıme claım ın North Amerıca These amounts are expected to be settled durıng 2012 Other non-current amounts are expected to be settled ın 2013

When the effect ıs materıal, the provısıons are dıscounted to theır net present value

27 Deferred tax

	2011 £m	2010 £m
Net deferred tax lıabılıty at 1 January	**(84.1)**	(63 8)
Debıt to ıncome statement	**(6.8)**	(5 6)
Charge to other comprehensıve ıncome or equıty	**(4.2)**	(16 1)
Exchange dıfferences	**1.4**	1 4
Transfers from Corporatıon Tax	**(1.5)**	–
Net deferred tax lıabılıty at 31 December	**(95.2)**	(84 1)

Based on current capıtal ınvestment plans, the Group expects to be able to claım capıtal allowances ın excess of deprecıatıon ın future years at a sımılar level to the current year

Deferred tax assets and lıabılıtıes wıthın the same jurısdıctıon have been offset

27 Deferred tax continued

Deferred tax assets	2011 £m	2010 £m
Accelerated tax depreciation	–	(1 0)
Losses carried forward	–	1 2
Other short-term temporary differences	–	2 6
Total	–	2 8

Deferred tax liabilities	2011 £m	2010 £m
Accelerated tax depreciation	(151 7)	(94 4)
Losses carried forward	30.1	37 3
Other short-term temporary differences	26.4	(29 8)
Total	(95.2)	(86 9)

28 Borrowings and derivative financial liabilities

	2011 £m	2010 £m
Non-current		
Bank loans	5 5	3 6
Bonds	583 4	565 6
Finance lease obligations	129.2	103 8
Other debt payable	0.3	1 4
Non-current borrowings	718.4	674 4
Fuel derivatives	2.4	–
Interest rate derivatives	–	5 1
Non-current derivative financial instruments	2.4	5 1
Non-current borrowing and derivative financial liabilities	720.8	679 5
Current		
Bank loans	2.4	36 2
Bonds – accrued interest	29.9	30 4
Finance lease obligations	22.1	27 8
Other debt payable	0.4	0 4
Current borrowings	54 8	94 8
Fuel derivatives	–	2 0
Foreign exchange derivatives	0 2	10 4
Current derivative financial instruments	0.2	12 4
Current borrowings and derivative financial liabilities	55.0	107 2

An analysis of interest-bearing loans and borrowings is provided in note 29 Further information on derivative financial instruments is provided in note 31

Accrued interest of £30 4m was presented in other payables in the 2010 financial accounts In 2011, this has been included within bonds – accrued interest

29 Interest-bearing borrowings

The effective interest rates on loans and borrowings at the balance sheet date were as follows

	2011 £m	Maturity	Effective interest rate	2010 £m	Maturity	Effective interest rate
7 year Sterling bond	351 6	January 2017	6.54%	345 0	January 2017	6 54%
10 year Sterling bond	231.8	June 2020	6.85%	220 6	June 2020	6 85%
Bonds	583.4			565 6		
Bonds – accrued interest	29 9			30 4		
Sterling bank loans	–	August 2014[1]	LIBOR + 1.25%	35 3	August 2014[1]	LIBOR + 1 45%
European bank loans	6 3	2012-2016	4.95%	3 0	2011-2015	3 00%
European bank loans	1 6	2012-2016	4.74%	1 5	2011-2015	2 64%
Bank loans	7 9			39 8		
US dollar finance leases at fixed rate	117.3	2012-2018	2.67%	90 9	2011-2017	3 70%
European finance leases at fixed rate	8.1	2012-2017	6.09%	8 4	2011-2015	6 5%
European finance leases at floating rate	5.8	2012-2017	EURIBOR + 1.07%	8 8	2011-2016	EURIBOR + 0 62%
Sterling finance leases at fixed rate	20.1	2012-2018	4.76%	23 5	2011-2018	4 76%
Finance leases	151.3			131 6		
Euro loans	0.7	2012-2014	–	1 8	2011-2016	–
Other debt payable	0.7			1 8		
Total	773.2			769 2		

1 This date is the ultimate maturity date of the syndicated credit facility

During 2010, two new Sterling bonds with nominal values of £350m and £225m were issued under the £1bn EMTN Following the issuance of the £350m bond in January 2010 the Group repaid its €270m Euro bank loan The Group used the proceeds of the £225m bond to repay a portion of its £800m syndicated credit facility (maturity 5 June 2011) This facility was subsequently refinanced on 21 July 2010 and replaced with a £500m syndicated credit facility (maturity 31 August 2014)

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

As at 31 December 2011	< 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	(1.5)	(1 4)	(1.5)	(1.3)	(0 6)	–	(6.3)
Bonds	–	–	–	–	–	(613.3)	(613.3)
Finance leases	(20.3)	(21 8)	(34.8)	(14.9)	(12.7)	(41.0)	(145.5)
Other debt payable	(0.4)	(0.2)	(0.1)	–	–	–	(0.7)
Floating rate							
Cash assets	92.5	–	–	–	–	–	92.5
Bank loans	(0.9)	(0.3)	(0.3)	(0.1)	–	–	(1.6)
Finance leases	(1.8)	(1.2)	(1.0)	(1.1)	(0 5)	(0 2)	(5.8)

As at 31 December 2010	< 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							
Bonds	–	–	–	–	–	(596 0)	(596 0)
Finance leases	(22 9)	(13 8)	(15 6)	(23 8)	(12 7)	(34 0)	(122 8)
Other debt payable	(0 4)	–	(1 2)	–	–	(0 2)	(1 8)
Floating rate							
Cash assets	128 8	–	–	–	–	–	128 8
Bank loans	(36 1)	(0 8)	(1 6)	(0 7)	(0 6)	–	(39 8)
Finance leases	(4 9)	(1 4)	(0 8)	(0 7)	(0 8)	(0 2)	(8 8)

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 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 cross currency interest rate swaps and foreign exchange swaps At the year end, the Group had outstanding foreign exchange derivatives of €250 0m and US$195 0m, swaps of US$49 0m, €6 0m, C$7 0m and finance leases of US$182 3m and €16 6m

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 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 £17 2m

As at 31 December	Strengthening/ (weakening) in currency	**2011** Effect on profit before tax £m	**2011** Effect on translation reserve £m	2010 Effect on profit before tax £m	2010 Effect on translation reserve £m
US dollar	10%	**–**	**1.5**	–	(15 5)
Euro	10%	**–**	**(19.6)**	–	(21 7)
Canadian dollar	10%	**–**	**0 9**	–	(0 1)
US dollar	(10%)	**–**	**(1.5)**	–	15 5
Euro	(10%)	**–**	**19.6**	–	21 7
Canadian dollar	(10%)	**–**	**(0.9)**	–	0 1

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

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 3m The Group does not hold significant floating rate instruments denominated in US$ or in Euro and it is therefore estimated that the Group's profit before tax would change by less than £0 1m should the interest rates applicable to floating rate instruments denominated in US$ increase by 50bps, or should the interest rates applicable to floating rate instruments denominated in Euro increase by 75bps The analysis assumes that the amount and mix of floating rate debt, including finance leases, remains unchanged from that in place at 31 December 2011

30 Financial risk management objectives and policies continued

As at 31 December	Increase/ (decrease) in basis points	2011 Effect on profit before tax £m	2011 Effect on hedging reserve £m	2010 Effect on profit before tax £m	2010 Effect on hedging reserve £m
Sterling	100	**(1.3)**	**–**	(1 8)	–
US dollar	50	**–**	**–**	0 1	–
Euro	75	**–**	**–**	0 2	–
Sterling	(100)	**1.3**	**–**	1 8	–
US dollar	(50)	**–**	**–**	(0 1)	–
Euro	(75)	**–**	**–**	(0 2)	–

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 2011, the Group had hedged approximately 100% of its 2012 expected usage and 50% of its expected usage in 2013 (see the Financial 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 £37 1m at 31 December 2011 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	2011 Effect on profit before tax £m	2011 Effect on hedging reserve £m	2010 Effect on profit before tax £m	2010 Effect on hedging reserve £m
Sterling denominated ULSD	20%	**–**	**11.6**	–	13 5
US dollar denominated heating oil/diesel	20%	**–**	**12.1**	–	11 6
Euro denominated ULSD	20%	**–**	**13.4**	–	12 2
Sterling denominated ULSD	(20%)	**–**	**(11.6)**	–	(13 5)
US dollar denominated heating oil/diesel	(20%)	**–**	**(12.1)**	–	(11 6)
Euro denominated ULSD	(20%)	**–**	**(13.4)**	–	(12 2)

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 Principal risks and uncertainties 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 2011	**150.3**	**90.8**	**26 5**	**10.2**	**4.8**	**18 0**
Trade receivables at 31 December 2010	140 7	104 7	12 8	4 4	4 0	14 8

Liquidity risk

The Group's liquidity risk is managed centrally by the Group Treasury department with operating units forecasting their cash requirements The Group actively maintains a mixture of long-term and medium-term committed facilities that are designed to ensure the Group has sufficient available funds to meet current and forecast funding requirements In managing the liquidity risk, the Group has access to a range of funding sources through the banking and capital markets

At 31 December 2011, the Group had committed bank borrowing and finance lease facilities of £620 5m (2010 £631 6m) The Group has a £500m committed unsecured revolving bank facility, maturing in August 2014, which was undrawn at 31 December 2011 (2010 £460m) Letters of credit issued to support insurance retentions were £30 8m (2010 £39 4m)

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2011 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 2011	**On demand £m**	**Less than 1 year £m**	**1-5 years £m**	**> 5 years £m**	**Total £m**
Bank loans	–	**2.4**	**5.5**	–	**7.9**
Bonds	–	**36.8**	**147.1**	**656.5**	**840.4**
Finance lease obligations	–	**31.2**	**92.9**	**45.0**	**169.1**
Other debt payable	–	**0.4**	**0.1**	**0.2**	**0.7**
Trade and other payables	–	**463.8**	**1.2**	–	**465.0**
ICRRL onerous contract obligation	–	**9.0**	–	–	**9.0**
	–	**543.6**	**246.8**	**701.7**	**1,492.1**
Foreign exchange derivatives	–	**(8.0)**	–	–	**(8.0)**
Interest rate derivatives	–	**(4.0)**	**(12.3)**	**(8.5)**	**(24.8)**
Fuel derivatives	–	**(16.5)**	**(5.7)**	–	**(22.2)**
	–	**(28.5)**	**(18.0)**	**(8.5)**	**(55.0)**

Year ended 31 December 2010	On demand £m	Less than 1 year £m	1-5 years £m	> 5 years £m	Total £m
Bank loans	–	1 6	47 7	–	49 3
Bonds	–	36 8	147 1	693 3	877 2
Finance lease obligations	–	28 3	83 1	38 5	149 9
Other debt payable	–	0 4	1 2	0 2	1 8
Interest rate derivatives	–	–	–	1 2	1 2
Fuel derivatives	–	3 7	6 4	–	10 1
Foreign exchange derivatives	–	10 4	–	–	10 4
Trade and other payables	–	390 7	21 5	–	412 2
ICRRL onerous contract obligation	–	9 0	9 2	–	18 2
	–	480 9	316 2	733 2	1,530 3

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 increase in the Group's net debt from £610 4m to £633 7m (excluding accrued interest) is explained in the Financial 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 2011

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 the Level 2 (ie the fair values are derived based on observable market inputs), in accordance with IFRS 7

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, banks 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 2011	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	–	7.6	–	–	–	7 6
Fuel derivatives	–	–	20.4	–	–	20 4
Foreign exchange derivatives	–	–	8 0	–	–	8.0
Interest rate derivatives	–	–	23.7	–	–	23.7
Cash and cash equivalents	92.5	–	–	–	–	92.5
Trade and other receivables	200.7	–	–	–	–	200.7
	293.2	7.6	52.1	–	–	352.9
Liabilities						
Bank loans	–	–	–	(7 9)	–	(7.9)
Bonds including accrued interest	–	–	–	(613 3)	–	(613.3)
Finance lease obligations	–	–	–	(151 3)	–	(151.3)
Other debt payable	–	–	–	(0 7)	–	(0.7)
Fuel derivatives	–	–	(2.4)	–	–	(2.4)
Foreign exchange derivatives	–	–	(0.2)	–	–	(0.2)
Trade and other payables	–	–	–	(465 0)	–	(465.0)
ICRRL onerous contract obligation	–	–	–	(9.0)	–	(9.0)
	–	–	(2.6)	(1,247.2)	–	(1,249.8)

Classification of financial instruments As at 31 December 2010	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 8	–	–	–	7 8
Fuel derivatives	–	–	21 3	–	–	21 3
Foreign exchange derivatives	–	–	0 4	–	–	0 4
Interest rate derivatives	–	–	3 8	–	–	3 8
Cash and cash equivalents	128 8	–	–	–	–	128 8
Trade and other receivables	232 8	–	–	–	–	232 8
	361 6	7 8	25 5	–	–	394 9
Liabilities						
Bank loans	–	–	–	(39 8)	–	(39 8)
Bonds including accrued interest	–	–	–	(596 0)	–	(596 0)
Finance lease obligations	–	–	–	(131 6)	–	(131 6)
Other debt payable	–	–	–	(1 8)	–	(1 8)
Interest rate derivatives	–	–	(5 1)	–	–	(5 1)
Fuel derivatives	–	–	(2 0)	–	–	(2 0)
Foreign exchange derivatives	–	–	(10 4)	–	–	(10 4)
Trade and other payables	–	–	–	(526 2)	–	(526 2)
ICRRL onerous contract obligation	–	–	–	(18 2)	–	(18 2)
	–	–	(17 5)	(1,313 6)	–	(1,331 1)

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 2011 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 2011 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$ 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

The movement on derivative financial instruments is detailed below

	Interest rate swaps £m	**Foreign exchange forward contracts £m**	**Fuel swaps £m**	**Total £m**
Net (liability)/asset at 1 January 2011	**(1 3)**	**(10.0)**	**19.3**	**8.0**
Transfers to the income statement on cash flow hedges	**-**	**-**	**(25.3)**	**(25.3)**
Cash settlements/accrual	**7.5**	**12.8**	**-**	**20.3**
Revaluation through income statement	**17.5**	**-**	**-**	**17.5**
Revaluation through other comprehensive income	**-**	**-**	**24.2**	**24.2**
Exchange differences	**-**	**5 0**	**(0.2)**	**4.8**
Net asset at 31 December 2011	**23.7**	**7 8**	**18.0**	**49.5**

	Interest rate swaps £m	Foreign exchange forward contracts £m	Fuel swaps £m	Total £m
Net liability at 1 January 2010	(24 2)	(7 4)	(6 4)	(38 0)
Cash settlements	22 4	2 0	2 4	26 8
Revaluation through income statement	0 4	-	0 2	0 6
Revaluation through other comprehensive income	-	-	21 1	21 1
Exchange differences	0 1	(4 6)	2 0	(2 5)
Net liability at 31 December 2010	(1 3)	(10 0)	19 3	8 0

The movement on the hedging reserve is detailed below

	2011 £m	2010 £m
At 1 January	**17.6**	0 8
Transferred to income statement – operating costs	**(25.3)**	2 3
Revaluation through over comprehensive income	**24.2**	21 1
Tax on revaluation	**(0 6)**	(6 0)
Tax on transfers to income statement	**-**	(0 6)
At 31 December	**15.9**	17 6

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 and are used to reduce the exposure to foreign exchange rate movements At 31 December 2011 the Group had designated a total of €250 0m of synthetic debt in the form of foreign exchange derivatives as a net investment hedge of €250 0m of the net assets of the Spanish subsidiary No ineffectiveness was recognised in relation to this hedge The foreign exchange derivatives have a maturity date of 24 January 2012 and will be rolled forward as appropriate to maintain a desirable level of hedging Following the Groups' announcement of its intention to acquire Petermann Partners Inc, the Group has entered into a $200m foreign exchange forward as a cash flow hedge for this forecast transaction The portion of the gain or loss on the hedging instruments that is determined to be an effective hedge is recognised directly in translation reserves and, to this extent, offsets any gains or losses on translation of the net investments in the subsidiaries

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 European Coach & Bus divisions and gasoil is used in the UK Rail division, both are hedged by swaps in the same type of fuel Diesel used in the North American division is hedged using the heating oil and diesel market The timing of the swap cash flows match underlying fuel purchases from 2012 through to 2013 There was no significant element of hedge ineffectiveness requiring recognition in the income statement

During the year £24 2m of fair value gains (2010 £21 1m) have been transferred to the hedging reserve due to movements in market fuel prices Fair value movements of £25 3m (2010 £2 4m) have been transferred from the hedging reserve to the income statement following settlement of fuel trades, of which £14 6m was recognised in the hedging reserve at 1 January 2011 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 2011 Fair value £m	31 December 2010 Fair value £m	**31 December 2011 Volume million litres**	31 December 2010 Volume million litres
Hedge fuel derivatives				
Sterling denominated – UK Bus, UK Coach and UK Rail	**3.4**	2 9	**80.6**	83 7
US dollar denominated – North American Bus	**3.2**	1 3	**74 5**	64 9
Euro denominated – European Coach & Bus	**6.5**	7 9	**90.0**	80 0
Fuel derivatives included in current assets	**13.1**	12 1	**245.1**	228 6
Sterling denominated – UK Bus, UK Coach and UK Rail	**2.8**	2 6	**36.0**	63 6
US dollar denominated – North American Bus	**(0.6)**	1 3	**39.7**	20 8
Euro denominated – European Coach & Bus	**2.7**	3 3	**45.0**	75 0
Fuel derivatives included in non-current assets/(liabilities)	**4.9**	7 2	**120.7**	159 4
Total hedge fuel derivatives	**18.0**	19 3	**365.8**	388 0

31 Financial instruments (including cash, trade receivables and payables) continued

Interest rate swaps at fair value through profit or loss

On 14 January 2010 the Group terminated all outstanding Euro interest rate swaps resulting in a net cash outflow of £20 9m for their fair value and accrued interest outstanding This followed the issue of the Group's £350m ten year Sterling bond and subsequent repayment of the Group's €270m loan on 15 January 2010

The Group continued to account for two US$100m denominated interest rate swaps at fair value through profit or loss until their maturity in September 2010 The Group accounted for their fair market value gain of £0 2m in 2010 through the income statement

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 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 2011 a total fair value gain of £17 5m was recognised in the income statement in relation to these swaps This is offset by a fair value loss of £17 5m 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

32 Called-up share capital

	2011 £m	2010 £m
At 31 December		
Authorised		
800,000,000 (2010 800,000,000) ordinary shares of 5p each	**40.0**	40 0
Issued called-up and fully paid		
511,726,026 (2010 511,726,026) 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 1,175,455 (2010 1,301,553) of which nil exercises were satisfied by newly issued shares (2010 nil) and 1,175,455 (2010 1,301,553) exercises were satisfied by transferring shares from the National Express Employee Benefit Trust

Own shares

Own shares comprise treasury shares and shares held in the Employee Benefit Trust

Treasury shares include 1,668,688 (2010 1,668,688) ordinary shares in the Company No additional shares have been added during the year as treasury shares within equity for future issue under the Group's share schemes or cancellation No shares were cancelled during the year (2010 nil) The market value of these shares at 31 December 2011 was £3 7m (2010 £4 2m)

Own shares include 380,430 (2010 477,914) 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 991,615 (2010 714,597) shares and 1,175,455 (2010 1,301,553) 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 2011 was £0 9m (2010 £1 2m) 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 2011	**15 4**	**17.6**	**92.1**	**125.1**
Hedge movements, net of tax	**–**	**(1.7)**	**–**	**(1 7)**
Exchange differences, net of tax	**–**	**–**	**(23.5)**	**(23.5)**
At 31 December 2011	**15 4**	**15.9**	**68.6**	**99.9**

	Merger reserve £m	Hedging reserve £m	Translation reserve £m	Total £m
At 1 January 2010	15 4	0 8	99 9	116 1
Hedge movements, net of tax	–	16 8	–	16 8
Exchange differences, net of tax	–	–	(7 8)	(7 8)
At 31 December 2010	15 4	17 6	92 1	125 1

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 reserve is not distributable,
- The hedging reserve records the movements on designated hedging items, offset by any movements recognised directly 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 UK Rail companies are members of the appropriate shared-cost section of the Railways Pension Scheme (RPS), a funded defined benefit scheme The assets of all schemes are held separately from those of the Group Contributions to the schemes are determined by independent professionally qualified actuaries

Subsidiaries in North America contribute to a number of defined contribution plans The Group also provides certain additional unfunded post-employment benefits to employees in North America and Spain, which are disclosed in section (c) in the 'Other' category

The total pension cost for the year was £11 7m (2010 £15 3m), of which £3 5m (2010 £3 2m) relates to the defined contribution schemes

The UK Coach plan is now closed to all future accrual A funding plan aimed at bringing the plan to self sufficiency over a six year period was agreed in 2010, National Express contributes £4 2m annually to this scheme In 2011 UK Bus agreed a £5 5m annual deficit repayment plan with the trustees of the West Midlands Passenger Transport Authority Pension Fund to fund a £71m scheme funding deficit over 12 years The plan remains open to accrual for existing members only

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

	2011 £m	2010 £m
UK Bus	**(16.8)**	(5 3)
UK Coach	**18.6**	–
UK Rail	**(2.2)**	(3 7)
Other	**(1.4)**	(1 4)
Total	**(1.8)**	(10 4)

34 Pensions and other post-employment benefits continued

(a) Summary of pension benefits and assumptions continued

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	UK Rail
Date of actuarial valuation	Tayside 31 March 2008	Travel West Midlands 31 March 2010	5 April 2010	31 December 2007
Actuarial method used	Attained age*	Attained age*	Projected unit	Projected unit
Rate of investment returns per annum	7 8%	5 0%-7 0%	4 1%	5 8%-7 6%
Increase in earnings per annum	5 2%	4 5%	–	4 2%
Scheme assets taken at market value	£40 5m	£382 0m	£54 8m	£355 1m
Funding level	92%	84%	68%	103%-109%

* Amounts included in the income statement, other comprehensive income and the balance sheet are calculated using the projected unit method

The range of funding levels and scheme assets for UK Rail reflects the range of funding levels and assets in the various sections of the RPS relating to the franchises which the Group operated at 31 December 2011 The plans do not provide medical benefits

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

	2011			2010		
	UK Bus	**UK Coach**	**UK Rail**	UK Bus	UK Coach	UK Rail
Rate of increase in salaries	**3 0%**	**3.0%**	**3.0%**	3 9%	3 9%	3 9%
Rate of increase of pensions	**2.0%**	**3.0%**	**2.0%**	2 9%	3 5%	2 9%
Discount rate	**5.0%**	**5.0%**	**5.0%**	5 4%	5 4%	5 4%
Inflation assumption (RPI)	**3 0%**	**3.0%**	**3.0%**	3 5%	3 5%	3 5%
Inflation assumption (CPI)	**2.0%**	**2.0%**	**2.0%**	2 9%	2 9%	2 9%
Expected rates of return on scheme assets						
Equities	**7.7%**	**7.7%**	**7.7%**	7 7%	7 7%	7 7%
Bonds	**3.0%**	**3.0%**	**3.0%**	4 2%	4 2%	4 2%
Properties	**5 7%**	**5.7%**	**5.7%**	6 0%	6 0%	6 0%
Other	**1.25%**	**1.25%**	**1.25%**	1 25%	1 25%	1 25%
Post-retirement mortality in years						
Current pensioners at 65 – male	**20 9**	**24.5**		19 4	21 9	
Current pensioners at 65 – male, pension under £8,500 pa or pensionable pay under £30,000 pa			**20.5**			19 8
Current pensioners at 65 – male – others			**22.6**			21 5
Current pensioners at 65 – female	**23.6**	**27 5**		22 2	24 8	
Current pensioners at 65 – female, pension under £3,000 pa or pensionable pay under £30,000 pa			**22.4**			21 7
Current pensioners at 65 – female – others			**24 8**			22 7
Future pensioners at 65 – male	**22.3**	**26.6**		20 4	23 0	
Future pensioners at 65 – male, pension under £8,500 pa or pensionable pay under £30,000 pa			**22.8**			22 2
Future pensioners at 65 – male – others			**24.9**			23 7
Future pensioners at 65 – female	**25.2**	**29.5**		23 1	25 8	
Future pensioners at 65 – female, pension under £3,000 pa or pensionable pay under £30,000 pa			**24.9**			23 2
Future pensioners at 65 – female – others			**27.1**			24 2

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 UK 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	UK Rail £m
Defined benefit pension (liability)/asset at 31 December 2011	**(16.8)**	**18.6**	**(2.2)**
Effect of a 0 1% increase in the discount rate	**6.6**	**1.1**	**0.1**
Current service cost for the year ended 31 December 2011	**(4.1)**	**(0.1)**	**(10.3)**
Effect of a 0 1% increase in the discount rate	**0.1**	**–**	**0.2**

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 UK 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 eleven changes of UK 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 £72 4m at 31 December 2010 to £59 6m at 31 December 2011 The decrease is caused by interest on the franchise adjustment of £3 9m and net actuarial movements of £16 7m In the prior year, the franchise adjustment decreased from £81 7m at 31 December 2009 to £72 4m at 31 December 2010 The decrease was caused by interest on the franchise adjustment of £4 7m and net actuarial movements of £14 0m

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 2011 and 2010 are set out in the following tables

Group income statement	UK Bus 2011 £m	UK Coach 2011 £m	UK Rail 2011 £m	Total 2011 £m
Amounts (charged)/credited to Group operating profit/(loss)				
Current service cost	(4.1)	(0 1)	(10 3)	(14.5)
Expected return on pension scheme assets	25.1	3.5	14 4	43.0
Interest on pension liabilities	(22.9)	(2.9)	(14.8)	(40.6)
Interest on franchise adjustment	–	–	3 9	3.9
Total (charge)/credit to income statement	(1.9)	0 5	(6 8)	(8.2)
Actual return on plan assets	17.8	13.2	1.0	32.0

Group statement of comprehensive income	UK Bus 2011 £m	UK Coach 2011 £m	UK Rail 2011 £m	Total 2011 £m
Actual return less expected return on pension scheme assets	(7.3)	9.7	(13.4)	(11.0)
Other actuarial gains and losses	(12.4)	2.5	12.3	2.4
Actuarial (losses)/gains	(19.7)	12.2	(1.1)	(8 6)

Group income statement	UK Bus 2010 £m	UK Coach 2010 £m	UK Rail 2010 £m	Total 2010 £m
Amounts (charged)/credited to Group operating profit/(loss)				
Current service cost	(4 4)	(0 8)	(10 9)	(16 1)
Curtailment gain (included within exceptional items)	–	2 3	–	2 3
Expected return on pension scheme assets	24 2	3 2	12 9	40 3
Interest on pension liabilities	(25 1)	(3 2)	(15 0)	(43 3)
Interest on franchise adjustment	–	–	4 7	4 7
Total (charge)/credit to income statement	(5 3)	1 5	(8 3)	(12 1)
Actual return on plan assets	45 5	5 5	19 0	70 0

Group statement of comprehensive income	UK Bus 2010 £m	UK Coach 2010 £m	UK Rail 2010 £m	Total 2010 £m
Actual return less expected return on pension scheme assets	21 3	2 3	6 1	29 7
Other actuarial gains and losses	16 8	(2 3)	(9 9)	4 6
Actuarial gain/(losses)	38 1	–	(3 8)	34 3

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 2011	UK Bus 2011 £m	UK Coach 2011 £m	UK Rail 2011 £m	Other 2011 £m	Total 2011 £m
Equities	191 7	–	303.7	–	495.4
Bonds	234.2	63.6	15.1	–	312.9
Property	3.6	–	–	–	3.6
Other	2.4	4.3	2.2	–	8.9
Fair value of scheme assets	431.9	67.9	321.0	–	820.8
Present value of scheme liabilities	(448 7)	(49.3)	(423.3)	(1.4)	(922.7)
Franchise adjustment	–	–	59.6	–	59.6
Defined benefit obligation	(448 7)	(49.3)	(363 7)	(1.4)	(863.1)
Members' share of deficit	–	–	40.5		40.5
Defined benefit pension (deficit)/surplus	(16.8)	18.6	(2.2)	(1.4)	(1 8)

As at 31 December 2010	UK Bus 2010 £m	UK Coach 2010 £m	UK Rail 2010 £m	Other 2010 £m	Total 2010 £m
Equities	197 6	29 3	303 7	–	530 6
Bonds	147 5	28 7	13 8	–	190 0
Property	79 2	–	0 2	–	79 4
Other	5 2	1 6	0 6	–	7 4
Fair value of scheme assets	429 5	59 6	318 3	–	807 4
Present value of scheme liabilities	(434 8)	(59 6)	(445 2)	(1 4)	(941 0)
Franchise adjustment	–	–	72 4	–	72 4
Defined benefit obligation	(434 8)	(59 6)	(372 8)	(1 4)	(868 6)
Members' share of deficit	–	–	50 8	–	50 8
Defined benefit pension deficit	(5 3)	–	(3 7)	(1 4)	(10 4)

The movement in the present value of the defined benefit obligation in the year is as stated below For UK 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 £861 7m (2010 £867 2m) (including the members' share of the deficit) arising from plans that are wholly or partly funded and £1 4m (2010 £1 4m) from unfunded plans

	UK Bus £m	UK Coach £m	UK Rail £m	Other £m	Total £m
Defined benefit obligation at 1 January 2011	(434.8)	(59.6)	(372.8)	(1.4)	(868 6)
Current service cost	(4.1)	(0.1)	(10.3)	–	(14 5)
Benefits paid	26.8	1 5	14.5	–	42.8
Contributions by employees	(1.3)	–	(6.1)	–	(7.4)
Finance charge	(22.9)	(2.9)	(14.8)	–	(40.6)
Interest on franchise adjustment	–	–	3.9	–	3 9
Settlement	–	9 3	–	–	9.3
Members' share of movement on liabilities	–	–	9.6	–	9.6
Actuarial (loss)/gain recognised in statement of comprehensive income	(12.4)	2.5	12.3	–	2.4
Defined benefit obligation at 31 December 2011	**(448.7)**	**(49 3)**	**(363.7)**	**(1.4)**	**(863.1)**

34 Pensions and other post-employment benefits continued
(c) Financial results for pension benefits continued

	UK Bus £m	UK Coach £m	UK Rail £m	Other £m	Total £m
Defined benefit obligation at 1 January 2010	(446 3)	(56 8)	(342 0)	(1 4)	(846 5)
Current service cost	(4 4)	(0 8)	(10 9)	–	(16 1)
Benefits paid	25 6	1 5	14 5	–	41 6
Contributions by employees	(1 4)	(0 3)	(6 5)	–	(8 2)
Finance charge	(25 1)	(3 2)	(15 0)	–	(43 3)
Curtailment gain	–	2 3	–	–	2 3
Interest on franchise adjustment	–	–	4 7	–	4 7
Members' share of movement on liabilities	–	–	(7 7)	–	(7 7)
Actuarial gain/(loss) recognised in statement of comprehensive income	16 8	(2 3)	(9 9)	–	4 6
Defined benefit obligation at 31 December 2010	(434 8)	(59 6)	(372 8)	(1 4)	(868 6)

The movement in the fair value of scheme assets is as follows

	UK Bus £m	**UK Coach £m**	**UK Rail £m**	**Total £m**
Fair value of scheme assets at 1 January 2011	**429.5**	**59.6**	**318 3**	**807.4**
Expected return on plan assets	**25.1**	**3.5**	**14.4**	**43.0**
Cash contributions – employer	**10.0**	**6.0**	**9.5**	**25.5**
Cash contributions – employee	**1.4**	**–**	**6.1**	**7.5**
Benefits paid	**(26.8)**	**(1.5)**	**(14.5)**	**(42.8)**
Members' share of return on assets	**–**	**–**	**0.6**	**0.6**
Actuarial (loss)/gain recognised in statement of comprehensive income	**(7 3)**	**9.7**	**(13.4)**	**(11 0)**
Settlement	**–**	**(9.4)**	**–**	**(9.4)**
Fair value of scheme assets at 31 December 2011	**431.9**	**67.9**	**321.0**	**820.8**

	UK Bus £m	UK Coach £m	UK Rail £m	Total £m
Fair value of scheme assets at 1 January 2010	399 9	51 6	284 4	735 9
Expected return on plan assets	24 2	3 2	12 9	40 3
Cash contributions – employer	8 3	3 7	10 2	22 2
Cash contributions – employee	1 4	0 3	6 5	8 2
Benefits paid	(25 6)	(1 5)	(14 5)	(41 6)
Members' share of return on assets	–	–	12 7	12 7
Actuarial gain recognised in statement of comprehensive income	21 3	2 3	6 1	29 7
Fair value of scheme assets at 31 December 2010	429 5	59 6	318 3	807 4

34 **Pensions and other post-employment benefits** continued
(c) **Financial results for pension benefits** continued
The Group expects to contribute £13 3m to its defined benefit pension plans in 2012

History of experience gains and losses	**2011 £m**	2010 £m	2009 £m	2008 £m	2007 £m
UK Bus					
Fair value of scheme assets	**431.9**	429 5	399 9	362 8	412 0
Present value of defined benefit obligation	**(448.7)**	(434 8)	(446 3)	(357 4)	(412 4)
Restriction on surplus		–	–	(9 0)	(4 7)
Deficit in the scheme	**(16.8)**	(5 3)	(46 4)	(3 6)	(5 1)
Experience adjustments arising on liabilities	**(23 3)**	(0 1)	0 2	(3 3)	(4 6)
Experience adjustments arising on assets	**(7.3)**	21 3	31 3	(62 8)	(5 2)
UK Coach					
Fair value of scheme assets	**67 9**	59 6	51 6	42 1	43 7
Present value of defined benefit obligation	**(49.3)**	(59 6)	(56 8)	(43 3)	(48 6)
Deficit in the scheme	**18 6**	–	(5 2)	(1 2)	(4 9)
Experience adjustments arising on liabilities	**0 1**	2 7	–	–	(2 2)
Experience adjustments arising on assets	**9 7**	2 3	3 8	(7 8)	(0 6)
UK Rail					
Fair value of scheme assets	**321.0**	318 3	284 4	444 7	620 3
Present value of defined benefit obligation	**(363.7)**	(372 8)	(342 0)	(526 7)	(653 1)
Members' share of deficit	**40.5**	50 8	55 7	43 3	14 0
Deficit in the scheme	**(2.2)**	(3 7)	(1 9)	(38 7)	(18 8)
Experience adjustments arising on liabilities	**(8.5)**	12 2	(1 1)	16 9	(5 3)
Experience adjustments arising on assets	**13.4**	6 1	23 2	(121 4)	3 2
Other					
Fair value of scheme assets	**-**	–	–	–	–
Present value of defined benefit obligation	**(1.4)**	(1 4)	(1 4)	(1 5)	(1 0)
Deficit in the scheme	**(1.4)**	(1 4)	(1 4)	(1 5)	(1 0)
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 £19 2m loss (2010 £10 6m 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

		2011 £m	2010 £m
Future minimum rentals payable under non-cancellable operating leases			
Within one year	Land and buildings	**36.6**	82 4
	Plant and equipment	**46.4**	158 0
		83.0	240 4
After one year but not more than five years	Land and buildings	**31.2**	46 7
	Plant and equipment	**43.5**	75 7
		74.7	122 4
More than five years	Land and buildings	**32.0**	33 8
	Plant and equipment	**0.9**	5 8
		32.9	39 6
		190.6	402 4

Operating lease commitments

The majority of the Group's commitments arise in the UK Rail division UK 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	
UK Rail division commitments		2011 £m	2010 £m	2011 £m	2010 £m
Future minimum rentals payable under non-cancellable operating leases					
Within one year	Fixed track access	**14.8**	47 8	**-**	-
	Rolling stock	**-**	-	**36.2**	145 1
	Other	**7.4**	21 1	**0 8**	1 1
		22.2	68 9	**37.0**	146 2
After one year but not more than five years	Fixed track access	**4.1**	13 4	**-**	-
	Rolling stock	**-**	-	**9 4**	31 6
	Other	**2.2**	6 8	**0.3**	1 0
		6.3	20 2	**9.7**	32 6
		28.5	89 1	**46 7**	178 8

Fixed track access agreements have an average remaining life of 1 0 years (2010 1 1 years), other land and buildings have an average duration of 1 0 years (2010 1 2 years) Rolling stock agreements have an average life of 0 9 years (2010 1 0 years) and other plant and equipment 1 2 years (2010 1 9 years)

35 Commitments and contingencies continued

Outside of the UK 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 cancellable operating leases are shown below

Other divisions' commitments	Land and buildings 2011 £m	Land and buildings 2010 £m	Public service vehicles 2011 £m	Public service vehicles 2010 £m	Other 2011 £m	Other 2010 £m
Within one year	**14.4**	13 5	**9.2**	10 9	**0.2**	0 9
After one year but not more than five years	**24.9**	26 5	**33.5**	41 5	**0.3**	1 6
More than five years	**32.0**	33 8	**0.9**	5 8	**–**	–
	71.3	73 8	**43.6**	58 2	**0.5**	2 5

The average remaining life of operating lease commitments in the other divisions is 4 0 years (2010 4 1 years) for land and buildings, 3 5 years (2010 3 8 years) for public service vehicles and 2 4 years (2010 2 7 years) for other plant and equipment

Operating lease agreements where the Group is the lessor

The Group receives rent on properties as follows

	2011 £m	2010 £m
Future minimum rentals receivable under non-cancellable operating leases		
Within one year	**1.4**	4 1
After one year but not more than five years	**0.4**	1 4
More than five years	**–**	–
	1.8	5 5

The leases have an average unexpired duration of 1 3 years (2010 1 5 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

	2011 Minimum payments £m	2011 Present value of payments £m	2010 Minimum payments £m	2010 Present value of payments £m
Within one year	**22.6**	**22.1**	28 2	27 8
After one year but not more than five years	**95.4**	**85.9**	83 1	73 5
More than five years	**51 4**	**43.3**	38 5	30 3
Total minimum lease payments	**169.4**	**151.3**	149 8	131 6
Less future financing charges	**(18.1)**	**–**	(18 2)	–
Present value of minimum lease payments	**151.3**	**151.3**	131 6	131 6

Capital commitments

	2011 £m	2010 £m
Contracted	**43.7**	31 1

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 2011 there were UK Rail performance bonds of £25 8m (2010 £25 8m) and UK Rail season ticket bonds of £92 3m (2010 £85 0m) The Group has other performance bonds which include the £9 0m (2010 £17 9m) performance bond in respect of Inter-Capital and Regional Rail Limited, a performance bond with Birmingham City Council relating to the building of the new coach station of £0 2m (2010 £nil), performance bonds in respect of businesses in the US of £108 1m (2010 £100 2m) and the rest of Europe of £23 3m (2010 £25 6m) Letters of credit have been issued to support insurance retentions of £30 8m (2010 £39 4m)

36 Related party transactions

	Amount of transactions		Amounts due from related parties		Amounts due to related parties	
	2011 £m	2010 £m	**2011 £m**	2010 £m	**2011 £m**	2010 £m
Associates						
ICRRL	**9 0**	8 7	**–**	–	**(9.0)**	(18 2)
Spain associates	**2.6**	1 6	**1.0**	0 8	**(1.0)**	(1 1)
Total associates	**11 6**	10 3	**1.0**	0 8	**(10.0)**	(19 3)
Trade investments						
Spain trade investments	**4.3**	4 2	**0.6**	0 9	**(0.5)**	(0 3)
Property transactions						
Stock Transportation	**–**	0 5	**–**	–	**–**	–
Spain	**5.0**	5 0	**0.4**	0 4	**(0.2)**	(0 4)
Durham School Services	**–**	0 1	**–**	–	**–**	–
Total other related parties	**9.3**	9 8	**1.0**	1 3	**(0.7)**	(0 7)
Total	**20.9**	20 1	**2.0**	2 1	**(10.7)**	(20 0)

Amounts due to ICRRL are included in provisions as disclosed in note 26

A provision of £0 2m (2010 £0 4m) has been booked against amounts due from European Coach & Bus associates, which are presented net

Property transactions
There are no longer any related party transactions in North America and all of the transactions in prior years related to senior employees who left the business prior to 2011

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

Compensation of key management personnel of the Group

	2011 £m	2010 £m
Total compensation paid to key management personnel (note 7)	**3.5**	4 7

37 Cash flow statement

The net cash inflows from operating activities include outflows of £8 2m (2010 £52 6m) from continuing operations which are related to exceptional costs incurred in the prior year

(a) Reconciliation of Group profit before tax to cash generated from operations

Total operations	2011 £m	2010 £m
Net cash inflow from operating activities		
Profit before tax from continuing operations	**129.4**	40 2
Loss before tax from discontinued operations	**-**	(0 5)
Net finance costs	**46.4**	46 0
Share of post tax results under the equity method	**(1.4)**	(0 3)
Depreciation of property, plant and equipment	**105.5**	99 8
Intangible asset amortisation	**50.8**	57 1
Amortisation of fixed asset grants	**(1.5)**	(1 7)
Loss on disposal of property, plant and equipment	**(1.1)**	6 6
Share-based payments	**5 0**	3 9
Increase in inventories	**(1.4)**	(1 2)
Increase in receivables	**(18.8)**	(33 0)
(Decrease)/increase in payables	**(28 9)**	20 9
Decrease in provisions – continuing operations	**(37 0)**	(12 4)
Decrease in provisions – discontinued operations	**-**	(3 3)
Cash generated from operations	**247 0**	222 1

(b) Analysis of changes in net debt

	At 1 January 2011 £m	Cash flow £m	Acquisitions/ disposals £m	Exchange differences £m	Other movements £m	At 31 December 2011 £m
Cash	81.5	(16.3)	–	(0.4)	-	64.8
Overnight deposits	36.8	(11 8)	-	-	–	25.0
Other short-term deposits	10.5	(7.8)	–	-	-	2.7
Cash and cash equivalents	128.8	(35.9)	–	(0.4)	-	92.5
Other debt receivables	0.7	-	-	-	–	0.7
Borrowings						
Bank loans	(39.8)	34.5	(1.0)	0.3	(1.9)	(7.9)
Bonds	(565.6)	-	-	–	(17.8)	(583.4)
Fair value of bond hedging derivatives	(1.1)	–	-	-	17.5	16.4
Finance lease obligations	(131 6)	24.9	-	(0.9)	(43.7)	(151.3)
Other debt payable	(1.8)	1.1	-	-	–	(0.7)
Total borrowings	(739.9)	60.5	(1 0)	(0.6)	(45.9)	(726.9)
Net debt *	(610.4)	24.6	(1 0)	(1.0)	(45.9)	(633.7)

* Excludes accrued interest on bonds

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

Borrowings include non-current interest bearing borrowings of £718 4m (2010 £674 4m) as disclosed in note 28

Other non-cash movements in net debt represent finance lease additions of £43 7m (2010 £77 1m) and £2 2m (2010 £4 4m) amortisation of loan and bond arrangement fees

37 Cash flow statement continued

(b) Analysis of changes in net debt continued

	At 1 January 2010 £m	Cash flow £m	Acquisitions/ disposals £m	Exchange differences £m	Other movements £m	At 31 December 2010 £m
Cash	58 3	23 9	0 1	(0 8)	–	81 5
Overnight deposits	12 0	25 0	–	(0 2)	–	36 8
Other short-term deposits	35 5	(25 0)	–	–	–	10 5
Cash and cash equivalents	105 8	23 9	0 1	(1 0)	–	128 8
Other debt receivables	0 8	(0 1)	–	–	–	0 7
Borrowings						
Bank loans	(687 7)	642 6	–	8 9	(3 6)	(39 8)
Bonds	–	(565 9)	–	–	0 3	(565 6)
Fair value of bond hedging derivatives	–	–	–	–	(1 1)	(1 1)
Finance lease obligations	(75 6)	18 7	–	2 4	(77 1)	(131 6)
Other debt payable	(1 2)	(0 6)	–	–	–	(1 8)
Total borrowings	(764 5)	94 8	–	11 3	(81 5)	(739 9)
Net debt *	(657 9)	118 6	0 1	10 3	(81 5)	(610 4)

* Excludes accrued interest on bonds

(c) Reconciliation of net cash flow to movement in net debt

	2011 £m	2010 £m
(Decrease)/increase in cash and cash equivalents in the year	**(35 9)**	23 9
Cash inflow from movement in other debt receivables	**–**	(0 1)
Cash outflow from movement in debt and finance leases	**60 5**	94 8
Change in net debt resulting from cash flows	**24 6**	118 6
Change in net debt resulting from acquisitions and disposals	**(1.0)**	0 1
Change in net debt resulting from non-cash movements	**(46.9)**	(71 2)
Movement in net debt in the year	**(23.3)**	47 5
Opening net debt	**(610.4)**	(657 9)
Net debt	**(633.7)**	(610 4)

38 Post balance sheet events

On 5 February 2012, the Group passed over the running of the East Anglia Rail Franchise to Abellio Greater Anglia Limited

Independent Auditor's Report to the Members of National Express Group PLC

We have audited the parent Company financial statements of National Express Group PLC for the year ended 31 December 2011 which comprise the Parent Company Balance Sheet and the related notes 1 to 20 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

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

Respective responsibilities of Directors and auditor
As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the parent Company 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 parent Company 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

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 parent Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements
In our opinion the parent Company financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2011,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matters prescribed by the Companies Act 2006
In our opinion

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006, and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the parent Company financial statements

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- 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 and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns, or
- certain disclosures of Directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Other matter
We have reported separately on the Group financial statements of National Express Group PLC for the year ended 31 December 2011

Nigel Mercer (Senior statutory auditor)
for and on behalf of Deloitte LLP, Chartered Accountants and Statutory Auditor
Birmingham, UK
29 February 2012

Company Balance Sheet

At 31 December 2011

	Note	2011 £m	2010 £m
Fixed assets			
Tangible assets	4	**0.1**	–
Investments	5	**1,185.6**	766 0
Derivative financial instruments	6	**23.7**	–
		1,209.4	766 0
Current assets			
Debtors	7	**973.8**	1,448 8
Derivative financial instruments	6	**8.0**	4 2
Cash at bank and in hand	8	**32.2**	8 0
		1,014.0	1,461 0
Creditors amounts falling due within one year	9	**(950.4)**	(985 1)
Derivative financial instruments	6	**(0.2)**	(10 3)
Net current assets		**63 4**	465 6
Total assets less current liabilities		**1,272.8**	1,231 6
Creditors amounts falling due after more than one year	10	**(583.4)**	(565 6)
Derivative financial instruments	6	**–**	(5 1)
Provisions for liabilities and charges	11	**(14.5)**	(25 1)
Deferred tax liability	12	**–**	–
Net assets		**674.9**	635 8
Shareholders' equity			
Called-up share capital	14	**25.6**	25 6
Share premium account	15	**532.7**	532 7
Capital redemption reserve	15	**0.2**	0 2
Own shares	15	**(14 0)**	(14 1)
Profit and loss account	15	**130.4**	91 4
Shareholders' equity		**674.9**	635 8

D Finch Group Chief Executive
J K Maiden Group Finance Director
29 February 2012

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 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 retained profit of the Company for the year is £84 7m (2010 £70 6m)

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

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 the pound for the Company are as follows

	2011		2010	
	Closing rate	**Average rate**	Closing rate	Average rate
US dollar	**1.55**	**1 61**	1 56	1 55
Canadian dollar	**1.58**	**1 58**	1 56	1 61
Euro	**1.20**	**1 15**	1 17	1 17

3 Directors' emoluments

Detailed information concerning Directors' emoluments, shareholdings and options is shown in the Directors' Remuneration Report

4 Tangible fixed assets

	Plant and equipment £m
Cost	
At 1 January 2011	2 0
Additions	0 1
At 31 December 2011	**2.1**
Depreciation	
At 1 January 2011 and at 31 December 2011	**2.0**
Net book value	
At 31 December 2011	**0.1**
At 31 December 2010	–

Tangible fixed assets held under finance lease agreements are analysed as follows

	2011 £m	2010 £m
Plant and equipment		
– cost	**0 2**	0 2
– depreciation	**(0.2)**	(0 2)
	–	–

Leased assets and assets under hire purchase contracts are pledged as security for the related finance lease and hire purchase liabilities

5 Financial assets investments

	Investments in subsidiaries £m
Cost or valuation	
At 1 January 2011	**1,271.9**
Additions	**566.9**
Disposals	**(147.3)**
At 31 December 2011	**1,691.5**
Provisions	
At 1 January 2011	**(505.9)**
Release	**-**
At 31 December 2011	**(505.9)**
Net carrying amount	
At 31 December 2011	**1,185 6**
At 31 December 2010	766 0

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 UK Rail
National Express Trains Limited	Holding company for UK Rail operating companies

Incorporated in Guernsey	
National Express Guernsey Limited	Insurance captive

Other investments include

Name	Country of registration	Class of share	Proportion held %
Inter-Capital and Regional Rail Limited (ICRRL)	England and Wales	Ordinary shares	40 0

The £147 3m disposal of investments in subsidiaries in 2011 relates to previously owned holding companies that were sold to National Express Intermediate Holdings Limited in exchange for shares in that company The £566 9m of additions represents the acquisition of shares in National Express Intermediate Holdings Limited during the year, including shares that were received in exchange for amounts owed by subsidiary undertakings

6 Derivative financial instruments

	2011 £m	2010 £m
Interest rate derivatives	23.7	–
Derivative financial assets due over one year	**23.7**	–
Interest rate derivatives	–	3 8
Foreign exchange forward contracts	8.0	0 4
Derivative financial assets due under one year	**8.0**	4 2
Interest rate derivatives	–	(5 1)
Derivative financial liabilities due over one year	–	(5 1)
Foreign exchange forward contracts	(0.2)	(10 3)
Derivative financial liabilities due under one year	**(0.2)**	(10 3)

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

7 Debtors

	2011 £m	2010 £m
Trade debtors	–	0 2
Amounts owed by subsidiary undertakings	940.5	1,415 1
Corporation tax recoverable	27 1	31 0
Deferred tax asset (see note 12)	1.3	1 6
Other debtors	0 1	0 3
Prepayments and accrued income	4 8	0 6
	973.8	1,448 8

8 Cash at bank and in hand

	2011 £m	2010 £m
Short-term deposits	25 0	6 0
Cash at bank	7.2	2 0
	32.2	8 0

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

9 Creditors amounts falling due within one year

	2011 £m	2010 £m
Bank overdraft	125.6	152 4
Bank loans	–	35 3
Trade creditors	0 7	6 8
Amounts owed to subsidiary undertakings	774.5	753 1
Accruals and deferred income	19.7	7 1
Bonds – accrued interest	29.9	30 4
	950.4	985 1

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

Accrued interest on bonds of £30 4m was presented in other payables in the 2010 financial accounts In 2011, this has been included within bonds – accrued interest

10 Creditors amounts falling due after more than one year

Notes to the Company Accounts continued

	2011 £m	2010 £m
Bonds	**583.4**	565 6

11 Provisions for liabilities and charges

	Insurance claims[1] £m	Eurostar onerous contract[2] £m	Other £m	Total £m
At 1 January 2011	**5.0**	**18.2**	**1.9**	**25.1**
Charged/(released) to profit and loss account	**0.2**	**(0.2)**	**-**	**-**
Utilised in the year	**(0.2)**	**(9.0)**	**(1.4)**	**(10 6)**
At 31 December 2011	**5.0**	**9.0**	**0.5**	**14.5**

1 The insurance claims provision arises from estimated exposures at the year end, the majority of which will be utilised in the next five years and comprise provisions for existing claims arising in the UK and North America

2 A provision was recognised in 2006 for the Company's onerous contract for Eurostar with ICRRL £9 0m (2010 £8 7m) was paid to ICRRL during the year The remainder has been settled in 2012

12 Deferred tax

The major components of the provision for deferred taxation are as follows

	2011 £m	2010 £m
Accelerated capital allowances	**0.2**	0 3
Other timing differences	**0.4**	0 5
Losses carried forward	**0.7**	0 8
Net deferred tax asset	**1.3**	1 6

The reconciliation of deferred tax balances is as follows

	£m
Deferred tax asset at 1 January 2011	**1.6**
Credited to profit and loss	**(0 3)**
Deferred tax asset at 31 December 2011	**1.3**

Timing differences associated with Group investments

No deferred tax (2010 £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 £9 2m (2010 £4 7m), which arise where the Company does not expect to generate sufficient suitable future profits

13 Interest-bearing loans and borrowings

The effective interest rates at the balance sheet date were as follows

	2011 £m	Maturity	Effective interest rate	2010 £m	Maturity	Effective interest rate
Current						
Bank overdraft	**125.6**	**On demand**	**LIBOR +1%**	152 4	On Demand	LIBOR +1%
Sterling bank loans	**-**	**-**	**-**	35 3	2014	LIBOR +1 45%
Bonds – accrued interest	**29.9**			30 4		
Total current	**155 5**			218 1		
Non-current						
7 year Sterling Bond	**351.6**	**January 2017**	**6.54%**	345 0	January 2017	6 54%
10 Year Sterling Bond	**231 8**	**June 2020**	**6.85%**	220 6	June 2020	6 85%
Bonds	**583.4**			565 6		
Total non-current	**583.4**			565 6		

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

14 Called-up share capital

	2011 £m	2010 £m
At 31 December		
Authorised		
800,000,000 (2010 800,000,000) ordinary shares of 5p each	**40 0**	40 0
Issued called-up and fully paid		
511,726,026 (2010 511,726,026) 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 1,175,455 (2010 1,301,553) of which nil exercises were satisfied by newly issued shares (2010 nil) and 1,175,455 (2010 1,301,553) exercises were satisfied by transferring shares from the National Express Employee Benefit Trust

15 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 2011	**25.6**	**532.7**	**0.2**	**(14 1)**	**91.4**	**635 8**
Shares purchased	–	–	–	**(2 7)**	–	**(2.7)**
Shares utilised	–	–	–	**2.8**	**(2.8)**	–
Share-based payments	–	–	–	–	**2.9**	**2.9**
Profit for the year	–	–	–	–	**84.7**	**84.7**
Dividends	–	–	–	–	**(45.8)**	**(45.8)**
At 31 December 2011	**25.6**	**532.7**	**0.2**	**(14 0)**	**130.4**	**674.9**

Own shares comprise treasury shares and shares held in the Employee Benefit Trust

Treasury shares include 1,668,688 (2010 1,668,688) ordinary shares in the Company No additional shares have been added as treasury shares within equity for future issue under the Group's share schemes or cancellation No shares were cancelled during the year (2010 nil) The market value of these shares at 31 December 2011 was £3 7m (2010 £4 2m)

Own shares include 380,430 (2010 477,914) 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 991,615 (2010 714,597) shares and 1,175,455 (2010 1,301,553) 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 2011 was £0 9m (2010 £1 2m) The dividends payable on these shares were waived in 2011

	Share capital £m	Share premium £m	Capital redemption reserve £m	Own shares £m	Profit and loss account £m	Total £m
At 1 January 2010	25 6	533 2	0 2	(14 6)	19 1	563 5
Costs of Rights Issue	–	(0 5)	–	–	–	(0 5)
Shares purchased	–	–	–	(1 7)	–	(1 7)
Shares utilised	–	–	–	2 2	(2 2)	–
Share-based payments	–	–	–	–	3 9	3 9
Profit for the year	–	–	–	–	70 6	70 6
At 31 December 2010	25 6	532 7	0 2	(14 1)	91 4	635 8

16 Retirement benefits

The Company participates in both the National Express Group Staff Pension Fund (a multi-employer funded defined benefit scheme) and the WM Pension Scheme (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 pension charge for the year, including contributions to the defined benefit scheme above the normal charge, amounted to £5 9m (2010 £3 5m)

17 Share-based payment

During the year ended 31 December 2011, 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

	2011		2010	
	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	**26,724**	**386**	30,759	376
Forfeited during the year	**(16,544)**	**339**	(1,600)	479
Group transfers during the year	**12,511**	**474**	–	–
Exercised during the year	**–**	**–**	(2,435)	210
Expired during the year	**(7,656)**	**448**	–	–
Outstanding at 31 December[1]	**15,035**	**479**	26,724	386
Exercisable at 31 December	**–**	**–**	20,045	357
Options with a nil exercise price				
At 1 January	**3,115,965**	**nil**	1,897,258	nil
Granted during the year	**2,103,653**	**nil**	1,651,323	nil
Forfeited during the year	**(595,456)**	**nil**	(20,936)	nil
Group transfers during the year	**220,151**	**nil**	–	nil
Exercised during the year	**(597,633)**	**nil**	(327,295)	nil
Expired during the year	**(427,203)**	**nil**	(84,385)	nil
Outstanding at 31 December	**3,819,477**	**nil**	3,115,965	nil
Exercisable at 31 December	**444,461**		–	
Total outstanding at 31 December	**3,834,512**		3,142,689	
Total exercisable at 31 December	**444,461**		20,045	

[1] Included within this balance are options over nil (2010 5,774) shares for which no expense has been recognised in accordance with the transitional provisions of FRS 20, as the options were granted before 7 November 2002 Although there has been subsequent modification to the options, no FRS 20 charge has been recognised as the amounts are not material

There were no options outstanding at 31 December 2011 (options in 2010 had exercise prices that were between 207p and 568p) excluding options with a nil exercise price The range of exercise prices for options was as follows

Exercise price (p)	2011	2010
0–300	**–**	6,142
300-600	**15,035**	20,582
	15,035	26,724

The options have a weighted average contractual life of one year (2010 one year) Options were exercised throughout the year and the weighted average share price at exercise was 244p (2010 232p)

17 **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	
	2011	2010
Risk free interest rate	**1.30%-1.44%**	1 8%-3 0%
Expected volatility	**51.5%-51.6%**	52 7%
Peer group volatility	**55.1%-57.0%**	49 6%-50 8%
Expected option life in years	**3 years**	3 years
Expected dividend yield	**3.47%-3.64%**	0%
Weighted average share price at grant date	**244p**	229p
Weighted average exercise price at grant date	**nil**	nil
Weighted average fair value of options at grant date	**144p**	202p

Experience to date has shown that approximately 24% (2010 15%) 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

18 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	
	2011 £m	2010 £m
Operating leases which expire		
Within one year	**0 1**	0 1
Within two to five years	**0 3**	0 3

Contingent liabilities

(a) Guarantees

The Company has guaranteed credit facilities totalling £156m (2010 £129m) of certain subsidiaries

(b) 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 2011, there were UK Rail performance bonds of £25 8m (2010 £25 8m) and UK Rail season ticket bonds of £92 3m (2010 £85 0m) The Group has other performance bonds which include the £9 0m (2010 £17 9m) performance bond in respect of Inter-Capital and Regional Rail Limited, a performance bond with Birmingham City Council relating to the building of the new coach station of £0 2m (2010 £nil), performance bonds in respect of businesses in the US of £108 1m (2010 £100 2m) and the rest of Europe of £23 3m (2010 £25 6m) Letters of credit have been issued to support insurance retentions of £30 8m (2010 £39 4m)

19 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

20 Post balance sheet events

There were no post balance sheet events

Shareholder electronic communications
By registering for electronic communications you can help 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
- 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

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- saves you time in presenting the cheque for payment
- the dividend is credited to your account on the payment date

The tax voucher is sent to your registered address at the same time as the dividend is credited to your account To set up a new dividend mandate please log on to www shareview co uk or contact the Registrar, Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA Shareholder helpline number 0871 384 2152* or +44 121 415 7047 from overseas

* Calls to this number cost 8p per minute from a BT landline, other providers' costs may vary Lines open 8 30am to 5 30pm, Monday to Friday

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* Calls to this number are charged by BT at the local rate

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 www 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, PO Box 9501, Nottingham NG80 1WD Tel 0870 241 1713 or visit www uar co uk

Dividends and financial calendar

Final dividend ex dividend date	25 April 2012
Final dividend record date	27 April 2012
Annual General Meeting	10 May 2012
Final dividend payment date	18 May 2012
Half year results announced	26 July 2012
Interim dividend ex dividend date	5 September 2012
Interim dividend record date	7 September 2012
Interim dividend payment date	21 September 2012

Corporate information

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or +44 121 415 7047 from overseas

* Calls to this number cost 8p per minute from a BT landline other telephone providers' costs may vary Lines open 8 30am to 5 30pm, Monday to Friday

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Financial advisors
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EC1A 1HQ

Stockbrokers
Merrill Lynch International
2 King Edward Street
London
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Morgan Stanley
25 Cabot Square
Canary Wharf
London
E14 4QA

Glossary

BPS	Basis points
BSOG	Bus Service Operators Grant
Code	The UK Corporate Governance Code published by the Financial Reporting Council in June 2010
CPI	Consumer Price Index
CSOG	Coach Service Operators Grant
The Company	National Express Group PLC
DfT	Department for Transport
EBT	Employee Benefit Trust
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 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
ETR	Effective tax rate
EU	European Union
EURIBOR	Euro Interbank Offered Rate
Gearing ratio	For debt financing purposes is calculated as net debt, adjusted to reflect any cash which is restricted in use, 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
LCR	London and Continental Railway Ltd
LIBOR	London Interbank Offered Rate
LTIP	Long Term Incentive Plan
NAPF	National Association of Pension Funds
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
Net interest expense	is finance costs less finance income
NXEA	National Express East Anglia
Normalised diluted earnings per share	Earnings per share, excluding the profit or loss on sale of businesses, exceptional profit or loss on the disposal of non current assets, intangible asset amortisation, exceptional items and tax relief on qualifying exceptional items
Normalised operating profit	are the statutory results excluding profit or loss on the sale of businesses, exceptional profit or loss on sale of non-current assets, intangible asset amortisation, exceptional items and tax relief thereon, for continuing operations The Board believes that the normalised operating profit gives a better indication of the underlying performance of the Group
Normalised profit margin	is normalised profit divided by revenue, expressed as a percentage
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 disposal of non-current assets, intangible asset amortisation, exceptional items and tax relief on qualifying exceptional items
Operating cash flow	is intended to be the cash flow equivalent to normalised operating profit Operating cash flow is normalised operating profit plus depreciation, movements in working capital and proceeds from disposals of property, plant and equipment, less finance lease additions, purchase of property, plant and equipment and purchase of intangible assets
RCF	Revolving Credit Facility
Return on capital employed (ROCE)	is normalised operating profit divided by the sum of net assets and net debt
Return on equity	is normalised profit after tax less the post-tax amortisation of intangible assets divided by shareholders' equity
Return on tangible assets	is normalised operating profit dividend by the sum of net assets (excluding intangible assets) and net debt.
RPS	Railway Pension Scheme
RREV	Research Recommendation and Electronic Voting – a corporate governance advisory service
SPAD	Signal Passed at Danger
TfL	Transport for London
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
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
UK GAAP	UK Generally Accepted Accounting Principles
ULSD	Ultra low sulphur diesel

Cautionary statement
This Business Review is intended to focus on matters which are relevant to the interests of shareholders of the Company The purpose of this review 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 these 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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Five year summary

Year ended 31 December	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Revenue	**2,238.0**	2,125 9	2,711 1	2,767 0	2,612 3
Normalised* operating profit	**225.2**	204 2	159 8	253 9	210 4
Group operating profit/(loss)	**174.4**	85 9	(0 6)	167 8	161 7
Profit/(loss) before tax	**129.4**	40 2	(83 5)	109 9	149 3
Statistics					
Basic earnings/(loss) per share[1]	**19.9p**	12 0p	(17 6p)	40 4p	35 9p
Normalised* diluted earnings per share[1]	**26.9p**	23 5p	30 4p	48 6p	43 6p
Dividends per share – declared	**9.50p**	6 00p	–	22 72p	37 96p
Net (debt)/funds					
Cash at bank and in hand	**92.5**	128 8	105 8	105 9	157 2
Other debt receivable	**0.7**	0 7	0 8	0 9	–
Loan notes	–	–	–	(0 8)	(0 8)
Bonds	**(583 4)**	(565 6)	–	–	–
Bank and other loans	**(7 9)**	(39 8)	(687 7)	(1,150 8)	(947 4)
Fair value of bond hedging derivatives	**16.4**	(1 1)	–	–	–
Finance lease obligations	**(151.3)**	(131 6)	(75 6)	(133 9)	(119 8)
Other debt payable	**(0.7)**	(1 8)	(1 2)	(1 1)	–
Net debt	**(633.7)**	(610 4)	(657 9)	(1,179 8)	(910 8)
Net assets	**965.4**	939 8	842 3	585 4	437 0
Capital employed	**1,599.1**	1,550 2	1,500 2	1,765 2	1,347 8
Return on capital (pre-tax)**	**14.1%**	13 2%	10 7%	14 4%	15 6%
Return on equity					
Normalised* profit for the year	**138.7**	121 3	93 2	144 6	128 9
Intangible amortisation (post tax)	**(36.1)**	(40 0)	(40 6)	(39 5)	(22 1)
Post-tax return (before exceptional items and discontinued operations)	**102.6**	81 3	52 6	105 1	106 8
Total equity	**965 4**	939 8	842 3	585 4	437 0
Return on equity (before exceptional items and discontinued operations, post-tax)	**10.6%**	8 7%	6 2%	18 0%	24 4%

* Normalised results are defined as the statutory results before the following as appropriate profit or loss on sale of businesses, exceptional profit or loss on sale of non-current assets, intangible amortisation, property, plant and equipment impairments, exceptional items and tax relief on qualifying exceptional items

** Normalised operating profit/capital employed

1 Prior year earnings per share figures have been restated for the effect of the 2009 Rights Issue

National Express Group PLC
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Tel +44 (0) 8450 130130
www.nationalexpressgroup.com

Registered in England and Wales No. 04304909

Certificate No. 3

No of Shares: 82,200

T & H Design Limited

Incorporated under the Companies Act

This is to Certify that

S&M Provisions Limited Pension Scheme

of Ryton Farm House, Ryton, Shifnal, Shropshire, TF11 9 JL

is the registered holder of Eighty Two Thousand, Two Hundred fully paid Preference shares of £1 each,
Numbered from 1 to 82,200 consecutively, of the Company
subject to the Memorandum and Articles of Association of the Company

Executed by the said Company on the 17th May 2012

Director ..

Director

No Transfer of Shares (or any portion thereof) comprised in this Certificate can be registered without the production of this Certificate