National Express…
Cologne to California

Annual Report and Accounts 2015

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

Our Vision

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

→ **Read more p18**

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

www.nationalexpressgroup.com

Our Values

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

Underlying revenue compares the current year with the prior year on a consistent basis, after adjusting for the impact of currency.

In UK Bus, commercial revenue is that from fare-paying customers and excludes concessions and contracted services. In UK Coach, core express revenue is that from the scheduled National Express network.

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

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

'Return on capital employed' ('ROCE') is normalised operating profit divided by tangible and intangible assets.

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

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

EBITDA is 'Earnings Before Interest, Tax, Depreciation and Amortisation'. It is calculated by taking normalised operating profit and adding depreciation, fixed asset grant amortisation, normalised profit on disposal of non-current assets and share-based payments.

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

Gearing ratio is the ratio of net debt to EBITDA over the last 12 months, including any pre-acquisition EBITDA generated in that 12-month period by businesses acquired by the Group during the period.

The annual punctuality measure for c2c is the moving annual average ('MAA') public performance measure ('PPM') to 6 February 2016.

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

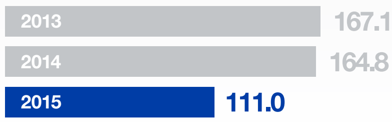
Earnings per share ('EPS') is the profit for the year attributable to shareholders, divided by the weighted average number of shares in issue, excluding those held in the Employee Benefit Trust which are treated as cancelled.

Strong financial performance

- Group revenue increased by 3.8% to £1.92 billion on a constant currency basis; up 2.8% on a reported basis (2014: £1.87bn)
- Group normalised operating profit up 15.5% to £193.5 million (2014: £167.6m*)
- Group normalised profit before tax rose by 25.2% to £150.1 million (2014: £119.9m*)
- Statutory Group profit before tax grew by 87.1% to £124.4 million (2014: £66.5m) with no exceptional costs in 2015
- Group ROCE increased to 11.7% (2014: 10.7%*)
- Year-on-year normalised EPS growth of 23.8% to 23.4 pence (2014: 18.9p*)
- Free cash flow of £111.0 million, £11.0 million ahead of target (2014: £164.8m)
- Net debt increased by £81.2 million to £745.5 million, reflecting £105.8 million spent on acquisitions and growth capital expenditure
- Full year proposed dividend of 11.33 pence, up 10% year-on-year (2014: 10.3p)

Group revenue (£m)
£1,919.8m

Free cash flow* (£m)
£111.0m



ROCE* (%)
11.7%

Operating profit* (£m)
£193.5m

Dividend per share (p)
11.33p

Operating margin* (%)
10.1%

* Historical results restated to adjust for the impact of Rail and Middle East bid costs previously treated as exceptional items.

Summary of results 2015

	Normalised basis		IFRS basis	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Revenue	**1,919.8**	1,867.4	**1,919.8**	1,867.4
Operating profit	**193.5**	167.6	**167.8**	114.2
Profit before tax	**150.1**	119.9	**124.4**	66.5
Profit for the year	**121.6**	98.1	**109.1**	60.6
Basic earnings per share (pence)	**23.4**	18.9	**20.9**	11.6
Net debt	**745.5**	664.3	**745.5**	664.3

Front cover
One of our new German trains departs Cologne station – a key destination for our new rail services. Read more about them on page 48–49

A leading transport provider with a well balanced portfolio

The Group operates in the UK, Continental Europe, North Africa, North America and the Middle East and at the end of the year we employed over 44,000 people and operated over 27,000 vehicles. Passengers made more than 867 million journeys on our services in 2015.
The National Express name first appeared on UK coaches in 1972, and the Company was listed on the London Stock Exchange in 1992.

North America: Bus

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

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

We operate in 36 US states and four Canadian provinces.

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

Revenue

£683.2m

2014: £620.2m

Operating profit

£66.8m

2014: £59.5m

→ **Read more p40**

Rail

- **c2c**
- **National Express Rail Germany**

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 started to operate contracted rail services in Germany in December 2015 running the Rhine-Münster-Express and the Rhine-Wupper-Bahn. In June 2015 we were awarded two contracts to operate Rhine-Ruhr Express services, the first starting in December 2018, and the second in December 2020. We have also been named as preferred bidder to operate services on the Nuremburg S-Bahn network.

Revenue

£168.4m

2014: £151.6m

Operating profit

£0.6m

2014: £(10.1)m*

→ **Read more p46**

Spain and Morocco: Bus and Coach

- **ALSA**

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

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

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

Revenue

£502.2m

2014: £538.1m

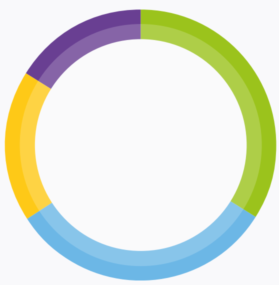
Operating profit

£71.5m

2014: £75.0m*

→ **Read more p38**

Operating profit by end market



Spain and Morocco	34%
North America	32%
UK Bus	18%
UK Coach	16%
Rail	0%

* FY2014 normalised results restated to adjust for the impact of Rail and Middle East costs previously treated as exceptional items

UK: Bus

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

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

In addition, we operate the Midland Metro light rail service between Birmingham and Wolverhampton.

Revenue

£286.4m

2014: £281.0m

Operating profit

£37.5m

2014: £34.0m

→ **Read more p42**

UK: Coach

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

National Express is the largest operator of scheduled coach services in the UK. The business operates high frequency services linking over 900 destinations across the country. We are the UK partner in the Eurolines network which serves over 500 destinations across Europe and North Africa.

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

Revenue

£281.2m

2014: £275.2m

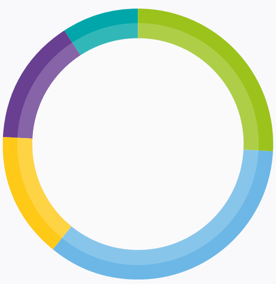
Operating profit

£32.3m

2014: £28.0m

→ **Read more p44**

Group revenue by end market



Spain and Morocco	26%
North America	35%
UK Bus	15%
UK Coach	15%
Rail	9%

New markets

Bahrain

In February 2015, our joint venture, Bahrain Public Transport Company, began operating new bus services across Bahrain. The ten-year contract included the introduction of 141 new vehicles to Bahrain.

International opportunities

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

→ Our new bus fleet serves Manama and surrounding areas in Bahrain

Operational excellence is driving our success

Sir John Armitt CBE
Chairman
25 February 2016

Governance highlights

- As a Board, we aspire to apply high standards of governance to our conduct around the Board table and we commit to ensure that these standards, values and behaviours are applied consistently by the Executive team and cascaded throughout the Group.
- During the year, we have continued to refresh the Board to ensure that, as the Group evolves, we have Directors with the right and appropriate balance of skills, experience, independence and relevant knowledge in order to deliver our strategy and fulfil our duties as Directors.
- In line with Code recommendations, the Board recognises and values the importance of maintaining healthy and open communications with our shareholders to ensure mutual understanding of the Group's strategy, objectives, governance and performance.

→ Read more p50

Dear shareholder,

I am delighted that National Express has again delivered a strong set of results in 2015. The focus on operational excellence, across the Board, from Dean and throughout the business is helping us to increase revenues, profit and margin, drive cash and returns to shareholders and generate new growth opportunities.

New markets

During the year we commenced operations in two new markets: Bahraini bus and German rail. I cannot recall a time when an established transport company like ours began significant new operations in two foreign markets in the same year. It is testament to the management capabilities we have in place at the senior, Group level and in local teams to have achieved such a feat.

As we have repeatedly said, our ability to generate growth in new markets is contingent upon us securing and sustaining a reputation for operational excellence. I believe that successful operations in these two new markets will only strengthen these credentials further and hope they will also help us open other growth opportunities.

Existing businesses

Equally, however, we are focused on ensuring we sustain a reputation for operational excellence in our existing markets. Our customer satisfaction scores, contract retention rates and passenger growth figures demonstrate that we have also made good progress here. Our financial results for the year – with revenue, profit and margin up in every division – show the benefits of this focus.

Dividend

It is because of this performance, with free cash flow again beating our target, and our confidence on outlook that the Board is recommending that the full year dividend is increased to 11.33p, representing 10% growth for the year as a whole. This dividend is paid in line with our policy – announced during 2015 – of two times Group earnings cover. Subject to approval by shareholders, the final dividend will be paid on 20 May 2016 to shareholders on the register on 29 April 2016.

Board

In this year's Annual Report and Accounts we have included a 'Governance in practice' section to capture the active role the Board play across the business, from meeting frontline staff and customers to challenging senior management. I believe this is welcome additional disclosure which gives shareholders and other stakeholders an insight into the varied work undertaken by the Board and I hope you find it useful and interesting.

Following the announcements last year that both Sir Andrew Foster and Jackie Hunt would be standing down, we made three appointments in 2015 to strengthen the Board in key areas.

Matthew Crummack brings significant experience in digital commerce which has become a critical area of activity within National Express. Matthew has already made a valuable contribution and complements the Board with a retail focused customer perspective.

Mike McKeon joined the Board during the year and as well as becoming a member of the Safety & Environment Committee is Chair of the Audit Committee. After spending 15 years as a Group Finance Director with wide-ranging international experience, Mike provides expert oversight in these crucial areas.

Dr Ashley Steel was appointed last year and took up her position on the Board in January 2016. As a former Vice Chairman at KPMG, and their Global Chair for its transport, leisure and logistics practice, she brings a distinguished career in and significant track record of the sector.

I look forward to continuing to work with Matthew, Mike, Ashley and all the Board in 2016.

Sir John Armitt CBE
Chairman
25 February 2016

A sound investment case… our diversity is our strength

1 A best in class public transport operator*

	Spain and Morocco	North America	UK Bus	UK Coach	Rail	Group
Margin %	14.2	9.8	13.1	11.5	0.4	10.1
Best in class %	NX	NX	14	NX	5	NX

* By margin

2 A sound strategy in place

→ Read more p14–17

Delivering operational excellence

- Best in class Group margin of 10.1%
- Revenue growth of 3.8% at constant currency
- £9.0 billion of long-term contracted or concessionary revenues
- Sustainable long-term earnings including long-term rail earnings

Generating superior cash and returns

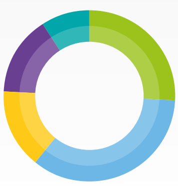
- Free cash flow of £111 million
- Sustainable free cash flow generation of £100 million per annum
- Dividend up 10%
- Group ROCE increased by 100bps to 11.7%
- Surplus cash to be invested in targeted bolt-on acquisitions

Creating new business opportunities

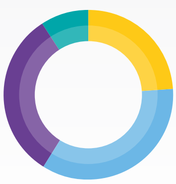
- Over £1.1 billion of new contracts won during the year
- Rail – won two new German rail contracts worth €1.0 billion of contracted revenues; bidding for a further three in 2016. Shortlisted for East Anglia in the UK
- UK Bus – shortlisted for Manchester Metrolink
- Spain and Morocco – awarded a contract within the Imserso scheme in Spain and commenced operations in Khouribga, our fourth city in Morocco
- Middle East – commenced operations of first contract in the region in Bahrain, and shortlisted in two further cities in the region
- Six bolt-on acquisitions in 2015 with five in North America and one in Spain

3 Well balanced portfolio

Divisional split by revenue



Modal split by revenue

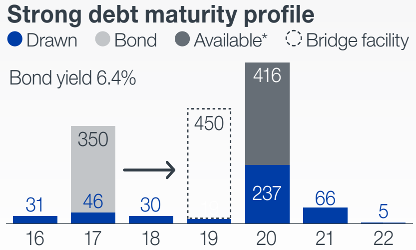


4 Stable long-term finance in place and commitment to investment grade rating

Gearing ratios	2015	2014	Covenant
Net debt/EBITDA	2.45x	2.25x	< 3.5x
Net interest cover	6.6x	6.3x	> 3.5x

Ratings	Grade	Outlook
Moody's	Baa3	Stable
Fitch	BBB-	Stable

Strong debt maturity profile



* Available cash and undrawn committed facilities at 31 December 2015.

5 Dividend policy based on 2x Group earnings

	2015	2014
Basic EPS	23.4	18.9*
Dividend	11.33	10.3

* FY2014 normalised EPS restated to adjust for the impact of rail and Middle East bid costs previously treated as exceptional items

Understanding trends and opportunities

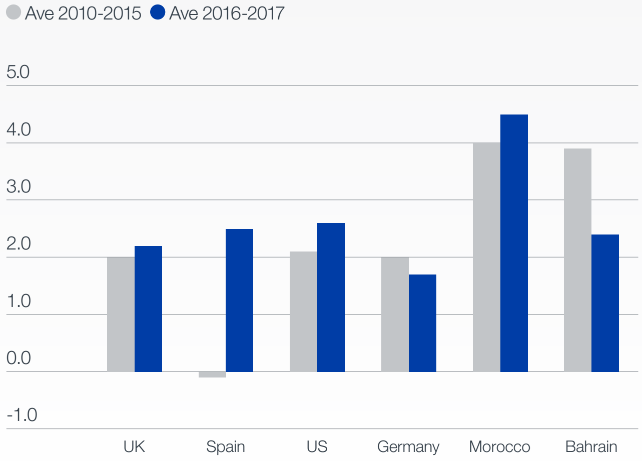
Here we give an overview on how the megatrends are shaping demand for travel and public transport and the opportunities ahead.

Economic environment

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

Opportunity: The UK and North America are showing relatively stable growth whilst the Spanish economy appears to be strengthening, with demand for public transport likely to improve as the economy grows and employment levels rise.

Average GDP growth



Deregulation, liberalisation and outsourcing

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

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

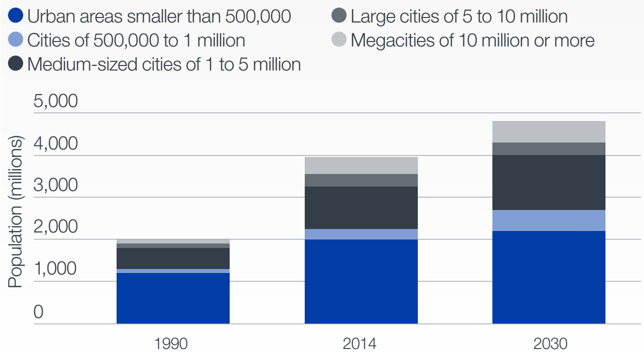
Opportunity: The current size of the European public transport market is estimated to be approximately €150 billion*. Liberalisation of the German and Spanish rail markets present opportunities for growth. (* OECD data.)

Urbanisation and demographic changes

Our services benefit from increasing urbanisation around the world, in particular driving demand for bus operations. Existing towns and cities are expanding, in addition to the creation of new centres of population. Globally, in 2014, 54% of the world's population lived in urban centres and it is projected to grow to 66% by 2050, whilst 73% of the population in Europe and 82% of the population In North America already live in urban centres. These trends are driving the requirement for additional transportation services, both within and between locations, so our Bus, Coach and Rail operations are increasingly in demand. In addition population growth in the UK and North America will drive further demand for public transport services.

Opportunity: UK population growth is forecast to grow by 7% over the next decade driving the need for further public transport services, whilst the combination of an ageing and increasingly social and ethnically diverse population will drive the need for new products and services to meet changing customer needs.

Global urban population growth is propelled by the growth of cities of all sizes



Modal shift

Modal shift is the move by individuals from one form of transport to another. For National Express, the relevant move is from the private car to bus, coach and rail travel. The biggest reason for this is an increase in the cost of motoring, such as insurance pricing, and the increasing use of mobile devices, such as tablets and smartphones, while travelling, although other factors such as environmental concerns and congestion can also be important. Geopolitical and demographic changes in the Middle East are increasing demand for affordable, safe public transport. Technology and innovation are playing their part, with travel apps providing real-time information as well as customised targeted offers helping to generate incremental demand for journeys on public transport. Digital platforms are increasingly providing customers with end to end journey planning and ticketing tools delivering greater convenience for passengers.

Opportunity: The proliferation of real-time travel information and mobile devices improves the customer experience making public transport increasingly more attractive compared with the car, whilst the introduction of smartcards and contactless cards not only provides greater convenience for customers but help to build stronger customer relationships.

Environment and congestion

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

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

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

Spain and Morocco

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

Market size
€3.8bn

Concessions
175

- 175 concessions: 123 intercity coach concessions, 36 urban bus contracts, 16 others
- Concessional renewal and new urban contract wins in Spain and Morocco
- Revenue management generating passenger and revenue growth in Spain
- Continuing urbanisation of the Moroccan economy with rapid migration to the major cities

North America

→ Read more p40

National Express is the second largest player in the North American school market with a 13% share of the outsourced school bus market. 33% of the market is outsourced with recent increases in outsource conversion being driven by pressure on public funding. This trend is likely to continue as school district budgets remain constrained. Typically customers are local school boards where local relationships are key and service delivery is very important. National Express also operates in the North American public transit market, 29% of which is outsourced and where there is an increasing demand for accessible public transportation services, for fixed route, paratransit and employee shuttle services.

Market size
$24bn

Operates
21,800
school buses

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

UK Bus

→ Read more p42

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

Market size
£4.8bn
(UK excluding London)

Operates
1,677
buses, focused in the West Midlands and Dundee markets

- Increase passenger volumes through investment in vehicles, technology and people and through delivering high quality services
- Low barriers to entry – flexibility and scale of operations is key
- Devolved local transport budgets and services to regional combined authorities may present opportunities to enter new regional markets

UK Coach

→ Read more p44

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

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

Destinations
900+
UK scheduled coach market leader

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

Rail

→ Read more p46

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

Market size

£8.5bn
of UK franchise revenues per annum, with over £6 billion of franchise revenues up for renewal over the next five years (based on proposed Department for Transport pipeline)

€9bn
currently accessible German regional and urban market

- c2c rail franchise through to 2029
- Submitted bid to operate the East Anglia rail franchise with a decision due in summer 2016
- Our first two German rail franchises commenced operations in December 2015 for 15 years with two more commencing in December 2019 and December 2020 for 14 years and 13 years respectively
- Growth through further bid wins in Germany and the UK
- Liberalisation of Spanish rail market a future opportunity

Delivering growth in all divisions

Dean Finch

Dean Finch
Group Chief Executive
25 February 2016

Introduction

National Express had a very successful year. Revenue, profits and margins have increased in every division on a constant currency basis. We continue to generate a strong and sustainable cash flow, which underpins a 10% increase in our proposed full year dividend and helps us to invest for further growth. Indeed, we started operations in two new markets, Germany and Bahrain, during 2015 and made a number of targeted acquisitions in North America and Spain in line with our growth strategy.

I believe these results demonstrate that our strategy of consistently focusing on operational excellence to drive cash and returns, as well as opening up new growth opportunities, continues to deliver. National Express has a uniquely diversified portfolio of industry-leading businesses which, through careful management, have provided growing returns for shareholders and generated new expansion opportunities. I believe that by maintaining this management focus on consistently delivering our strategy we will continue to drive returns and open new growth opportunities. Before I expand in more detail on this, I would like to outline the highlights from our results during the year.

Highlights from the year

My first priority as Chief Executive is safety. It is one of our core values and is the first issue I discuss on my weekly call with Managing Directors, at each Divisional Board meeting and at the PLC Board. As long as I am Chief Executive of National Express, it will remain our priority. I am therefore pleased we have made further progress in improving on our key safety measure: the Fatalities and Weighted Injuries ('FWI') index. Since 2011 we have reduced the harm caused by our business on this measure by 56%. We have also won important safety awards during the year, including UK Coach being awarded the prestigious British Safety Council 'Sword of Honour' and our North American School Bus division being upgraded to the highest possible rating by the Federal Motor Carrier Safety Administration, part of the US Department of Transportation.

> "Our strategy of consistently focusing on operational excellence to drive cash and returns, as well as opening up new growth opportunities, continues to deliver."

Financially, the Group has performed well during 2015. With all divisions helping to drive increased revenues, profits and margins, I believe the whole business is benefiting from a focus on operational excellence that requires us to deliver consistently for our customers the services they want, at attractive prices. Across the Group we carried over 2% more passengers than in 2014, helping to increase Group revenue by 3.8% on a constant currency basis. Group profit before tax increased by 25.2% on a normalised basis and by over 87% on a statutory basis. We have again driven improved returns with Group ROCE up 100 basis points to 11.7% and a strong and sustainable free cash flow of £111 million, beating our target of £100 million. This strong performance allows the Board to propose an increase in the full year dividend to 11.33p, an increase of 10% and funded within our robust policy of two times earnings cover. With c2c and German Rail securing our long-term future in rail, the Board announced a new policy at 2015's half year results, to include rail profits in the dividend calculation.

UK Coach's innovative digital marketing approach is being complemented with new partnership deals to both deliver our services more effectively to existing customers and reach new markets. This has been augmented by further contract wins, especially in the second half of the year. In the core coach business we carried nearly 2% more passengers in 2015 compared with 2014 and increased revenue across the division as a whole by 2.2% to £281.2 million. With a relentless attention to costs and efficiency, UK Coach has delivered a 15.4% increase in profit and a margin improvement of 130 basis points to 11.5%.

In UK Bus the emphasis on partnership is working, with, for example, our record investment in new vehicles during 2015 complemented by local authority investment at crucial pinch points. This is helping to drive strong passenger growth on these new Platinum routes. Alongside Centro we have helped lead the industry with the launch of the multi-operator, multi-modal Swift smartcard, which is also available as Pay As You Go. Together innovations and investment like this have helped secure our highest ever customer satisfaction scores in the independent Transport Focus survey. This is being reflected in our financial results with revenue increasing by nearly 2% to £286.4 million and profits growing by just over 10% to £37.5 million. Our margin has increased by 100 basis points to 13.1%.

Our Rail division has delivered an operating profit of £0.6 million compared with a £10.1 million loss in 2014. These figures reflect the fact bidding costs are included in our divisional results and are no longer taken as exceptional items. In 2015 we also absorbed over a three-fold increase in the premium paid to the Government for the c2c service. Targeted, digital marketing, combined with the best punctuality in Britain, has helped revenues from c2c increase by nearly 10% to £166.0 million, with overall passenger numbers growing by 5.3% and off-peak journeys increasing by 7.6%. We introduced the largest timetable change in a generation during December to meet both the significant passenger growth we have been experiencing and the improved central London connections specified in the Department for Transport's franchise agreement. We have made amendments to address some passenger concerns and are working hard to secure extra trains to provide additional capacity.

In North America we continue to see the benefits of our focus on improving contract pricing, including through our 'up or out' strategy. During the year we secured price increases of 5.3% in those contracts that went to market, which averaged out at a 2.8% increase across our whole portfolio. We have again maintained very high levels of customer retention. Our 'up or out' pricing strategy means we exit unprofitable contracts unless we secure a sufficient price increase to ensure profitability; with those tenders excluded, we retained 99% of all contracts re-bid during 2015; and if those tenders are included, we still retained 96% of contracts across our whole portfolio. Combined with further cost savings, including head office efficiencies, these have helped drive an increase in profit on a constant currency basis of 6.1% to $102.2 million despite rising pressure on driver wages, with our margin now at 9.8% (9.6% in 2014). Transit has also delivered significant growth in the year, with three new contracts secured, an extension to an existing contract and one bolt-on acquisition helping to increase annualised revenues by 45%.

In ALSA, our Spanish and Moroccan division, revenue grew by 3.6%, profit increased by 5.8% and a record number of passenger journeys were recorded in the year. This growth has been driven in particular by the continued successful roll out of our revenue management system ('RMS') and our ongoing growth in Morocco. RMS has now been extended to over 200 flows that compete directly with the discounted RENFE rail services, with revenues up 2% and passengers up 3% on these routes. Morocco continues its strong growth, with revenues up nearly 14% as we expanded our services in Tangier and started new operations in our fourth city, Khouribga. Following recent press reports on the Portuguese Government's proposed cancellation of our Porto bus contract – amongst others awarded by the previous government – we have just received official notification. We will analyse the arguments used to overturn a previously awarded contract and then consider our next steps.

We also successfully launched new Bahraini bus and German rail services during the year. Our entry into these new markets was secured, at least in part, because of our reputation for excellence in our existing operations. We believe both of these markets provide good growth potential and will help strengthen our international reputation.

Strategy

Our consistent strategy of focusing on operational excellence has demonstrably improved returns for shareholders and helps position us for further growth opportunities.

Delivering operational excellence

For a number of years I have made the case that our success as a business is dependent upon us securing and maintaining a reputation for operational excellence. For our existing customers this means consistently delivering the services that they want at competitive prices they can afford. For new customers it means demonstrating to them that we will provide to them the service they want in a convenient way while offering good value for money.

This has guided our operating philosophy for a number of years now, and I believe these results demonstrate the benefits of this approach. We carried more passengers in 2015 than in 2014, with both ALSA and c2c carrying record passenger numbers in the year. Our customer satisfaction ratings again are often market-leading: UK Coach is for the third year running the most trusted ground transportation brand in the UK Institute of Customer Service's annual survey; UK Bus has secured its highest ever customer satisfaction scores in the independent Transport Focus survey; c2c again has the highest customer satisfaction scores for reliability and punctuality in London and South East franchises in the National Rail Passenger Survey; in our North American School Bus business 92% of customers say they would recommend us on the basis of our service, safety and value; and ALSA has achieved its best score in five years in the annual independent Customer Service Index survey conducted by GFK.

This philosophy will also drive growth in our existing businesses as we focus on delivering continuously improving, ever more punctual and value for money services. This means identifying opportunities to capture new markets, such as UK Coach's new Bristol Airport services launched in March 2015. It also means reforming our operations to ensure they meet customer aspirations and challenges, such as launching the largest timetable change in a generation on c2c to meet the significant passenger growth

→ The launch of a new coach service between Cardiff and Bristol Airport has proved popular with customers

← We have expanded our operations in Morocco with the launch of services in Khouribga

↘ The new Platinum buses launched during the year in the West Midlands offer more leg room and free WiFi

"Our progress in embedding excellence across the business has been recognised by leading accreditation bodies."

we have been experiencing and making significant progress in the 'digital' arena.

For some time we have been looking to harness new technology and approaches to enhance our customer service and operate more efficiently. Our targeted digital marketing has already delivered results in UK Coach: 88% of emails sent to our customer database are now targeted, compared with 69% in 2014 and 18% in 2013. We have already embedded a similar approach in c2c, with an increase in off-peak travel a particular benefit from this approach, and we are now rolling it out to UK Bus and Spain. We have already pioneered industry-leading innovations, such as the personal performance promise supported by Automatic Delay Repay and personalised performance reports, which c2c is launching this year.

Under a new Group Digital Officer, all divisions are auditing their existing digital strategies and setting out how they can make further, significant progress in the coming years. I believe these new technologies and approaches provide the opportunity to truly bring the customer into the heart of our business. They help create personalised and tailored relationships with our customers, helping to drive innovation and service efficiency so we can better target customer needs.

We have also been using new technology to improve our safety performance and believe there is the opportunity for substantial cost savings to be gained through this. Initial pilots of 'DriveCam' in UK Coach and North American School Bus have been very positive, already delivering in-year cost savings and providing detailed performance reports for each driver, allowing tailored training programmes to improve driving and safety performance. This technology will now be rolled out more widely in UK Coach and North America and also to UK Bus and ALSA. We are also looking to introduce 'collision avoidance' technology that could deliver further savings and safety improvements. I believe this is an area of real opportunity for our business, delivering both further safety improvements and meaningful cost reduction.

Embracing technology and approaches such as those outlined above demonstrates how we continue to invest where it makes a real difference to our services. In 2015 we invested a record £34 million in UK Bus, delivering 176 new buses, one third of which were our state-of-the-art Platinum buses. These buses are seeing strong passenger growth and customer satisfaction scores of 94%. We have also invested in an RMS in Spain to effectively counter the competitive threat from heavily discounted rail services and are launching an enhanced version in UK Coach during the year. c2c has also been investing in leading-edge customer initiatives such as improved apps and WiFi provision, first-to-last staffing at all stations and the ground-breaking Automatic Delay Repay scheme for season ticket holders. This will provide compensation for every minute of delay beyond two minutes and, as the Secretary of State for Transport confirmed last year, has set a new standard for the rail industry as a whole to follow.

But, equally, these new technologies and approaches are part of our continued determination to operate as cost efficiently as possible. Operating efficiently helps us to maintain our prices as competitive as we can. We have continued to target 1% cost efficiency savings, with £19 million delivered in 2015. Over the last three years we have taken nearly £80 million out of our cost base through efficiency savings and are determined to continue to secure further savings in the future.

Our progress in embedding excellence across the business has been recognised by leading accreditation bodies. c2c has had its five-star rating under the European Foundation for Quality Management (EFQM) re-confirmed, with a higher mark this year than its last score. UK Bus, UK Coach and ALSA have all achieved four-star ratings in their initial assessments and are determined to emulate c2c's success. Our North American Division has also secured a Bronze Award in its first assessment from the Illinois Performance Excellence Center (ILPEx). 2015 also saw us win a record number of industry awards.

As I have already mentioned, safety is my priority and our Driving Out Harm programme, introduced in 2010, continues to deliver progress in this crucial area. We have achieved a reduction in our key safety measure – the FWI index. Since 2011 we have reduced harm on this measure by 56% across our business. 2015's FWI is 12.242, compared with 12.307 in 2014 and this progress comes despite us carrying more passengers and running more services in 2015.

It is through this approach to operational excellence, combining service quality, customer satisfaction, cost efficiency, targeted investment and innovation and a fundamental focus on safety, that we believe we will deliver our vision of earning our customers' lifetime loyalty. As I have repeatedly said, passengers are more likely to use our services above other choices because they are receiving a good service at a good price. Equally, contracting authorities or businesses are less likely to retender services and are more likely to award us new contracts if we consistently deliver excellence.

I am particularly pleased that our reputation is helping to retain significant contracts and services. UK Bus has led the industry and secured a five year 'Bus Alliance' in the West Midlands, building on our award-winning partnership approach. ALSA successfully renewed one and obtained the highest score, pending award, in the other for the only two national franchises in our portfolio to come up for renewal during 2015. ALSA also extended the Bilbao Urban Transport contract by two years. I have already mentioned our industry-leading contract retention rate in North American School Bus, with a 99% success rate in those contracts we wanted to retain.

Superior cash and returns

The success of this strategy this year is also evident in our strong cash and returns.

We have again beaten our target for the year, delivering £111 million of free cash flow, £11 million ahead of our initial projection. Maintaining a strong and secure cash flow in the coming years is important for the dividends we pay shareholders and to fund future growth.

Our net debt has increased by £81 million in 2015 to £746 million, with a gearing ratio of 2.45 times EBITDA. This increase in net debt has been driven by £106 million spent on acquisitions and growth capital expenditure projects, all of which are accretive within the first 12 months and will continue to drive further profit growth. As we made clear last year, a period of debt reduction and a successful programme to embed a strong and sustainable cash flow within the business provided a firm financial platform, allowing us to increase investment to capitalise on emerging growth opportunities.

Group ROCE has again increased, up 100 basis points to 11.7%, demonstrating that we continue to deploy capital in a disciplined manner, targeting enhanced returns. Our Group operating margin has also increased again this year, up 110 basis points to 10.1%. We continue to target both margin and ROCE improvement in the coming years.

As well as funding investment and growth, our strong performance is also delivering improved returns for shareholders. Our Group EPS has increased by nearly 24% to 23.4 pence and our strong and sustainable cash flow means the Board is able to recommend to shareholders at the Annual General Meeting a final dividend of 7.645 pence per Ordinary share (2014: 6.95p) giving a total dividend for the year of 11.33 pence (2014: 10.3p). This represents an increase of 10% over 2014 and reflects our new policy announced during the year of having two times total Group earnings cover.

Subject to shareholder approval at the Annual General Meeting to be held on 11 May 2016, the final dividend will be paid on 20 May 2016 to Ordinary shareholders on the register of members at the close of business on 29 April 2016.

Generating new growth opportunities

Last year we identified North America as the principal opportunity for increased investment to deliver strong growth over the medium term. Our experience in the last 12 months –

11.33p
proposed total dividend

£111.0m
free cash flow

←
Our principal focus for acquisitions is the North American School Bus market

including an encouraging pricing environment, with over 5% price increases secured on renewed contracts during the year – has confirmed this view and we will continue to target North America for further investment.

In a highly fragmented market, with over 1,300 private school bus businesses, we believe there is significant scope for the identification and integration of operations that are adjacent to our more than 220 sites across North America. In the last 12 months we have made bolt-on acquisitions of this type, delivering management synergies and improved purchasing power, alongside operational improvements. Some of these acquisitions have also opened new markets to us – for example shuttle services – providing credentials in growing sectors. From the integration of our significant Petermann acquisition four years ago, to these recent examples, our management team in North America has unparalleled experience and expertise in this area. We also believe our Transit business provides a good opportunity for further growth, building on the 45% increase in annualised revenues secured this year.

During the year we also started new services in two new markets. Our Bahraini bus services began in February and our German rail services in December. Both began successfully and demonstrate that operational excellence and working in partnership work internationally. These contracts are strengthening our international reputation and opening further opportunities in local markets. For example, our new services in Bahrain are opening other contract opportunities within the Middle East where we believe the prevailing fiscal climate is encouraging authorities to increasingly look at public transport as a cost effective investment. Across the region, we are actively involved in four bid processes with annualised revenues of around $220 million. We believe there is a good pipeline of further opportunities here and are monitoring potential competitions in six countries in the Middle East.

In German rail we commenced our Rhine-Münster Express ('RME') services in December 2015. We are pleased with the first few months of trading and are targeting a break-even result a full year ahead of our original plan. Projected revenues for the existing RME services are expected to be around €72 million in 2016, with later years benefiting from the operation of the €1 billion Rhine-Ruhr Express services from 2018, and subject to a further legal challenge the €1.4 billion Nuremberg S-Bahn contract. This latest appeal by Deutsche Bahn comes despite the local authority believing it had successfully demonstrated that the conditions set in the previous appeal had been met. We will continue to provide any necessary information and hope the new appeal is concluded quickly so we can provide the people of Nuremberg with the quality of service they deserve. The German rail market remains very attractive, worth €6 billion of revenues per year overall. In 2016 we have three active bids, themselves worth a total of €3 billion in revenue over the lives of the contracts.

We submitted a bid in December 2015 for the East Anglia rail franchise. The outcome of the franchise competition, which is for up to ten years, is due to be announced in July, with the contract due to start in October 2016. Our approach to UK Rail remains focused on delivering bids that combine improved services to customers and competitive prices to the Government while, crucially, delivering an appropriate return to shareholders. We will continue to bid selectively. While we continue to monitor the UK rail market for any opportunities that meet our strict criteria, our current focus is on securing smaller, lower risk German rail franchises where the risk is acceptable and meets our capital-light investment criteria.

We are also currently working on a bid for Manchester Metrolink, which is due to be submitted in May, with the contract starting in July 2017.

Outlook

During 2016 we expect all divisions to continue performing well, with good profit and cash performance secured as our strategy of operational excellence delivers the services our customers want. With both businesses firmly established, we expect our new services in Bahrain and Germany to support this as well. We will continue to target margin and ROCE improvement and are again not anticipating any exceptional items during the year. Our cash target for the year is again £100 million, reflecting our determination to maintain a strong and sustainable free cash flow to fund targeted investment in further growth and improving shareholder returns.

The principal focus for acquisitions will remain the North American school bus market, where our ongoing strong performance and management expertise, the encouraging trends in pricing and nature of the market mean we are well placed to deliver further growth. Investment must always meet our strict financial and strategic criteria and we are already encouraged by the performance of our acquisitions made during 2015.

In Spain, we are still preparing for the concession renewal process to begin later this year. However, the delay in forming a new government coupled with the ongoing legal challenges in Spain may serve to delay elements of the renewal process further. While we would expect some pressure on margins at renewal, as is normal, any impact from the larger concessions would not be felt until 2017 if they are indeed re-let this year. We expect the impact on our Spanish EBIT to be up to €2-3 million in 2017. Our industry-leading team and the ongoing refinement of our competitive strengths such as our RMS, means we are determined to retain our market share and compete effectively.

We believe there are further growth opportunities within Morocco, the Middle East and German rail, and we will remain active in all these markets. With these markets well established, the Group is now considering entering other new markets. Our Business Development team continues to examine opportunities for further diversification where through targeted bids we can provide the authorities with a winning combination of high quality and price leadership.

In January 2016, the Group entered into new bank facilities totalling £450 million. This comprised a £350 million bridging facility, in anticipation of the refinancing of the Group's existing £350 million bond which matures in January 2017, and a £100 million general corporate purpose facility. These new facilities provide us with flexibility to the timing of the bond refinancing (until January 2019) and we would anticipate a significant reduction in our future interest charge of around £5 million at such time as we choose to refinance.

We anticipate significant savings of around £30 million from lower fuel costs in 2018 compared with 2015, where currently 42% of the Group's annual fuel requirement for that year is hedged at an average price of 31 pence. This compares with an average price of 42 pence in 2016.

We will also – of course – target further improvements in our safety results and look to further harness the opportunity and efficiency provided by new technology in delivering better safety performance and lower associated costs. We believe there is a real opportunity for progress here. New technology will continue to allow us to develop an increasingly personalised relationship with customers, generating demand and securing loyalty. But it will not deflect us from a continued focus on price leadership – including rolling out an ever more sophisticated RMS further – consistent attention on cost efficiency and maintaining our reputation as an excellent operator.

Our uniquely diversified portfolio of companies has provided both a stability of earnings and new sources of growth in recent years. We will continue to pursue targeted bolt-on acquisitions and selective new bidding opportunities that build on our recent successes in Bahrain, Germany and Spain. We believe that by continuing to apply our model of operational excellence in these markets, we will deliver the services our customers value, create new sources of growth and thereby continue to generate good returns for our shareholders.

An integrated approach

Value creation depends on a wide range of tangible and intangible factors. Our focused and integrated approach to sustainable value creation across the short, medium and long term delivers benefits for shareholders, employees and the communities in which we operate.

Our vision

Our Vision defines our Group, setting the overall objective, which is to earn the lifetime loyalty of our customers by consistently delivering frequent, high performing public transport services which offer excellent value.

Our business model and markets

The Group's markets are shaped by material trends in macro-economic, socio-economic, regulatory, competition, human capital and a changing technology landscape; these trends present both risks to value creation and significant opportunities and possibilities for organisational innovation and new competitive advantage. Our business model is agile and responsive, operating in the context of our markets, leveraging our operational experience and know-how to provide best in class transport services which, in turn, creates long-term sustainable value.

→ **Read more p14**

Our strategy

Through our strategies of delivering operational excellence, generating superior cash returns and creating new business opportunities we are able to deliver strong, sustainable results and improve shareholder returns.

Delivering operational excellence

Generating superior cash and returns

Creating new business opportunities

→ **Read more p16**

Key performance indicators

We employ a range of both financial and non-financial Key performance indicators ('KPIs'), which are used to measure the progress of our business as a whole and our strategic direction in particular.

→ **Read more p26**

Resources and relationships

We recognise that we cannot run our business in isolation; our business model and strategy are dependent upon a range of factors which are critical to value creation and long-term success.

→ **Read more p18**

Risk management

The Group has a well established governance structure with internal control and risk management systems. The risk management process provides a framework to identify, assess and manage risks to the Group's overall strategy and the contribution of its divisions.

→ **Read more p28**

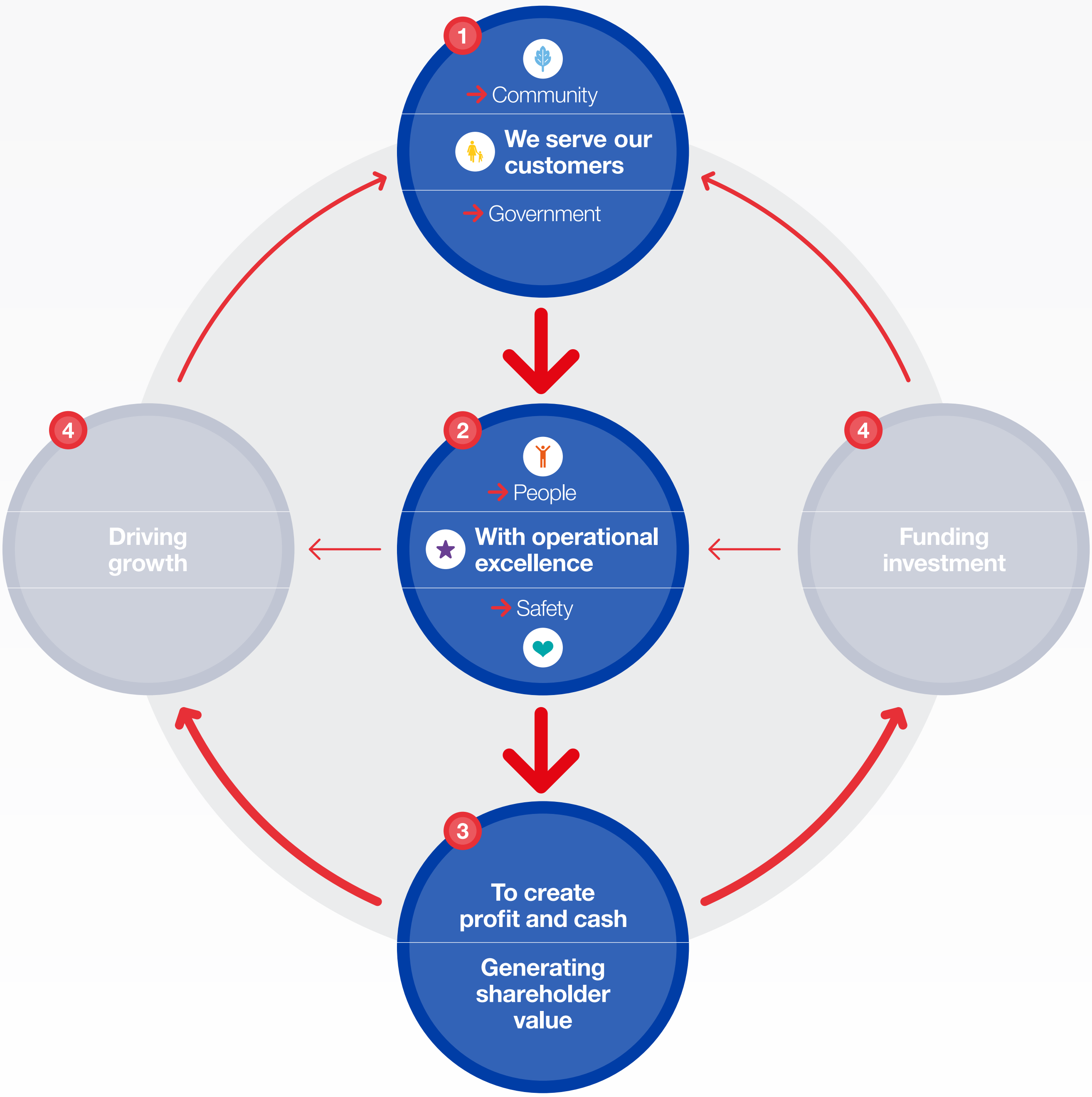
Governance

Governance provides a framework within which the Board sets its values and delivers long-term success for the Company and its investors, whilst recognising its duties towards the wider stakeholder community.

→ **Read more p50**

Delivering long-term shareholder value with the right business model and strategy

At National Express we believe our business model should start with our customers. By serving our customers with operational excellence, we are able to create profit and cash, thereby generating shareholder value. The cash we generate is used to fund investment in the business, which drives further growth enabling us to better serve our customers. Allied to this, our core values of excellence, safety, customers, people and community inform us as to how we should operate.



1 We serve our customers

The customer is at the heart of what we do at National Express, whether they be fare-paying passengers, government and local authorities, or the wider community; and our mission is to relentlessly meet their expectations. Our Vision is to earn the lifetime loyalty of our customers by consistently delivering frequent, high performing public transport services which offer excellent value.

Transporting 867 million passengers a year
By understanding and meeting the needs of our customers in our local markets, we strive to deliver high levels of customer satisfaction and encourage more passengers to use our services.

2 With operational excellence

Not only do our customers require high performing transport services, but they also need high levels of safety. At National Express, safety is our highest priority in whatever we do across the business and is a key tenet of our core values. High safety standards also help to drive sustainable growth for the Group through building customer loyalty and winning new business in our existing markets and opening up new markets such as the German rail market and the urban bus market In Bahrain. The quality of our people, our employees, is integral to the provision of high safety standards with continual training and focus on safety standards at the core of our operations.

3 To create profit and cash, generating shareholder value

Profit and cash
Ultimately delivering operational excellence through excellent customer service drives revenue and profit growth across the Group and generates cash which can then be re-invested back into each of our businesses to drive further improvements for our customers and also fund new business opportunities, driving higher returns for our shareholders.

Shareholder value
Through our robust and sustainable business model we aim to deliver shareholder value through higher returns with growth in dividends supported by growth in earnings and strong cash flows.

4 Funding investment

Our strong cash flow generation enables us to fund continual investment across the business with the provision of new fleet, technologies and services, driving improvements for our customers and encouraging further growth in passenger demand.

4 Driving growth

We also use our strong cash generation to invest in new business opportunities which drives further growth in our core markets as well as developing our position in new markets, such as Germany and the Middle East.

Our strategy

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

Our Values
Our five values continue to underpin the Vision and help us to prioritise what we focus on.

- Community
- People
- Safety
- Excellence
- Customers

Read more p18

Our three strategic priorities
Our focus on operational excellence allows us to deliver long-term sustainable growth, through the generation of strong and sustainable cash flows and returns, enabling us to create new business opportunities in both our core divisions and in new markets.

Delivering operational excellence
by driving revenue growth and margin progression

Generating superior cash and returns
A strong cash flow and improving return on capital will drive better returns for our shareholders

Creating new opportunities
through our unique portfolio of international bus, coach and rail businesses

Read more p16

Delivering on our strategy with a strong track record on improving returns

Our strategy	Performance	Future outlook
Delivering operational excellence Driving revenue growth and margin progression in our core divisions by delivering excellent customer service	• Excellent year in our c2c franchise, with revenue growth of 9.5% and record passenger numbers; named as Passenger Operator of the Year • A record year for passenger numbers in ALSA, with the Spanish revenue management system and further significant growth in Morocco, where passenger volumes grew by 15% • 92% customer satisfaction in North America with a 99% retention rate in School Bus • UK Coach's further development of customer relationship management ('CRM') and revenue management, coupled with new strategic partnerships drove an increase of 130 basis points in operating margin, whilst our focus on safety was rewarded with the award of the British Safety Council Sword of Honour • UK Bus achieved an EFQM* four-star rating at its first attempt and its highest ever Transport Focus passenger customer satisfaction scores	• Continuing programme of fleet upgrades in UK Bus to further improve the quality of our services • ALSA: further implementation of revenue management • Targeting further passenger growth in UK Coach through our digital and revenue management initiatives • North America: leveraging customer reputation to win new business • Leveraging rail credentials in c2c in the UK and RME in Germany to win further franchises • Continue to draw on our international reputation for excellence to expand in new markets, with an active pipeline of bids within Europe and the Middle East
Generating superior cash and returns A strong cash flow and improving return on the capital we invest will drive better returns for our shareholders	• Operating cash flow of £165 million • Free cash flow of £111 million, £11 million ahead of target • Group return on capital improved by 100 basis points to 11.7%	• Targeting £100 million free cash flow pa • Free cash to be deployed in investing in growth opportunities in existing and new markets • Leveraging our expertise to take advantage of capital-light opportunities
Creating new opportunities Our unique portfolio of international bus, coach and rail businesses gives National Express a significant opportunity to grow in selected new markets	• Successful mobilisation and commencement of first two rail contracts in Germany • Won two further German rail contracts and preferred bidder for Nuremberg S-Bahn • Commenced operations for urban bus service in Bahrain • Five bolt-on acquisitions in North America • Built around $110 million of annual revenues in US Transit	• Further bid wins in UK and German rail – shortlisted for East Anglia in the UK • Further bid wins in bus in the Middle East • New opportunities in Morocco • Further selective bolt-on acquisitions in North America

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

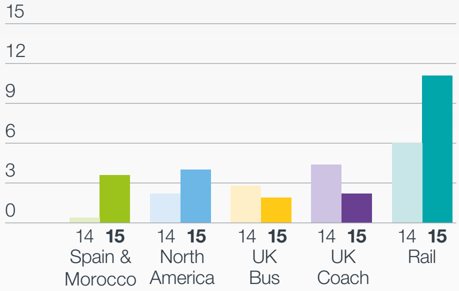
There are a number of KPIs which help us manage parts of the business.

→ Read more p26

Measuring our progress

Key risks to manage

Metric: Revenue growth (%)



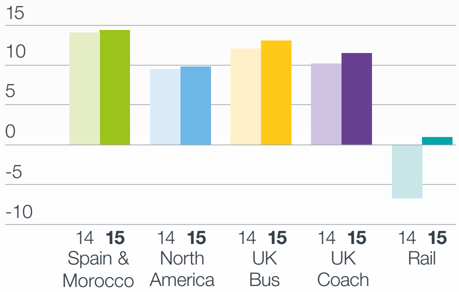
KPI definition
Revenue growth year on year on a constant currency basis.

Comment
Continuing to see revenue growth on a constant currency basis In all divisions, with a particularly strong performance in c2c.

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

→ Read more p30

Metric: Margin (%)



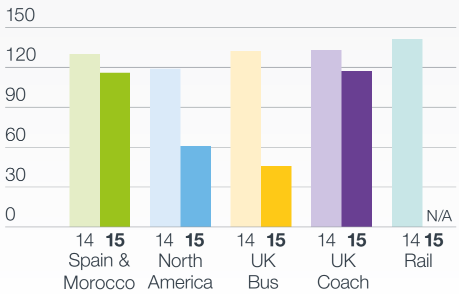
KPI definition
Operating margin is the ratio of normalised operating profit to revenue.

Comment
Margin gains across each of the businesses.

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

→ Read more p30

Metric: Operating cash conversion (%)



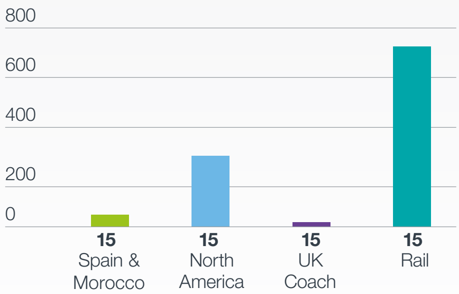
KPI definition
Operating cash conversion is the ratio of operating cash flow to normalised operating profit.

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

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

→ Read more p30

Metric: Contract wins by value (£m)



KPI definition
Value of contracts won.

Comment
Contract wins across all divisions including new contract wins in German rail, the award of the Imserso contract for pensioner travel In Spain and further new contract wins in US Transit.

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

→ Read more p30

Living our Values – the foundation of our business

Our Vision and Values remain the foundation of our business. Five years after their launch they are more relevant than ever to how we operate as a business.

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

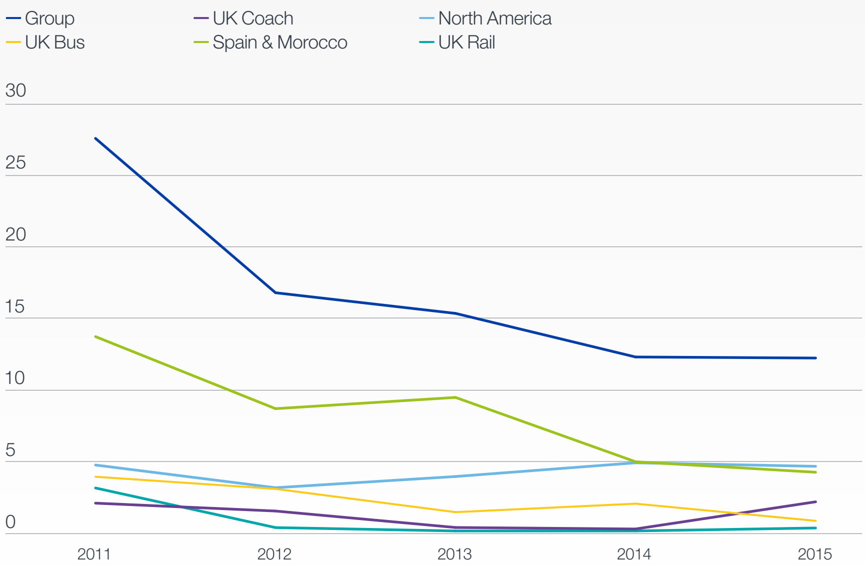
Safety
We only do what is safe and stop any unsafe behaviour

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

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

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

Safety performance – Fatalities and Weighted Injuries index



During 2015, Dean Finch, our Group Chief Executive, set out a 2020 Vision to 'Drive Best Value' and position us internationally as a widely recognised market leader. Making further progress on our Vision and Values was at the heart of the strategy to achieve this ambition.

Our experience in recent years has only strengthened our belief that customers increasingly want quality services at value prices. Delivering on our Vision and Values remains the best way to help us achieve this.

Excellence

Excellence was added as a new Value in 2014 and during 2015 we made significant progress in embedding the approach across the business and secured external accreditations to demonstrate this. Embedding excellence to us means focusing on delivering the services customers expect – frequent, punctual, taking them where they want to go – in an efficient manner so we can provide them at good value.

We are therefore very pleased that all divisions have now achieved an excellence accreditation. During the year c2c had its Five-star EFQM rating re-confirmed, securing a higher mark in this assessment than its last. UK Bus, UK Coach and ALSA have all achieved four-star EFQM ratings in their first assessments and are determined to emulate c2c's success as soon as possible. North America also secured a Bronze Award in their first assessment by the Illinois Performance Excellence Center.

We have also had a record year for external awards, including c2c being named Passenger Operator of the Year at the National Rail Awards and others outlined below. A full list is available on our website.

Safety

Safety is our highest priority as a business. Overall responsibility for safety sits with Dean Finch, Group Chief Executive and our Divisional Managing Directors who set out annual plans and priorities for improved performance.

Safety is the first agenda item on the weekly 'CEO call' with Managing Directors, at each Divisional Board and Group Executive meeting and at the PLC Board. As a measure of the seriousness with which the issue is taken, the executive members of each of our Divisional Boards and Group Executive conducted a combined 653 Safety Tours during 2015. We will publish this figure annually as a demonstration of our commitment.

Arthur D Little continues to act as our external safety adviser. It has confirmed that in the five years since we introduced Driving Out Harm, the total responsible harm caused by National Express Group has reduced by 56%. The progress on this measure – our key safety indicator, FWI – is demonstrated on the facing page, with a Group FWI of 12.242 in 2015, compared with 12.307 in 2014. This progress comes despite us carrying more passengers and running more services in 2015, as this data is not normalised. There is also further safety data available on our website.

We have also been using new technology to improve our safety performance. Initial pilots of 'DriveCam' in UK Coach and North America School Bus have been very positive, providing detailed performance reports for each driver allowing tailored training programmes to improve driving and safety performance. This technology will now be rolled out more widely in UK Coach and North America and also to UK Bus and ALSA.

We have also been very pleased with our safety awards during 2015. Two highlights in particular were UK Coach being awarded the prestigious British Safety Council Sword of Honour and our North America School Bus division being upgraded to the highest possible rating by the Federal Motor Carrier Safety Administration, part of the US Department of Transportation.

The c2c team celebrates being chosen as Passenger Operator of the Year at the National Rail Awards

Safety in North America School Bus

Arthur D Little has been engaged as an independent safety consultant at National Express since 2010, and worked alongside National Express to create and launch the Driving Out Harm safety programme. Since the programme was developed we have conducted five annual assessments of each of the divisions' safety progress and performance, with additional specific reviews of safety as required, typically following a serious incident and to assist with safe mobilisation of new businesses. Ultimately we report to the PLC Board and make recommendations for improvements. Through our work we have visited a wide range of operational locations in all businesses (US, Canada, Bahrain, Germany, the UK, Morocco and Spain). From our experience of a wide variety of client organisations we consider Driving Out Harm to be an exemplar safety programme with very strong leadership from the Chief Executive down, and highly effective safety governance from the Executive and PLC Board.

Our 2015 safety review activity in North America has revealed a number of specific areas of further progress in safety:

- A significant reduction in employee lost time injuries over 2014
- Upgrading and strengthening of operational leadership roles (eg in Philadelphia and Shelby County)
- Strengthening of the central safety team, with appointment of new Senior Vice President Safety who is providing strong leadership and bringing insights from the high standards in the petro-chemicals sector
- An upgrading of the safety performance rating to the highest possible level by the relevant national body – the Federal Motor Carrier Safety Administration, part of the US Department of Transportation
- Further upgrades and improvements to the content of driver training material (including peer review by UK head of training)
- Further development of the quality and consistency of driver training such as through launch of facilitation guides, and reviews of training delivery by senior safety roles
- Standards of vehicle maintenance have improved, shown by the results of external audits which concluded a measurable improvement in results of inspections and improvements in preventative maintenance
- Participation with other divisions of National Express in the development and launch of the 'World Class Driving' programme, which sets out a five-year plan for improving all aspects of safe driving including people and technology
- In Shelby County, construction and opening of a new training centre and significant strengthening of driver recruitment
- Development and launch of a programme to reduce the risk of worker occupational injuries

Overall, we conclude that the approach to safety in North America is very strong – as it is across the Group – and that there has been tangible further progress in the management of safety in 2015.

Marcus Beard
Associate Director, Arthur D Little

→
During the year, we secured a five-year Bus Alliance in the West Midlands

Customers

As we have already made clear, our Vision and Values are focused on providing for our customers. Our Vision is to earn their lifetime loyalty. For our existing customers this means consistently delivering the services that they want at competitive prices they can afford. For new customers it means demonstrating to them that we will provide to them the service they want in a convenient way while offering good value for money.

We carried more passengers in 2015 than in 2014, with both ALSA and c2c carrying record passenger numbers in the year; UK Coach also carried record passenger numbers during important holiday periods.

We measure ourselves against independent customer satisfaction ratings and are delighted that they again demonstrate we are often market-leading:

- UK Coach is for the third year running the most trusted ground transportation brand in the UK Institute of Customer Service's annual survey
- UK Bus has secured its highest ever customer satisfaction scores in the Transport Focus survey
- c2c again has the highest customer satisfaction scores for reliability and punctuality in London and South East franchises in the most recent National Rail Passenger Survey
- 92% of our North American School Bus business customers say they would recommend us on the basis of our service, safety and value
- ALSA has achieved its best score in five years in the annual independent Customer Service Index survey conducted by GFK

To continue to deliver though we must continue to invest and innovate. For example, under a new Group Digital Officer, all divisions are setting out how they can make further, significant progress in the coming years in this important area. New digital technologies and approaches provide an opportunity to truly bring the customer into the heart of our business and help create personalised and tailored relationships as well as drive innovation.

We believe we have a proud record to build on. c2c, for example, has been investing in leading-edge customer initiatives such as improved apps and WiFi provision, first-to-last staffing at all stations and the ground-breaking Automatic Delay Repay scheme for season ticket holders. This will provide compensation for every minute of delay beyond two minutes and, as the Secretary of State for Transport confirmed last year, has set a new standard for the rail industry as a whole to follow.

Ultimately we believe this reputation is helping us to retain significant contracts and services. UK Bus has led the industry and secured a five-year 'Bus Alliance' in the West Midlands, building on our award-winning partnership approach. Of the two national franchises to come up for renewal during 2015, ALSA has successfully renewed one and has obtained the highest score, pending award, in the other. Our contract retention rate in North American School Bus is industry-leading, with a 99% success rate in those contracts we wanted to retain.

People

Each division continues to conduct an annual employee survey, except in ALSA where they hold one every two years. These surveys are run by independent companies: VaLUENTiS in the UK; TNS Employee Insights in North America; and ALCOR in ALSA. The table on the right demonstrates the employee engagement score from our surveys over the last three years. The data demonstrates our consistently high results across all divisions. In 2015 specifically, all divisions that conducted a survey reported an increased result, except UK Rail. The Corporate centre broke its own record for the highest score in the VaLUENTiS database.

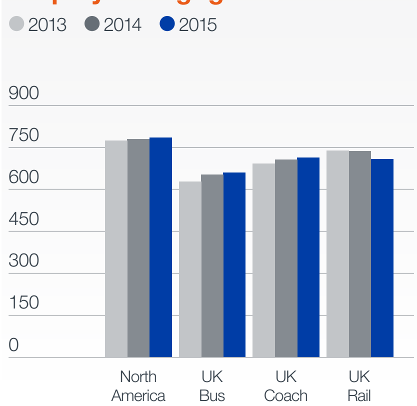
Our surveys also ask employees whether they would "recommend National Express as a good place to work" and whether "safety is taken seriously in my business". The data again demonstrates the consistently high score we achieve and the progress made.

Our 2020 Vision sets out a radical and significant commitment to invest in our staff. The ambition is that working for National Express is a badge of pride and a mark of industry leadership. This is why we are rolling out our Master Driver programme so widely and aim that all engineers are 'Master Technicians' by 2020. The

Employee, senior management and Director numbers by gender at end 2015

	Male	Female
Directors	9	2
Senior managers	58	19
All employees	25,170	18,933

Employee engagement score*



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

feedback from the staff who have been through the Master Driver programme so far has been very positive.

As well as this investment in our staff we are delighted that our innovative 'Health Bus', which provides medical advice and treatment on board to our UK Bus staff, has been recognised in several industry and HR awards. We have also recently launched the 'National Express Network' of our graduates across the business so they can meet, work on joint projects and also move between divisions to gain broad experience. We have also maintained our commitment to apprenticeships, with 111 in the Group in 2015.

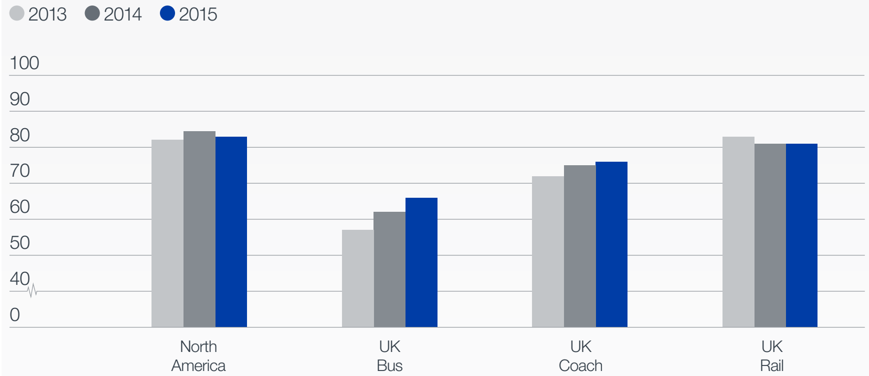
We were also very proud to become the first private transport group to commit to becoming a voluntary Living Wage employer. After announcing our commitment that all divisions would secure Living Wage Foundation accreditation by the end of 2017, UK Bus became the first in January 2016. We have also committed that across the Group, in any country we operate in, we will always pay at least 10% above the national minimum wage.

These survey results, the commitment to invest in our staff and the innovations we are bringing to this area demonstrate the seriousness with which we take our People Value to 'develop the talents, reward the exceptional performance and respect the rights' of our employees.

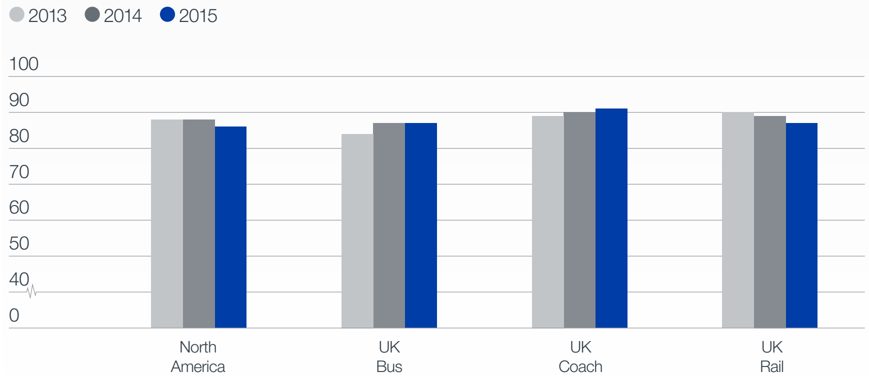
We have a number of policies in place to protect the rights of our employees. All of these, including our workplace and human rights policies, are published on our website. We investigate and take appropriate action to deal with any alleged breaches of these policies. Wherever our employees choose to be represented by unions, we actively seek to maintain relationships based on mutual respect and transparency.

Employee engagement survey questions

I would recommend my company as a good place to work



Safety is taken seriously in my business



Community

As a major transport company, we play a vital role in the daily life of the communities in which we operate. So we recognise the importance of being a good neighbour in everything we do. We also have a duty to protect the wider environment around us.

We have strong links with local stakeholders and maintain a regular dialogue on business issues of mutual concern. For example, where changes are planned to routes we engage with local political and community representatives to build understanding of our position. In addition, annual stakeholder surveys are conducted to measure local opinion and capture concerns.

During the year, UK Bus increased its neighbourhood engagement with the appointment of community champions in each garage and the selection of a local charity to support. The employees in each garage were asked to choose a charity which was relevant to them and would become the beneficiary of fundraising events. Although they were launched midway through the year, the partnerships have already raised over £13,500 for community groups.

Through its Youth Promise, UK Coach has continued to work with The Prince's Trust providing transport for the Palace to Palace charity cycle ride and offering mentoring and work-experience opportunities to young people. UK Coach also offered similar work placements and training to young people →

← We were proud to become the first private transport group to commit to pay the Living Wage from Whizz-Kidz. Through our partnership with Whizz-Kidz we also became patron of its Accessible Travel Alliance. UK Coach has also set up a network of community ambassadors in each coach station, to drive local activity in future.

The National Express Foundation, in its fourth year, has continued to support young people through educational bursaries and grants to community groups. Since its launch in 2012, more than 8,000 young people have benefited from nearly £400,000 of grants from the Foundation. In 2016, the amount National Express Group contributes to the Foundation has increased by 50% to £150,000 a year. In the USA, the National Express Giving Foundation awarded US$115,000 to students, community groups and employees in need.

The Employee Charity Panel, which supports UK employees who carry out fundraising or volunteer for community groups made 53 awards during the year

In North America, we have continued to provide our buses to support the Special Olympics and various Stuff the Bus and Toys for Tots collection events. We have also continued our programme of donating surplus buses to community organisations. Across the Group, we made charitable donations totalling £530,431 (2014: £582,012)

Managing our environmental impacts

Under our Community value, and as part of the Group's climate change strategy for 2020, we are committed to working in partnership with our stakeholders to mitigate the impacts of climate change.

As a public transport company, we are constantly striving to reduce our emissions through the use of innovative fuel efficiency technologies, carbon reduction programmes (linked to energy and water use in buildings) and the broader supply chain to address our static emissions.

In 2015, we delivered a strong environmental performance that witnessed significant improvements and achievements in the areas of voluntary carbon reporting, climate change leadership, and environmental excellence.

We made significant progress towards achieving our environmental performance targets to reduce fuel/traction energy, site-based energy, waste, water and total carbon emissions per million passenger kilometres ('pass/km') from our business activities.

- In 2014-15 our fuel and traction energy consumption saw a reduction from 8.80% to 2.55% against the 2013 baseline. This has been driven by the increase in passenger numbers in ALSA's Moroccan market
- The Group's site energy has increased by 7.49% against the 2013 baseline and 2.46% year on year as a result of business expansion in Morocco, North America and Bahrain. Accuracy of reporting from 2014 has also contributed to this increase
- An increased volume of waste to landfill has caused carbon emission to increase by 5.43%, however, against the 2013 baseline we have achieved a 1.77% reduction. UK Rail saw waste recycling levels reach 96%, an increase of 1% on the previous year, despite a rise in total waste, surpassing the 90% franchise agreement target
- The reduction in water consumption was due to improved data collection and accuracy of results
- Total carbon emissions per passenger kilometre reduced by 7.27% in 2015, and 1.79% against the 2013 baseline. The significant rise to passenger numbers in Morocco is of particular note. As the business grows, this metric is likely to see year-on-year fluctuations within a longer-term trend for improved efficiency

Driving excellence in environmental performance – KPI targets 2014-2017

KPIs	Metric	2013 (baseline)	2014	2015	% change 2014/15	% change against 2013 (baseline)
Fuel/Traction energy*						
3% reduction in energy use (fuel and electricity)	MWh/million passenger km	77.64	82.97	75.67	(8.80)%	(2.55)%
Site energy						
20% reduction in consumption	tCO_2e	40,049	42,016	43,050	2.46%	7.49%
Waste						
80% reduction in non-hazardous waste to landfill	metric tonnes	5,750	5,357	5,648	5.43%	(1.77)%
Water						
10% reduction in consumption	m^3	n/a	1,008,363	978,922	(2.92)%	–
Total carbon emissions						
4% reduction in carbon emissions per pass/km	tCO_2e per million pass/km	22.95	24.24	22.47	(7.27)%	(1.79)%

* 2013 figure based on passenger kilometre data which includes UK Coach data which is not calculated on the same basis in 2013 as for 2014 and 2015

Her Majesty The Queen opens the extension to the Midland Metro tram

Carbon emissions

Each of the divisions within the Group has shown a year-on-year reduction in carbon emissions with the exception of ALSA. In ALSA's case carbon emissions have increased due to a substantial business growth in Morocco. Investment in new fleet, driver training and monitoring, and investment in site-based energy efficiency initiatives have supported this reduction. 2015 also saw operations start in Bahrain with emissions reported for the first time.

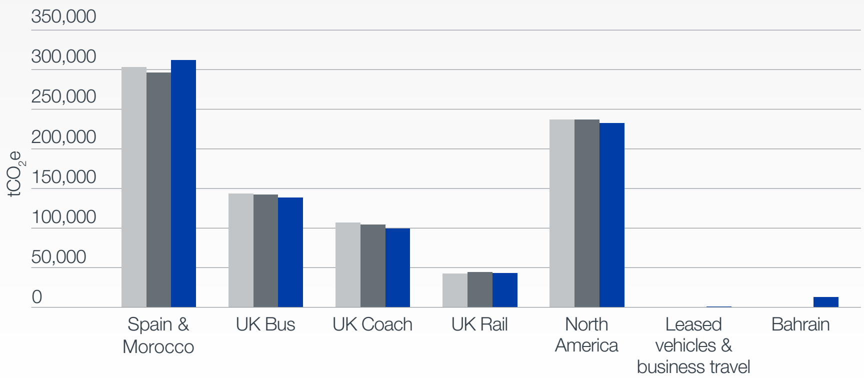
As a Group we have focused on improving data collection and reporting to improve accuracy. The benefits of this approach can be seen in 'Leased vehicles & business travel' which saw a 45% increase in carbon emission on the previous year.

2015 saw a 1.8% increase in total CO_2 emission for the Group from 825,000 tonnes CO_2e in 2014 to 840,010 tonnes CO_2e in 2015. The increase in emission was driven by new business opportunities in Bahrain and organic business growth in ALSA's Moroccan market which saw a 2% growth in total passenger numbers and a significant increase in passenger kilometres to 37 billion in 2015. This growth in passenger numbers has been achieved with only a 1.8% increase in total Group carbon emissions, due to investment in new fleet, driver training and on-site energy saving initiatives. →

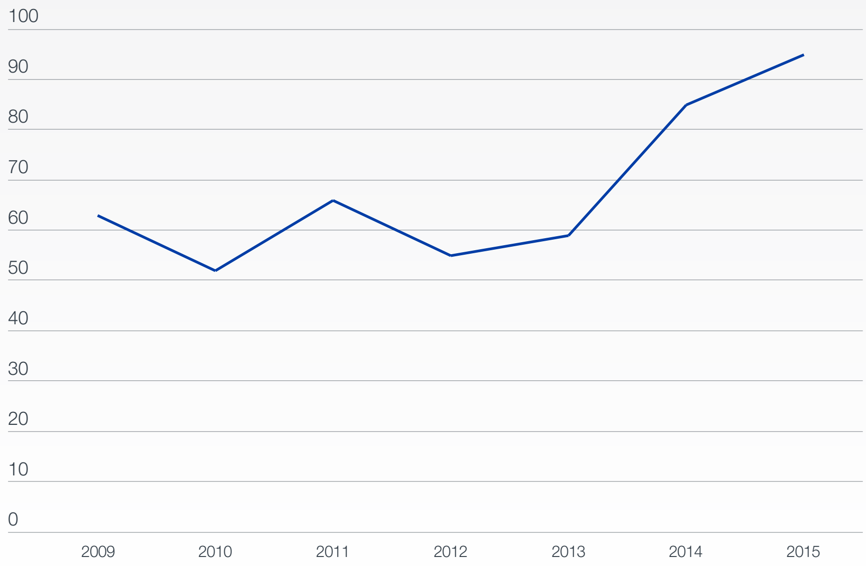
Carbon emissions by division

National Express divisions	2013 (tCO_2e)	2014 (tCO_2e)	2015 (tCO_2e)	% change (2014/15)
Spain & Morocco	303,351	296,214	311,985	5.32%
UK Bus	143,485	142,312	138,822	-2.45%
UK Coach	107173	104,381	99,714	-4.47%
UK Rail	42,816	44,724	43,408	-2.94%
North America	237,314	236,979	232,577	-1.86%
Bahrain	–	–	12,862	–
Leased vehicles & business travel	611	441	642	45.58%
Group total	834,750	825,051	840,010	1.81%

National Express greenhouse gas emissions 2013 v 2014 v 2015 by division (all scopes)



National Express carbon disclosure performance (CDP score)



Six veteran Gurkha soldiers, now employed by National Express, are leading our campaign to recruit more ex-service personnel

Voluntary reporting to the Carbon Disclosure Project

In 2015 we received an increase in the Carbon Disclosure Project ('CDP') score, an annual carbon performance reporting programme, which supplies data to investors, data and index providers, banks and brokers for a growing range of uses.

The Group was awarded a disclosure performance score of 95 – a ten point increase in comparison with the 2014 results.

In 2015, the climate change performance methodology was revised to put more emphasis on action in terms of science-based targeting. This is a change which the Group has endorsed as a key priority.

This improvement in our score reflects the work we have done during the year. We continue to measure, verify and manage our carbon footprint, through the setting and meeting of carbon reduction targets and implementing programmes to reduce emissions in both our direct operations and through our supply chain. The CDP score provides the evidence that our climate change strategy is delivering tangible results, making the Group more efficient and sustainable.

We are committed to providing comprehensive information about our climate change strategy and risk management processes and outcomes. To complement the summary provided in this report we provide more comprehensive information on our Group website at www.nationalexpressgroup.com/environment.

Climate change reporting and science-based targets

Commit to report climate change information in mainstream reports as a fiduciary duty

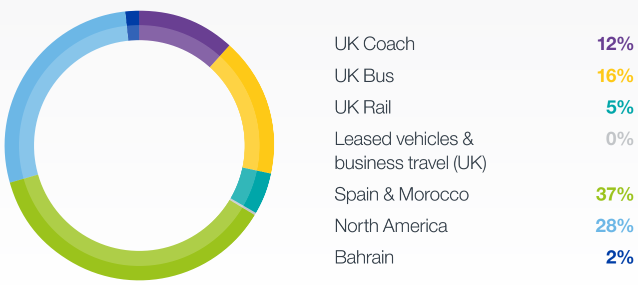
In 2015 we took some addition steps in demonstrating climate change best practice.

Our first commitment is to continue to work towards the production and use of climate change-related information in our Annual Report, as set out in the Greenhouse Gas Emissions (Directors' Reports) Regulations 2013. Endorsing this initiative sends a clear signal to policymakers that we are committed to addressing economic risks and seizing opportunities associated with climate change.

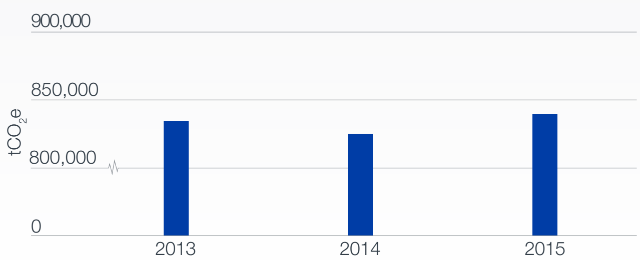
Commit to adopt a science-based emissions reduction target

The second commitment was to raising our ambitions around target-setting with the adoption of science-based targets. This new approach is a significant change for the Group as it establishes a long-term trajectory for carbon emissions reductions up until 2050. This still provide flexibility to review and compare our short-term KPI targets. This science-based approach will help us to drive more efficiency and resilience as resources become increasingly more expensive, particularly those derived from fossil fuels.

Greenhouse gas emissions reporting for 2015 (tCO_2e)



National Express Group total emissions 2013 v 2014 v 2015 (tCO_2e)



Driving excellence

One of our key goals in achieving excellence in our environmental performance is to ensure appropriate external standards are achieved and maintained.

In 2015, we were able to extend our existing ISO/BS energy, environmental and sustainable procurement standard accreditation across the Group. Significant progress was made in our Spanish division, maintaining both the ISO 14001:2004 and 50001:2011 management standards, whilst our UK rail division successfully adopted the BS 8903 Sustainable Procurement standard – the first in the Group.

Improved performance reporting

Monthly reporting is a key monitoring tool identifying aspects of our operations where we can reduce our impacts – direct and indirect – on climate change and accelerate our energy and carbon savings. In 2015 all divisions adopted a single web-based sustainability reporting system for the Company's greenhouse gas ('GHG') emissions reporting. This has improved the consistency of how we collect our data, and simplifies the process of independent validation.

Pioneering fleet technologies

The year saw further investment in new fleet, such as Euro 6 buses, and improvements to driver training and analysis. We have facilitated the evaluation and sharing of pioneering technology across our divisions to improve sustainable performance and the fuel efficiency of our fleet. We continue to examine innovative low carbon solutions, such as hydrogen fuel cell and liquid air technology, and are retro-fitting older vehicles with 'traps' to reduce local air pollution. Looking ahead we will be adding buses to the fleet which use a smart electric system.

Reducing water consumption

During 2015 our water consumption reduced by 2.92%. In 2016 we will voluntarily disclose our water impacts through the Water Disclosure Framework. This will take account of all our operational sites and those of our suppliers, to help us better manage our consumption.

Gold in Carbon Saver Standard

In 2015 a clear demonstration of our continued commitment in driving sustainability and cutting our energy costs, with proven carbon emissions reduction measures over the last four years, saw our UK divisions achieving re-certification to the Carbon Saver Standard, again retaining the top Gold Standard status.

National Express Group 2015 – GHG emissions reporting

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

Methodology

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

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

We are committed to ensuring that our GHG accounting system, results and accompanying reports remain robust, continue to enhance our Group-level emission performance year on year and are in compliance with the mandatory requirement of the Carbon Reporting Framework (the Greenhouse Gas Emissions (Directors' Reports) Regulations 2013) – a business requirement for GHG emissions to be included in the annual report.

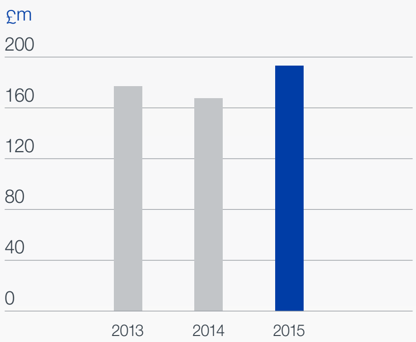
Global GHG emissions data for calendar year 2015	2015	2014
Emissions from:	Tonnes of CO_2e	Tonnes of CO_2e
Combustion of fuel and operation of facilities (GHG Protocol Scope 1)	765,434	750,523
Electricity, heat, steam and cooling purchased for own use (GHG Protocol Scope 2)	66,317	66,677
Other upstream emissions (GHG Protocol Scope 3)	8,257	7,853
Total	**840,010***	**825,053**

Intensity metrics	2015	2014	2013	% change (2014/15 for KPIs from 2014)
(Tonnes CO_2e/£million revenue)	424	442	441	-3.98
Group totals (million pass/km)	37, 380	35,459	36,379	9.80
Total tCO_2e per million pass/km	22.47	23.27	22.95	7.27%

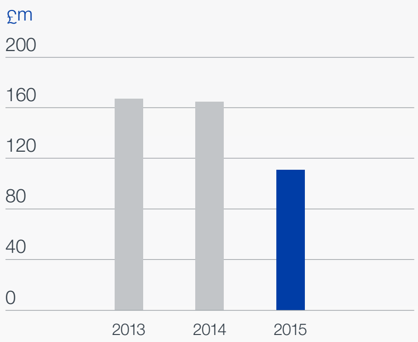
* Small variable in the figure as a result of rounding.

Measuring our performance across the Group

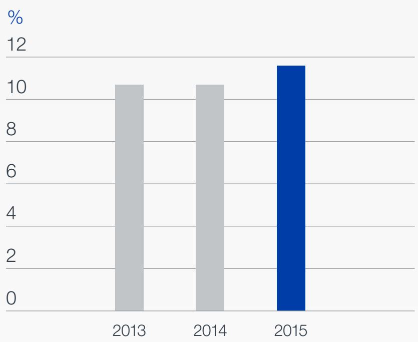
Operating profit*
2015: £193.5m



Free cash flow*
2015: £111.0m



Return on capital employed*
2015: 11.7%



KPI definition

Operating profit: Group normalised operating profit.

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

Return on capital employed: Return on capital employed ('ROCE') is normalised operating profit, divided by tangible and intangible assets.

2015 performance

Operating profit:

- Further progress in Group operating profit, driven by strong performances in our UK Bus and Coach operations
- Growth in operating profit in every division
- Operating profit margin increased by 110 basis points to 10.1%

Free cash flow:

- Generated £111 million of free cash, £11 million ahead of target
- Operating cash flow conversion rate of 85%, after significant increase in maintenance capital expenditure
- Targeting free cash flow of £100 million per annum after returning to more typical levels of maintenance capital expenditure

Return on capital employed:

- Strong performances in our UK Coach and ALSA operations driving higher returns for the Group
- Invested £112 million of net maintenance capital, predominantly in growing our fleet in our existing operations
- Invested £36 million in growth capital expenditure to support growth in Morocco, Rail and revenue management systems in our UK and Spanish Coach operations

Why we measure

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

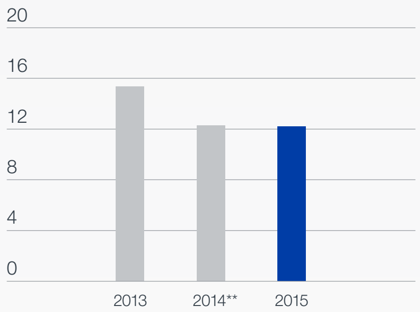
Free cash flow: A key part of the Group's strategy is to maximise the cash generation across all our operating divisions. We view cash generation as a key driver for creating shareholder value.

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

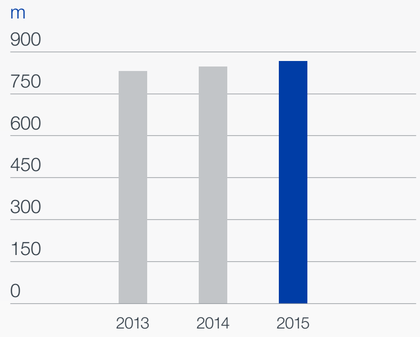
Return on capital employed: We are focused on improving return on the capital we invest, in order to drive better returns for investors.

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

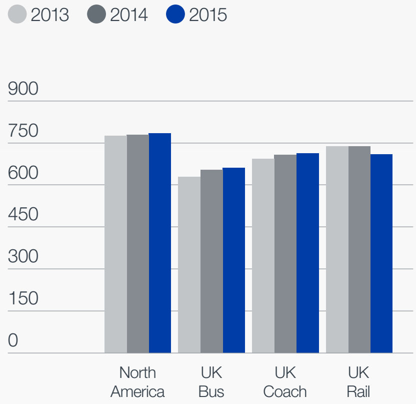
Safety – Fatalities and Weighted Injuries (FWI) 2015: 12.242



Passenger journeys 2015: 867m



Employee engagement score*



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

KPI definition

Safety incidents for which the Group is responsible is based on the Fatalities and Weighted Injuries index used in the UK rail industry.

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

Our numbers for North America are estimated as our School Bus services are non-ticketed.

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

2015 performance

- Further reduction in FWI over the past 12 months reflecting ongoing success of Driving Out Harm safety programme with big improvements in UK Bus and Morocco
- 56% improvement in the safety performance since introduction of Driving Out Harm in 2011.

- Further growth in passenger numbers driven by continued investment in fleet, improvement in services and attractive fares
- Strong performance in c2c with passenger growth up over 5%
- First full year of operations in Tangiers, and services commenced in a fourth city in Morocco
- 6.4 million passengers in our first year in Bahrain

- Our corporate functions have registered the highest official engagement score in the VaLUENTiS database at 806 versus the industry norm of 671
- Our UK Coach division has the highest score for all UK bus/coach operators
- c2c has the second highest score for all train operating companies in the UK

Why we measure

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

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

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

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

* Historical results restated to adjust for the impact of Rail and Middle East bid costs previously treated as exceptional costs
** 2014 FWI data adjusted to reflect a lower number of responsible accidents than previously recorded

Committed to managing risk both effectively and robustly

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

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

Responsibilities and actions

The Board:

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

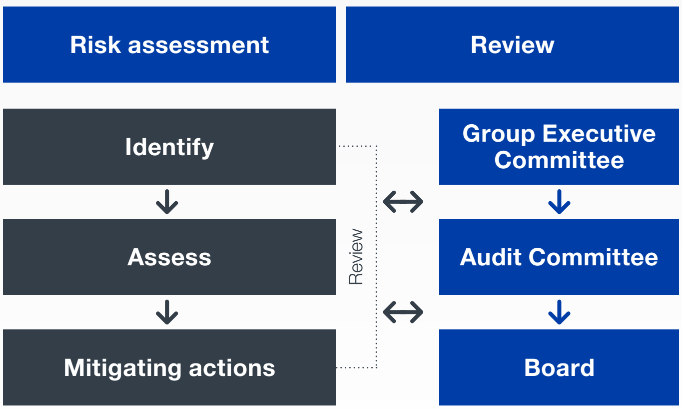
The Audit Committee:

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

Risk assessment

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

Risk assessment review



Identify

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

Assess

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

Mitigating actions

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

Review

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

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

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

Internal audit

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

During 2015 the Group focused on the following key areas of risk:

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

The following are ongoing risks within the business:

Risk	Change	Why?	Responsible
Fuel cost	↓	Unplanned increases in the price of fuel continue to be a risk, despite the significant fall in prices since the last quarter of 2014	Group Finance Director and Group Treasurer
Insurance and claims	–	Continuing claims management and safety systems in place	Group Finance Director and Group Director of Insurance & Risk
Credit risk	–	Customer debt levels stable, but risk of default remains	Divisional Finance Directors
Currency	–	Exchange rates for key currencies generally more stable over the last year	Group Finance Director and Group Treasurer

Risk given increased status in 2015

Risk	Change	Why?	Responsible
Cyber security	↑	The digital world creates many risks for a global business including technology failures, loss of confidential data and damage to brand reputation	Group Financial Director and divisional Managing & IT Directors

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

Risks	Assessment	Management	Potential impact
Concession and contract renewal			
Much of the Group's business is secured through renewing contracts and concessions, particularly in our North America School Bus and Transit businesses, in Spain and in Rail.	Approximately 65% of the Group's total revenue is either contract or concession based. These contracts vary in length and are typically awarded for between 12 months and 20 years. Following the successful retention of the Essex Thameside rail franchise, the Group has been shortlisted as a bidder for the Greater Anglia franchise In the UK. The Group continues to bid for rail contracts in Germany and bus contracts in the Middle East. The concession renewal process in Spain has changed, with the most significant difference being the removal of the incumbent advantage. Following a general delay in tendering, ALSA still currently expects about 50% of its national coach concessions to be bid for in 2016 and 2017.	A reputation for high quality services helps to win and retain contracts. The Group has a good record of retaining contracts on a historical basis: no national coach concession in Spain has been lost before and retention rates in School Bus are typically very high (98% in 2015 and 97% in 2014). ALSA is well prepared to submit high quality bids on its own and other concessions as and when they are called to tender.	**High**
Economic conditions and austerity			
The economic outlook in National Express key territories continues to be generally positive, although government austerity measures in the UK and Spain continue to be a risk. 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.	Risk that revenues in the Bus, Coach and Rail businesses in the UK and Spain are impacted by lower passenger demand; there is also some positive risk that the Group will benefit from the prospect of modal shift towards its forms of transport. In Spain, the division may be affected by the effects of austerity but may benefit from the outsourcing of further urban bus operations.	The Group seeks to mitigate these risks through proactive cost control, revenue management systems, the careful economic modelling of new and existing contracts, including sensitivities around expected growth rates, and through sharing risk with contracting parties.	**High**
Political and regulatory			
The Group's businesses are subject to numerous laws in the jurisdictions in which they operate, regulating the operation of concessions, safety procedures, equipment specifications, employment requirements, environmental procedures and other operating issues.	Changes in political and regulatory environments can have a significant impact on regulated public transport operators, from adding significant cost to changing the fundamental nature of a market. For example: The proposed new Buses Bill in the UK will provide new powers to local government that are likely to have a significant impact on the bus industry in the medium term. The Spanish Government has agreed the imposition of a fee on new concessions and the removal of a 5% incumbency advantage on new national intercity concessions.	The risk is reduced by maintaining close relationships with key stakeholders and ensuring that the economic advantages of our business models are fully understood and considered. In the longer term, the Group can mitigate risk by diversifying its operations into other geographies.	**Medium**
Contract bidding			
The Group makes a significant investment in bidding for new contracts and concessions. 2016 continues to see some significant bidding activity, as the Group continues to seek to expand its operations in the Middle East and Germany.	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 Department for Transport in Rail. Proper mobilisation is a key part of ensuring that risk of divergence from bid assumptions is minimised.	**Medium**

Risks	Assessment	Management	Potential impact
Contract mobilisation			
The mobilisation to deliver new services following a contract award is involved, often requiring the purchase of new vehicles and in some cases, such as in Germany and the Middle East, the creation of a new business operation.	While mobilisation is a core expertise of the Group, operating in new geographies and cultures increases the complexity and challenge of successful new contract start-up. The Group successfully launched a new bus operation in Bahrain and started operating its new RME Rail franchise in Germany during 2015.	Start-up activities are formally managed with dedicated, skilled local teams supported by Group expertise. Close senior management oversight ensures any key risks or issues are rapidly escalated and resolved.	**Medium**

The following are ongoing risks within the business:

Risks	Assessment	Management	Potential impact
Fuel cost			
All of the Group's businesses are exposed to fuel costs – primarily diesel for buses and coaches. Fuel prices are subject to significant volatility due to economic, political and climate circumstances.	Fuel costs constitute approximately 10% of the Group's costs and consequently, to the extent that price increases cannot be passed on to customers, increases in fuel costs will affect profitability.	The Group seeks to mitigate risks of increases in fuel costs by entering into fuel swaps and forward purchase contracts in line with the Group's hedging strategy discussed on page 36.	**Medium**
Insurance and claims			
The Group's policy is to self-insure a number of potential claims within its business.	There is a risk that a successful claim or series of successful claims may result in substantially higher charges to profit and cash outflow than expected.	Throughout the business, a strong safety culture prevails, led by the Safety & Environment Committee. Where claims arise, they are managed by experienced claims handlers and professional advice is obtained in order to evaluate and minimise costs to the Group.	**Medium**
Credit risk			
As contractual operations, the North American and Spanish urban businesses are exposed to the risk that customers are either late or unable to pay sums owed to the Group.	Payment terms and cash collections in North America are extremely good. In Spain the level of outstanding debt is in line with historical levels.	Receivables in each business are closely monitored, based on robust and thorough documentation; provisions are then made where appropriate on a prudent basis for a certain level of non-collection. Additional contractual terms for interest accrual and repayment of outstanding balances have been agreed with overdue debtors where necessary.	**Low**
Currency			
The Group's exposure to overseas earnings through its Spanish and North American operations creates a risk that movement in exchange rates may adversely impact translation of profit and cash flows together with Group gearing.	Foreign currency movements impact the profit, balance sheet and cash flows of the Group. Over the course of 2015 the Euro continued to depreciate against Sterling whereas the US dollar continued to appreciate against Sterling. The Group holds Euro denominated debt and US dollar finance leases.	The Group uses currency debt and currency swaps to reduce the impact and mitigate the risk. In addition, management has flexibility to adjust Group capital allocation.	**Low**
Cyber security			
The digital world creates many risks for a global business including technology failures, loss of confidential data damage to brand reputation.	The Group views cyber security as an emerging risk, which could have serious consequences for business operations.	The Group is committed to increase its resilience in its security strategy; and seeks to assess and manage its ability to effectively defend against current and future cyber risks by using analysis tools and experienced professionals to evaluate and mitigate potential impacts. The Group relies upon a variety of IT systems in order to manage and deliver services and communciate with our customers, suppliers and employees. We remain focused on the need to maximise the effectiveness of our information systems and technology as a business enabler and to manage both costs and exposure as a result.	**Low**

Revenue, profit and margins grow in all divisions driving strong cash generation

Matthew Ashley
Group Finance Director
25 February 2016

Presentation of results

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

Revenue

Group revenue for the year was £1,919.8 million (2014: £1,867.4m), an overall increase of 2.8%. Underlying revenue (on a constant currency basis) increased by 3.8%, reflecting the strengthening of the US dollar against Sterling partially offsetting the weakening of the Euro.

We have delivered revenue growth in local currency in all five of our divisions, through a combination of pricing, volume growth and new business. Rail was the strongest performer, up 9.5% in the UK and 11.1% overall. This has included significant growth in off-peak revenues of 8%, driven by new fare promotions and an improved marketing programme. Commercial revenues in UK Bus increased by 2.6%, seeing very strong growth in the use of smartcards. UK Coach delivered revenue growth of 2.2% with core revenue growth of 3.1% and positive momentum in contract revenues in the second half of the year.

Revenue in Spain grew by 2.9% and we continue to see a positive response to the revenue management system installed on the main rail-competed corridors. Morocco has delivered another strong performance with a revenue increase of 13.8% driven by the upscaling of operations in Tangier, alongside the launch of services in September in a fourth city, Khouribga. Together these drove an overall increase in revenue for ALSA of 3.6%. Underlying revenue in North America was up 4.0% on a constant currency basis and up 2.2% on a reported basis as the depreciation of the Canadian dollar to the US dollar affected the translation of Canadian revenues. The 4.0% growth in constant currency reflects the rate increases and performance of new contracts, together with a number of acquisitions and business wins offset by exited contracts from our 'up or out' programme.

Revenue bridge	£m	% change
2014 full year revenue	1,867	
Currency translation	(17)	
2014 full year revenue at constant currency	1,850	
Organic growth	46	2.5%
Acquisitions	24	1.3%
2015 full year revenue	1,920	3.8%

Normalised profit

Group normalised operating profit increased by 18.2% to £193.5 million on a constant currency basis; up 15.5% on a reported basis (2014: £167.6m). Group like-for-like operating profit has increased by 7.5%, after excluding Rail and Middle East bid costs of £9.2 million (2014: £25.5m) and a £3.9 million adverse foreign exchange variance as set out below. This reflected our focus on driving organic growth and cost efficiency to protect and grow margin. The £19 million of cost efficiencies delivered in the year largely reflect the rationalisation and restructuring programme in 2014 which targeted annualised savings of around £15 million.

Group operating profit margin improved by 110 basis points to 10.1% (with like-for-like operating profit margin up 40 basis points after adjusting for lower incremental bid costs and foreign exchange), despite significantly increased franchise premium charges in our c2c franchise.

Profit bridge	£m	% change
2014 normalised full year operating profit	193.1	
Currency	(3.9)	
Rail and Middle East bid costs in 2014	(25.5)	
Restated operating profit at constant currency	163.7	
Incrementally lower Rail and Middle East bid costs in 2015	16.3	
Like-for-like operating profit	180.0	
Growth	27.5	
Acquisitions	3.4	
Cost inflation	(13.0)	
Cost efficiency	19.1	
Net rail charges (franchise premium)	(28.8)	
Fuel price benefit	4.7	
Weather	0.6	
2015 normalised full year operating profit	193.5	7.5%

Segmental profit performance

Our UK Coach and UK Bus businesses were the strongest performers, with UK Coach profit increasing by 15.4% to £32.3 million and operating profit margin improving by 130 basis points. UK Bus delivered profit growth of 10.3% with operating margin improving by 100 basis points. Profit in Rail was £0.6 million versus a loss of £10.1 million in 2014, reflecting the impact of lower incremental rail bid costs which combined with strong revenue growth in c2c more than offset the significantly increased premium charges.

Profit in ALSA was up 5.8% on a constant currency basis, reflecting strong revenue growth particularly in Morocco together with lower fuel costs and cost efficiencies. The reported result for ALSA has been adversely affected by the strengthening of Sterling versus the Euro over the last year, with the result that profit is down 4.7% on currency translation.

In North America profit was up 6.1% on a constant currency basis, with the benefit of rate increases and gains from the improvement in contract quality as a direct result of our 'up or out' strategy, together with the benefit of acquisitions and new business wins. The strengthening of the US Dollar versus the Canadian Dollar has adversely impacted the net operating profit for North America by $1.7 million during the year. On a reported basis North America profit grew by 12.3%, benefiting from the strengthening of the US Dollar against Sterling.

Central function costs were £1.9 million lower as a result of lower bid costs and cost savings delivered through the restructuring programme implemented in 2014.

Segmental operating profit	**2015 Local currency**	2014* Local currency	**2015 £m**	2014* £m
Spain and Morocco	**98.5**	93.1	**71.5**	75.0
North America	**102.2**	96.3**	**66.8**	59.5
UK Bus			**37.5**	34.0
UK Coach			**32.3**	28.0
Rail			**0.6**	(10.1)
German Coach			**–**	(1.7)
Central functions			**(15.2)**	(17.1)
Group			**193.5**	167.6

* FY2014 results restated to adjust for impact of Rail and Middle East bid costs previously treated as exceptional items
** Operating profit at constant currency, adjusting for Canadian Dollar to US Dollar foreign exchange rate movement in the year

Income from associates rose to £1.8 million (2014: £0.3m) and now includes the contribution from our joint venture in Bahrain.

Net finance costs decreased to £45.2 million (2014: £48.0m), benefiting from lower interest rates secured on the renewal of the revolving credit facility ('RCF') in November 2014. Normalised profit before tax was £150.1 million (2014: £119.9m).

Summary income statement	2015 £m	2014* £m
Revenue	**1,919.8**	1,867.4
Operating costs	**(1,726.3)**	(1,699.8)
Normalised operating profit	**193.5**	167.6
Share of results from associates	**1.8**	0.3
Net finance costs	**(45.2)**	(48.0)
Normalised profit before tax	**150.1**	119.9
Tax	**(28.5)**	(21.8)
Normalised profit after tax	**121.6**	98.1

* FY2014 results restated to adjust for impact of Rail and Middle East bid costs previously treated as exceptional items

The normalised tax charge was £28.5 million (2014: £21.8m), a normalised effective tax rate of 19.0% (2014: 18.2%). The tax charge for 2015 included a number of one-off items, with the main ones being a release of tax provisions following the conclusion of a Spanish tax audit together with movements in deferred tax balances due to changes in statutory tax rates in the countries in which we operate.

Looking forward, and depending on profit mix, new business opportunities and the future tax environment including possible restrictions on tax deductions for interest expense, we expect the normalised effective tax rate to gradually increase from 2017 to a range between 22% and 25%. We would expect the cash tax rate to be less than 15% for the next two to three years as we utilise brought forward tax losses, mainly in the US, during this period.

Normalised profit after tax for the year was £121.6 million (2014: £98.1m), giving a basic EPS of 23.4 pence (2014: 18.9p). An increase of 10% in the final dividend to 11.33 pence has been declared, reflecting our new policy of ensuring that full year dividends are covered around two times by Group earnings, including earnings from the Rail division.

Exceptional items

There were no exceptional items in the year: in line with our previously stated policy, business development costs associated with developing our rail and Middle East markets are no longer treated as exceptional items and are charged to the relevant business division. In 2014, £24.8 million was invested in the restructuring of existing operations in order to maintain their market-leading positions and to respond to both opportunities and challenges.

Exceptional items	2015 £m	2014* £m
Restructuring	**–**	(25.8)
Strategic rationalisation	**–**	(18.3)
Exceptional fuel credits	**–**	19.3
Exceptional items	**–**	(24.8)

* FY2014 results restated to adjust for impact of Rail and Middle East bid costs previously treated as exceptional items

IFRS results

Intangible amortisation decreased to £25.7 million (2014: £28.6m), due to intangible assets on some Spanish concessions becoming fully amortised. Profit for the period, after amortisation was £109.1 million (2014: £60.6m). Basic EPS, after amortisation was 20.9 pence (2014: 11.6p).

IFRS profit	2015 £m	2014* £m
Normalised profit before tax	**150.1**	119.9
Exceptional items	**–**	(24.8)
Intangible amortisation	**(25.7)**	(28.6)
Profit before tax	**124.4**	66.5
Tax charge	**(15.3)**	(5.9)
Profit for the year	**109.1**	60.6

* FY2014 results restated to adjust for the impact of Rail and Middle East bid costs previously treated as exceptional items

Cash management

Cash generation is core to our strategy, representing a key driver of shareholder value. The Group's core bus and coach operations are strong cash generators, complemented by rail's capital-light model. In recent years the Group has targeted improved cash flow generation to drive better returns. We believe we have a strong, sustainable cash flow in place now that allows us to retain a focus on ROCE while supporting a capital investment programme that maintains fleet age at acceptable levels. Our current target is to invest around 1.1 to 1.2 times depreciation.

In 2015, the Group delivered operating cash flow of £164.9 million (2014: £222.6m), reflecting the increased level of maintenance capital expenditure, net of disposals, of £111.7 million. This represents 107% of the depreciation charge and was £69 million higher than in 2014. The majority of the maintenance capital investment has been in fleet replacement in the UK, Spain and North America.

Working capital saw an outflow of £11.8 million (2014: inflow of £4.8m) reflecting organic growth, new business wins and acquisitions.

£111.0 million of free cash flow was generated over the year (2014: £164.8m), reflecting the higher level of maintenance capital expenditure described above. This free cash flow was ahead of our £100 million target. We will continue to target delivery of £100 million of free cash flow per annum, which we see as a sustainable level of cash generation going forward.

Free cash flow	2015 £m	2014* £m
Normalised operating profit	**193.5**	167.6
Depreciation and other non-cash items	**104.6**	102.1
EBITDA	**298.1**	269.7
Net maintenance capital expenditure	**(111.7)**	(43.2)
Working capital (increase)/decrease	**(11.8)**	4.8
Pension contributions above normal charge	**(9.7)**	(8.7)
Operating cash flow	**164.9**	222.6
Receipts from associates and minorities	**0.7**	1.3
Net interest paid	**(43.4)**	(46.1)
Tax paid	**(11.2)**	(13.0)
Free cash flow	**111.0**	164.8
UK rail franchise exit outflow	**(2.5)**	(1.6)
Exceptional cash expenditure	**(10.0)**	(19.2)
Cash flow available for growth & dividends	**98.5**	144.0

* FY2014 results restated to adjust for impact of Rail and Middle East bid costs previously treated as exceptional items

From free cash flow, there was an outflow of £10.0 million from the run-off of 2014 exceptional items, leaving £98.5 million (2014: £144.0m) available to invest in growth capital projects, bolt-on acquisitions and capital return to shareholders. The majority of the £36.4m growth capital investment has been in growing our fleet on new services such as Tangier in Morocco, investment in revenue management systems for our coach services in the UK and Spain, and investment to support our growth in Rail, both in the UK and Germany.

During the year we invested in six acquisitions, five of which were in our North America School Bus and Transit operations, in line with our stated strategy to exploit new growth opportunities in this market. The acquisition in Spain was for an urban bus contract in Madrid. Total net consideration was £82 million for the acquisitions in North America and £16 million for the Spanish acquisition, with a total of £69.4 million being paid in 2015.

ROCE is a key factor in our incremental investment decisions and we are pleased with the progress we have made. The Group's return on capital increased by 100 basis points to 11.7%, excluding Rail and Middle East bid costs.

With dividend payments of £54.4 million (2014: £51.6m), the net outflow of funds in the year after foreign exchange movements was £81.2 million (2014: inflow of £81.8m). Net debt increased to £745.5 million as at 31 December 2015 (2014: £664.3m) having invested £69.4 million on acquisitions and £36.4 million in growth capital expenditure during the period.

Net funds flow	2015 £m	2014 £m
Cash flow available for growth & dividends	**98.5**	144.0
Net growth capital expenditure	**(36.4)**	(7.3)
Acquisitions and disposals	**(69.4)**	(5.9)
Dividends	**(54.4)**	(51.6)
Other, including foreign exchange	**(19.5)**	2.6
Net funds flow	**(81.2)**	81.8

In previous years the focus of our cash flow has been on debt reduction and growing our dividend. As we stated in last year's full year results, we are now in a strong position to exploit new growth opportunities with a focus on the North American market, where we have a strong track record of growing profits. We continue to believe that there are excellent opportunities in this market given its highly fragmented nature and the continuing trend in conversions, and we will continue to use our cash flow to generate further growth through acquisitions, driving future returns for shareholders.

Dividend

As announced at the half year, the strength of our cash flow and the continued growth of secure, long-term revenue from our expanding UK and German rail operations led us to review our policy of excluding rail earnings from our dividend cover. Our new policy is to include rail profits, so that our dividend is covered around two times by Group earnings. This new policy enables us to propose a 10% increase in the full year dividend to 11.33 pence.

Treasury management

The Group maintains a prudent approach to its financing and is committed to an investment grade credit rating. The Board's policy targets a level of debt that allows for disciplined investment and ample headroom on its covenants, with net debt to EBITDA at a ratio of 2.0x to 2.5x in the medium term. Both Moody's and Fitch credit ratings have reaffirmed their investment grade rating in 2015.

The Group's key debt ratios as at 31 December 2015 were as follows:

- Gearing ratio: 2.45 times EBITDA (31 December 2014: 2.25x; bank covenant not to exceed 3.5x)
- Interest cover ratio: EBITDA 6.6 times interest (31 December 2014: 6.3x; bank covenant not less than 3.5x)

The Group has a strong funding platform that underpins the delivery of its strategy. Core funding is provided from non-bank sources, to provide improved certainty and maturity of funding. At the end of 2015, this represented £758.6 million of funding, primarily from two Sterling denominated bonds comprised of a £350 million bond maturing in 2017 and a £225 million bond maturing in 2020, a private placement of €78 million maturing in 2021 and £128 million of finance leases. The residual debt balance is funded from the Group's £416 million RCF, with a margin of 0.6% over LIBOR and maturing in 2020. At 31 December 2015, the Group had £440 million in cash and undrawn facilities available.

In January 2016, the Group entered into new bank facilities totalling £450 million, comprising a £350 million bridging-to-bond facility in anticipation of the refinancing of the Group's £350 million bond maturing in January 2017, together with a £100 million general corporate purposes facility, providing the Group with an appropriate level of medium-term liquidity and funding headroom. Both facilities are for an initial period of 18 months and include options to extend the maturity date until January 2019. This bridging facility gives the Group ample flexibility with respect to the timing of the refinancing of the bond, without incurring punitive refinancing charges.

At 31 December 2015, the Group had foreign currency debt and swaps held as net investment hedges. These help mitigate volatility in foreign currency profit translation with corresponding movements in the Sterling value of debt. These corresponded to 2.2 times EBITDA earned in the US, held in US Dollars, and 2.1 times EBITDA earned in Spain and Germany, held in Euros. The Group hedges its exposure to interest rate movements to maintain a balance between fixed and floating interest rates on borrowings. It has therefore entered a series of swaps that have the effect of converting fixed rate debt to floating rate debt. The net effect of these transactions was that, at 31 December 2015, the proportion of Group net debt at floating rates was 34% (2014: 28%).

Group tax policy

We are committed to creating shareholder value through our strategic goals of operational excellence, generating superior cash and returns and creating new business opportunities, and the Group tax strategy supports these goals.

We pursue a cautious approach to our tax affairs which are aligned to business transactions and economic activity. Our approach to tax can be evidenced by the lack of outstanding tax audits as detailed in the Annual Report and Accounts.

In order to gain as much certainty as possible, tax matters are largely discussed in 'real time' with the tax authorities in the markets in which we operate. We have a constructive and good working relationship with the various tax authorities. However, due to the complexity of tax legislation, the Group and tax authorities may sometimes have differing opinions. The Group manages these risks and accrues for areas of tax uncertainty in line with accounting standard requirements, where appropriate. The Group Tax Department reports on a regular basis on the Group's tax matters, with the Board and the Audit Committee apprised of any significant tax matters.

Pensions

The Group's principal defined benefit pension schemes are all in the UK. The combined deficit under IAS 19 at 31 December 2015 was £12.6 million (31 December 2014: deficit of £11.9m). The Group has previously reached agreement with the trustees of its key schemes which have fixed the deficit payments, under most eventualities, to just under £10 million per annum until 2017, calculated on a scheme funding basis. The two principal plans are the UK Group scheme, which closed to new accrual in 2011, and the West Midlands Bus plan, which remains open to accrual for existing active members only.

The IAS19 valuations at 31 December 2015 were as follows:

- UK Bus (under the West Midlands Integrated Transport Authority Pension Fund and the Tayside Transport Superannuation Fund): £60.4 million deficit (2014: £50.6m deficit)
- UK Group scheme: £34.9 million surplus (2014: £30.6m surplus)
- UK Rail/other: £12.9 million surplus (2014: £8.1m surplus). The Group's rail business participates in the Railways Pension Scheme. This exposure transfers to an incoming operator in the event of a franchise termination

Fuel Costs

The Group consumes approximately 220 million litres of diesel each year for which it is at risk (ie there is no direct fuel escalator in the contract or concession price). This relates to the non-rail divisions and represented a total cost (including delivery and taxes) to the Group in 2015 of £167 million (approximately 9% of related revenue), at an average fuel component cost of 44 pence per litre. The Group has adopted a forward fuel buying policy in order to secure a degree of certainty in its planning. This policy is to hedge fully a minimum of 15 months' addressable consumption against movements in price of the underlying commodity, together with at least 50% of the next nine months' consumption in the contract businesses. Currently, the Group is 100% fixed for 2016 at an average price of 42 pence/litre (excluding delivery and tax), 94% fixed for 2017 at an average price of 41p and 42% fixed for 2018 at 31p. We anticipate fuel savings of around £30 million in 2018 when compared with 2015, assuming the balance of the fuel hedging for 2017 and 2018 is transacted around the current spot price for fuel.

The continuing drop in the price of crude oil throughout 2015 resulted in an adverse movement in the value of these hedges to a liability of £83.8 million, which will be offset by the lower price paid for fuel in 2016-2018.

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

Matthew Ashley
Group Finance Director
25 February 2016

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Group Chief Executive's review on pages 8 to 13 and the Group Finance Director's review on pages 32 to 37. In addition, note 2 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 confirm that they have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. In reaching this opinion, the Directors reviewed assumptions about current trading performance, together with information from the annual budget process, which sets out the Group's plan for 2016, and the strategic planning process which determines the Group's trajectory for 2017 to 2020. Accordingly the Directors continue to adopt the going concern basis of accounting in preparing the annual Financial Statements.

Viability statement

In accordance with provision c2.2 of the UK Corporate Governance Code 2014, the Board has assessed the viability of the Group over a three-year period to December 2018. This takes into account the Group's current position and the potential impact of the principal risks and uncertainties outlined on pages 28 to 31 of the Strategic Report.

The Board has determined that a three-year period is an appropriate period over which to provide its viability statement, as this is the period reviewed by the Board as part of the annual strategic planning process. In making this statement, the Board carried out a robust assessment of the principal risks and uncertainties facing the Group, including those that would threaten the business model, future performance, solvency and liquidity. Sensitivity analysis is applied to the cash flows to model the potential effects should principal risks actually occur; and consideration is given to the availability and likely effectiveness of mitigating actions that could be taken to avoid or reduce the impact or occurrence of the identified risk.

Based on this assessment, the Board confirms that it has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due up to 31 December 2018.

Record passenger numbers through revenue management and Morocco

Francisco Iglesias
Chief Executive, ALSA

Spain and Morocco

Overview of 2015

ALSA's continued roll out of its revenue management system ('RMS'), a record year for passengers and sustained strong growth in Morocco have helped drive increases in revenue, profit and margin in the division. Total divisional revenue grew by 3.6% to €691.8 million (2014: €667.7m) and normalised operating profit rose by 5.8% to €98.5 million (2014: €93.1m), both in constant currency.

In Spain, revenues rose by 2.9% driven by the implementation of RMSs on our main rail-competed routes which is driving growth in both revenue and passengers, whilst in Morocco we have seen another year of strong growth, with revenue growth of 13.8% driven by the upscaling of operations and services in Tangier, together with the launch of services in a fourth city, Khouribga. Operating margin rose to 14.2% (2014: 13.9%) driven by revenue growth, cost efficiencies, lower fuel costs and additional income from fuel duty rebates. ALSA still achieves the best in class margin for a Spanish bus and coach operator.

During the year only two national franchises in our portfolio came up for renewal. ALSA successfully renewed one and has obtained the highest score, pending award, in the other. ALSA also extended the Bilbao Urban Transport contract by two years and was awarded one of the contracts to operate part of the Spanish Government's flagship Imserso pension holiday scheme.

With the appreciation of Sterling against the Euro during 2015, reported revenues and profit declined to £502.2 million (2014: £538.1m) and £71.5 million (2014: £75.0m) respectively.

Operational excellence

ALSA is widely recognised as an industry-leading operator and in 2015 received an award for Best Practice in Occupational Road Safety from the Spanish Foundation in Road Safety. In addition ALSA has been awarded a four-star rating by the European Foundation for Quality Management in a first EFQM assessment, and we are working towards achieving a five-star rating in the next assessment.

2015 has been a record year for the number of passengers that ALSA carries, with nearly 300 million passenger journeys on our services in Spain and Morocco.

We have continued to see a successful response to the RMS implemented on the nine corridors experiencing the most intense competition from RENFE's aggressive rail ticket discounting. With 216 long haul flows now within the RMS, nearly 80% of that sector's passengers and revenue are benefiting from this more sophisticated pricing approach. For the year as a whole, on those routes with RMS, we saw a 2% increase in passenger numbers and 3% increase in revenue. ALSA remains focused on delivering further cost efficiencies in order to mitigate the impact of lower fares and cost inflation. In 2015 we drove a higher proportion of sales through our digital channels and ticketing machines, with nearly a third of transactions now conducted this way, leading to a small reduction in headcount as we look to develop a more flexible sales structure.

Overview of 2015

Year ended 31 December	2015 m	2014* m
Revenue	**£502.2**	£538.1
Normalised operating profit	**£71.5**	£75.0
Revenue	**€691.8**	€667.7
Normalised operating profit	**€98.5**	€93.1
Operating margin	**14.2%**	13.9%

* FY2014 normalised results restated to adjust for the impact of bid costs previously treated as exceptional costs

We have delivered improvements in productivity with higher fleet utilisation, higher mileage per vehicle and improved maintenance standards resulting in a 20% reduction in breakdowns. The 2% reduction in fuel consumption achieved in 2014 has been delivered again in 2015. This 2% reduction has been driven by a programme of consumption improvement measures, including fuel efficient driver training.

Our ongoing focus on improving safety standards has delivered a reduction of 15% in the Fatalities and Weighted Injuries index in the year, with a strong emphasis on training and driver assessments helping to drive the significant improvement in safety performance.

	€m
2014 normalised operating profit	94.1
Bid costs in 2014	(1.0)
Restated operating profit	93.1
Lower bid costs in 2015	0.6
Like-for-like operating profit in 2014	93.7
Net impact of revenue growth	4.9
Other cost inflation	(9.0)
Cost efficiencies	6.5
Fuel	2.4
2015 normalised operating profit	98.5

Cash and returns

In 2015 ALSA delivered another strong performance, generating operating cash of €114.6 million with operating cash conversion of 116%, with an improvement of €9 million in working capital. We have invested in a higher level of capital expenditure year on year, with growth capital expenditure focused predominantly on new fleet to support the upscaling of our operations in Tangier and the ongoing development of the RMS.

Creating new opportunities

Following on from the very encouraging results we have seen with the implementation of revenue management on some of our intercity routes, we are introducing further enhancements to our systems that allow even faster decision making on fares, drawing on real-time travel information and competitor information. We will look to roll out this enhanced revenue management process across the whole of our Spanish business to include both the commuter and regional routes.

We also see further opportunities to increase our digital capabilities leveraging the Group expertise in customised e-marketing, with the development of new apps offering improved functionality, together with personalised journey planners, content and offers; building on UK Coach's leadership, similar programmes will be rolled out across the businesses.

In 2015 we invested in a bolt-on acquisition, Herranz, a business which operates around 70 buses through an urban contract as part of the Madrid consortium. This business offers synergy benefits with other contracts we operate within the city, with the contract running through to 2024. We expect this acquisition to be accretive within the first 12 months after transaction and synergy costs and we will consider further bolt-on acquisitions where they meet our strict financial criteria.

Following recent press reports on the Portuguese Government's proposed cancellation of our Porto bus contract – amongst others awarded by the previous government – we have just received official notification. We will analyse the arguments used to overturn a previously awarded contract and then consider our next steps. We will continue to monitor future prospects for private sector development in the domestic rail market and liberalisation of other bus markets in Europe where we believe we can leverage our expertise and reputation to enter new markets.

We continue to see strong growth prospects in Morocco, where we started operations in Khouribga, our fourth city, in 2015. As well as continuing to grow our existing operations, we see further growth opportunities with the addition of services in new cities, building on our reputation for operational excellence and customer service standards. In 2016 we expect to carry more passengers in Morocco than in the whole of our Spanish business, demonstrating the significant growth experienced in recent years and the opportunity further expansion in the country provides. Our continuing focus is to ensure we are well placed for the upcoming concession renewal process which may continue to suffer delays resulting from legal issues. We still, therefore, do not expect any risk of significant impact on revenues or profits until 2017. We expect the impact on our Spanish operating profit to be up to €2-3 million in 2017. As a high quality, innovative and efficient operator, we believe that ALSA is well positioned to retain and secure concessions as and when contracts do come up for renewal. In 2015 we have successfully retained the two small intercity contracts which came up for renewal and our industry-leading bidding team will continue to focus on developing high quality bids in order to retain and win new contracts. When the main renewals process does begin, we do expect there to be pressure on margins, but have already begun programmes to mitigate this through, for example, further cost efficiencies, the ongoing roll out of revenue management in Spain and additional opportunities for growth in Morocco.

→ Our business in Morocco continues to grow with services now operating in four cities

Strong bid season and growth from acquisitions

David Duke
Chief Executive, National Express Corporation

North America

Overview of 2015

Our North American business has delivered another year of growth in revenue and operating profit. On a constant currency basis* revenue grew by 4.0% with operating profit increasing by 6.1% to $102.2 million (2014: $96.3m).

We continued to focus on increasing profitable growth and improving the quality of our portfolio, exiting those contracts that fall below our minimum return criteria (through an 'up or out' strategy) and growing through acquisitions and winning new business which generate more attractive returns. We have had a successful bidding season, achieving price increases of 5.3% on those contracts up for renewal and an average price increase across the entire portfolio of 2.8%. This trend of increasing prices has continued into the current bid season.

We have added a further 450 buses from new contract wins in 2015 both in School Bus and Transit operations. We have had a particularly successful year in Transit, growing annualised revenues by 45% to around $110 million with three new contracts, an extension to an existing contract and one bolt-on acquisition.

In line with our strategy to increase investment in new growth opportunities in North America, we have made five small bolt-on acquisitions, with three of those made in the final quarter of the year. Over the period we have added a net 1,100 buses, with the new business wins and acquisitions more than offsetting the contracts we chose to exit.

Change in school bus numbers – 2015 bid season

	Number of buses
Regretted losses	(100)
Exited per 'up or out' strategy	(900)
Acquisitions	1,450
Conversion and share shift	450
Organic growth	200
Change in buses operated for 2015/16 school year	1,100

We have maintained a relentless focus on costs and the streamlining of operations and increased operating margin by 20 basis points to 9.8%, with the benefits of the 'up or out' strategy helping to offset pressure on drivers' wages.

	$m
2014 normalised operating profit	98.0
Exchange movement (CAD to USD)	(1.7)
2014 normalised operating profit at constant currency*	96.3
Net impact of revenue growth	4.8
Acquisitions	5.2
Fuel cost	2.4
Other cost inflation	(16.0)
Cost savings including synergies	8.6
Weather	0.9
2015 normalised operating profit*	102.2

Overview of 2015

Year ended 31 December	**2015 m**	2014 m
Revenue	**£683.2**	£620.2
Operating profit	**£66.8**	£59.5
Revenue	**US$1,044.3**	US$1,003.9*
Operating profit	**US$102.2**	US$96.3*
Operating margin	**9.8%**	9.6%

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

Operational excellence

Our North America operation already delivers best in class margins. Traditionally, the school bus industry is a capital-intensive, low cash generation business. In the past year we have continued to focus on increasing the return on capital across our portfolio of 500 contracts. By focusing on contracts which generate adequate capital returns, we have relationship-based contracts where our service quality is valued by the customer. Where we are not able to obtain financial returns above our minimum criteria, we have exited the contract – in the 2015/16 school year bid season we relinquished eight contracts for 900 buses, which has contributed to the 20 basis point improvement in the operating margin to 9.8%. We have continued to cascade buses where they meet the appropriate age criteria, thereby increasing fleet utilisation.

We continue to deliver superior service standards, with 92% of our customers willing to recommend us on the basis of quality of service, safety and value. In 2014 we experienced pressures on driver recruitment with some shortages and wage pressure evident. During 2015 we reviewed our approach, including starting our targeted recruitment rounds earlier and improved wage packages in highly competitive markets. While we continue to see some wage pressure we are pleased that the success of our new approach is supported by a 3% improvement in the Back to School Survey, with 90% of customers satisfied with the service they receive. Our focus on service standards and our customers is also reflected in our industry-leading contract retention rate which remains very high, achieving nearly 99% for the last bidding season, excluding those contracts which we have not contested as they do not meet our minimum returns criteria.

We continue to leverage our previous investment in technology in order to achieve further improvements in our operations and services, with further improvements in maintenance helping to drive cost efficiencies and higher service standards, and our ability to monitor on-time performance is driving higher service standards for our customers, with a 1% improvement year on year in 2015 to 94.1%. In 2015 we piloted a 'Where's My Bus' App which provides parents with real-time tracking information and we will continue to roll this technology out across our business in response to positive customer feedback.

We have also built the first full-sized school bus simulator in the US, in our regional training centre in Memphis. The ongoing focus on safety is demonstrated by a reduction of 5% in the Fatalities and Weighted Injuries index accompanied by a reduction in lost time injuries. We will continue to strive for higher safety standards across our business.

We were delighted that our commitment to excellence and our pursuit of continuous improvement has been recognised with a Bronze Award from the Illinois Performance Excellence Center. This is a North American equivalent to EFQM and is presented to organisations that adopt and apply continuous improvement principles.

Cash and returns

Operating cash flow represented a conversion of 61% of operating profit with $62 million of operating cash delivered in the year. As previously indicated, we have returned to a constant level of fleet replacement in 2015, in line with depreciation. The lower level of cash conversion when compared with 2014 reflects the higher level of capital investment in fleet on both new and existing contracts together with increased working capital from growth in new contracts and acquisitions.

We continue to cascade fleet from our exited contracts and actively manage our spare capacity within our fleet in order to increase asset utilisation and improve returns. This drive for more efficient capital deployment has delivered a significant improvement in return on assets over the past three years rising from 17.2% in 2012 to 23.9% in 2015. We have delivered over $5 million of savings through new strategic relationships with suppliers and driven further efficiencies in maintenance (through increased standardisation of procedures) and headquarter costs (through the merger of Transit and School Bus corporate functions). Alongside disciplined contract management and bidding and asset management programmes, these measures have helped further grow our industry-leading operating margin by 20 basis points to 9.8%. We will continue to employ pricing discipline in order to ensure we deliver an appropriate return on capital.

Creating new opportunities

Last year we highlighted the attractive growth opportunities available in the North American school bus market and indicated our intention to increase our level of investment. The school bus market remains highly fragmented with over 1,300 private school bus businesses in the US. Our experience in the last year has only confirmed our belief that there is real opportunity in the market.

In 2015, in line with this strategy, we invested £82 million in five small bolt-on acquisitions that are either close to our existing business and we can therefore drive synergies and operational improvements, or that provide strategic entry to new markets. The acquisitions included four school bus businesses and one transit employee shuttle business, with all acquisitions expected to be accretive within the first 12 months after transaction and synergy costs. In January 2016 we have acquired another business which operates both School Bus and Transit contracts and we have an active pipeline of further opportunities.

We continue to see the transit market as a strong business development opportunity and look forward to building on a very successful year in 2015, where we grew annualised revenues by 45%. In most bids, vehicles are funded either by the Federal government or local authority, resulting in a low capital investment requirement and high returns on capital. Using our operational expertise and superior track record of service delivery, we will continue to seek further bid opportunities in this attractive market.

The increasing standardisation of procedures across the business will help drive further efficiencies. From maintenance and purchasing, through to scheduling and electronic clocking on, we believe there is further progress to be made. We will again approach the upcoming bid season in a disciplined manner, including addressing the ongoing wage pressure the industry is experiencing. We will also continue to seek further capital-light opportunities through conversions and further improve the quality of the existing portfolio.

→ Five small bolt-on acquisitions were made during the year complementing our existing businesses

Partnership approach secures groundbreaking Bus Alliance

Peter Coates
Managing Director, UK Bus

UK Bus

Overview of 2015

UK Bus had a good year, leading the industry with the signing of a five year 'Bus Alliance' in the West Midlands and this pioneering approach to partnership is driving strong financial results. Commercial revenue growth of 3% has been partially offset by a reduction in concessionary revenues, but has delivered total revenue growth for our UK Bus division of 1.9%. The reduction in concessionary revenues reflects local government austerity pressures on Centro leading to a new agreement which has reduced reimbursement rates. We anticipate a further reduction in income from concessions in 2016.

	Growth %
Like-for-like commercial revenue	3
Mileage	0
Underlying commercial revenue	3
Concession and other revenue	(1)
Total revenue	2

Normalised operating profit was strong, with growth of 10.3% to £37.5 million (2014: £34.0m), reflecting both revenue growth and cost efficiencies. The operating margin has increased by 100 basis points to 13.1% (2014: 12.1%).

	£m
2014 normalised operating profit	34.0
Net impact from revenue growth	3.0
Fuel cost	0.9
Other cost inflation	(4.4)
Cost efficiencies	4.0
2015 normalised operating profit	37.5

Operational excellence

Nationally there has been a reduction in regional commercial passenger numbers as the effects of congestion, reduced petrol prices and some changes in shopping habits appear to have suppressed demand. In the West Midlands our commercial passenger numbers are broadly flat, and we believe that the actions we are taking in partnership with Centro and the local authorities in the West Midlands – including combining the introduction of premium services with local authority investment in bus prioritisation – are the right ones to drive future increases.

We believe our partnership approach is a key driver of our success, alongside investment in quality service standards and industry-leading safety. Building on our award winning 'Transforming Bus Travel 3' partnership with Centro – where we successfully launched all 83 of our pioneering commitments – we have recently signed an industry-leading 'Bus Alliance' with West Midlands Integrated Transport Authority (ITA) for five years.

We are delighted that our continued focus on delivering operational excellence and superior service standards has been recognised with a number of further industry awards, including the National Transport Award for Improvements to Bus

Overview of 2015

Year ended 31 December	2015 £m	2014 £m
Revenue	**286.4**	281.0
Operating profit	**37.5**	34.0
Operating margin	**13.1%**	12.1%

Services. During 2015 we also achieved our highest ever Transport Focus customer satisfaction score of 87%, 1 percentage point higher than 2014, and 9 percentage points higher than 2012.

In 2015, we reinforced our leadership credentials on smart ticketing with the further roll out of the Swift smartcards to all of our buses and trams, in partnership with Centro. Swift now provides the industry-leading capability of multi-operator, multi-modal season tickets, alongside Pay As You Go and carnets. This is the first such card in an ITA and is again a demonstration of the strength of our partnership working with Centro. We continue to see strong growth in the use of Swift across our network, with growth of 172% in the year, and a smartcard transaction every four seconds on our buses.

Extending our approach to partnership, we launched 'Transforming Tram Travel' in 2015, with Centro. This partnership contains 50 commitments to improve the Midland Metro and was recognised at the Light Rail Awards for 'Vision of the Year'. Towards the end of 2015, Her Majesty The Queen opened the first of the city centre extensions, with services due to extend to Birmingham New Street soon.

In Dundee we relaunched our services with new branding designed by the local community. Our Xplore Dundee services are leading the way with smartcards – for example, we are the first operator in Scotland to allow users to load travel passes onto the widely held National

Entitlement Cards. In line with our approach to partnership we hope to shortly launch a similar 'Transforming Bus Travel' agreement in Dundee.

We also continued our strong track record of improving safety, both for customers and employees, resulting in a lower number of injuries and assaults and reduced cost of claims. A key focus is occupational health, and our 'Health Bus' was recognised by several industry and HR awards.

UK Bus has been awarded a high four-star rating by the European Foundation for Quality Management in its first ever EFQM assessment, demonstrating a commitment to achieving excellent operational standards. UK Bus is working towards achieving a five-star rating in its next assessment.

Finally UK Bus was the first privately owned public transport company to introduce the Living Wage Foundation Living Wage for all staff.

Cash and returns

The UK Bus business generates an excellent return on capital, delivering good asset utilisation and profitable returns on investment. As we highlighted last year, capital investment has risen significantly in 2015, reflecting a record level of investment in new buses. This resulted in a lower level of operating cash of £17 million. Our new Platinum buses in particular are already driving strong growth in passenger volumes.

We continue to maintain our disciplined approach to investment, targeting areas which will deliver the greatest returns.

Creating new opportunities

As mentioned above, building on our West Midlands partnership, we have unlocked local authority funding to complement our record investment in new buses during 2015. On key routes in Birmingham and Solihull, the local authorities are investing in bus priority measures that will significantly improve journey times. Platinum growth is already strong and when completed this additional priority will increase demand further. We will also deploy further Platinum routes on these corridors.

Investment will continue to be targeted where it makes the most significant difference to the business. As well as more state-of-the-art Platinum buses, the digital marketing lessons learned in c2c and UK Coach are being applied to UK Bus. We are refocusing advertising spend to digital channels and developing an enhanced CRM approach to improve targeted marketing and personalised communication with customers. This will be combined with further innovation in pricing to target specific groups, for example off-peak travellers and families. Further progress on ticketing is also targeted with the introduction of contactless payment and mobile tickets towards the end of this year.

There are further opportunities for cost efficiency, with the continued roll out of fuel efficiency measures (alongside the continued investment in more fuel efficient buses) and driver scheduling optimisation software. Sophisticated data analysis is also being applied to our engineering processes to proactively target vehicles for repair. Again, drawing on experience from across the Group where its use has already delivered cost savings and safety improvements, UK Bus is piloting 'DriveCam' and investigating the use of collision avoidance technology to achieve similar benefits.

In 2015, our tram service was extended into the centre of Birmingham, with the first phase of the Midland Metro extension opening in December and the next phase due to open in March 2016. The new, longer trams have added nearly 50% additional capacity.

We have also invested in new services and additional routes responding to changing patterns in demand. This includes new express services to Warwick University and routes into Staffordshire, as well as contracts to serve new business parks and distribution centres for companies such as Amazon. We are currently working on a bid for Manchester Metrolink, with submission in May, and the seven-year contract, plus a possible three-year extension, is due to commence in July 2017.

Despite the regional market challenges experienced nationwide, UK Bus provides a good opportunity for further growth as we look to benefit from the stability of a five-year 'Bus Alliance', combined with investment in new vehicles and technology and a continued focus on cost efficiency.

→
During 2015 we achieved our highest ever Transport Focus customer satisfaction score of 87%

Record passenger numbers driving strong growth

Tom Stables
Managing Director, UK Coach

UK Coach

Overview of 2015

UK Coach continues to focus on delivering frequent, value for money services efficiently and marketing them in an increasingly personalised and targeted way using sophisticated digital technologies and techniques. This has again been complemented by new partnership deals that help customers access our services more easily and efficiently and reach new markets.

This approach has delivered another year of excellent performance, with profit growth of 15.4% to £32.3 million (2014: £28.0m). This means that since the difficult year of 2012, UK Coach has delivered a 57% increase in operating profit. Operating margin has also shown a further increase following on from the strong gains in the previous two years, rising 130 basis points in the year to 11.5% (2014: 10.2%). Passenger numbers on the core network also grew by nearly 2%.

	Growth %
Passenger yield	1
Passenger volume	2
Change in core express revenue	3
Other revenues	(1)
Total revenue	2

Total revenue increased by 2.2% to £281.2 million (2014: £275.2m). Core network revenue increased by 3.1% with new partnership arrangements, digital initiatives, additional routes and our enhanced marketing and CRM activities more than offsetting reduced rail replacement revenues and lower contract income during the first half of the year.

	£m
2014 normalised operating profit	28.0
Net impact of growth and new routes	4.2
Cost inflation	(4.2)
Cost efficiencies	3.8
Fuel	0.5
2015 normalised operating profit	32.3

Operational excellence

Our customer service strategy has continued to focus on providing frequent coach services at low prices. Lower prices were sustained throughout the year and passenger growth has been achieved through an active pricing strategy that optimises revenues by responding to changing market conditions. This has been supported by increasing our sales distribution through the development of existing relationships and the creation of new partnership arrangements with companies such as Trainline, Singapore Airlines, Webloyalty and RBS.

During 2015 we continued to leverage our enhanced CRM capabilities, with strong price initiatives and targeted marketing campaigns – where customer communications are more tailored to the individual – helping to drive record passenger numbers in our core network and a very strong year in festivals and events. Of the emails we send to our database, 88% are now targeted compared with 69% in 2014 and 18% in 2013.

Following the success of Christmas Day services, first launched in 2013, we achieved significant further growth in 2015 with additional routes and services resulting in a 47% increase in revenues on the day and significantly enhancing our customer offer.

While lower in the first half of the year, we have secured new contracts in the last six months of 2015. For example: we won a new three-year contract with British Airways to provide buses for Heathrow staff together with inter-airport transfer services for both passengers and crew; we secured a five-year contract for airport work at Stansted, bussing passengers between the car parks and terminals; and signed a ten-year contract with the University of West London for student transportation between campuses.

During the year we have further reduced the level of vehicle accidents and employee injuries and our commitment to high safety standards has been recognised with two significant safety awards. We were delighted to be presented with the prestigious British Safety Council Sword of Honour and National Express has also been recognised by the Royal Society for the Prevention of Accidents with a Gold Award. We are the first coach operator in the UK to invest in 'DriveCam', a leading safety and driver-aid technology, demonstrating our commitment to driving up safety standards. The results from the initial pilot have been very encouraging, including a reduction in costs. Alongside the introduction of collision avoidance technology, the roll out of these safety measures will – we are confident – drive a reduction of both accidents and the associated costs. We believe this is an opportunity for real progress in the coming years.

Overview of 2015

Year ended 31 December	**2015 £m**	2014 £m
Revenue	**281.2**	275.2
Operating profit	**32.3**	28.0
Operating margin	**11.5%**	10.2%

Cash and returns

The UK Coach business model has a particularly strong return on capital and cash generation, outsourcing the majority of fleet provision and services to its partner operators in a capital-light model. In 2015, we delivered another strong performance, generating operating cash of £38 million with cash conversion of 117% of operating profit. Capital expenditure remains primarily focused on enhancing our retail systems, aimed at delivering improved CRM capabilities, enhanced mobile and online booking options for customers and a more sophisticated RMS. We will also invest further in technology to deliver enhanced safety results and lower associated costs.

Creating new opportunities

Attractive pricing, coupled with improved yield management, will allow the division to continue to grow volume, improve load factors and drive profitability. We will continue to exploit our enhanced CRM capabilities developing further tailored and customised offers for our customers.

We see significant opportunities to engage with our customers on an increasingly personalised level as we implement further improvements to our digital platforms, providing improved functionality across all our digital channels. This is driving higher conversion rates for online transactions, for example with the introduction of a PayPal payment system which significantly reduces the transaction times for customers. In 2016 we will launch an enhanced mobile app with greater functionality, including personalised journey planners and the ability to track and share journey progress, together with personalised content and offers which should help drive incremental revenue growth.

2016 will see the introduction of an even more sophisticated RMS across our network which will significantly enhance our capability to actively manage pricing on a real-time basis through the use of dynamic pricing technology. This will not only drive load factors but also improve route profitability. We will also complement this with targeted promotional offers and the drive to a greater personalised relationship with customers.

As well as reviewing our network efficiency, we also look to add new routes where we see growth opportunities. In 2015 we launched new services serving passengers between Kent and Gatwick and new services to Bristol Airport which should drive further growth in 2016 and beyond.

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

→ Strong price initiatives and targeted marketing campaigns have helped achieve record numbers in our core Coach network

Strong progress in the UK and Germany

Andrew Chivers
Managing Director, Rail

Rail

Overview of 2015

National Express' Rail division has had another successful year with the first full year of the new c2c franchise maintaining its position as the most punctual operator, further success in securing German rail contracts and the launch of our first German rail services on the Rhine-Münster Express ('RME') network.

Total revenue in 2015 increased by 11.1% to £168.4 million (2014: £151.6m) supported by strong passenger growth of 5.3%. Normalised operating profit was £0.6 million (2014: loss of £10.1m), with the results in 2014 restated to reflect the change in accounting treatment for bid costs which had previously been treated as exceptional items. The improvement in operating profitability is also after incurring a significant increase in franchise premiums of £29 million under the new c2c franchise agreement.

The contribution from our German rail business has been minimal given that our first services began in mid-December; we are pleased with the initial response to our services. Although we are only in the first few weeks of trading in a new market, we are targeting a break-even result a full year ahead of our original plan. Projected revenues for the existing RME services are expected to be around €72 million in 2016, with later years benefiting from the operation of the €1 billion Rhine-Ruhr Express services from 2018, and subject to further legal challenge the €1.4 billion Nuremberg S-Bahn contract.

Operational excellence

Our Rail division is at the forefront of the Group's drive for operational excellence. In 2015 c2c maintained its position as the most punctual UK franchise with an annual average of 97.1%. We were delighted to be recognised with the National Rail Award for Passenger Operator of the Year, demonstrating our ambition and capability to be at the forefront of standards for customer service.

We have also been awarded a five-star rating by the European Foundation for Quality Management for a second successive assessment, recording our best ever score, demonstrating once again our commitment to achieving the highest operational standards. This remains an important credential for rail bidding.

We continue to introduce industry-leading initiatives, including pioneering the introduction of an automatic compensation scheme for smartcard customers. We have seen a very strong uptake of c2c smartcards since their introduction, with nearly a quarter of all season-ticket holders now using them, we believe the highest level for any train operator.

We continue to expand our offering to customers and will be the first operator outside the Transport for London boundary to introduce new contactless payment systems next year. Later this year we will be introducing digital media screens and content on all our trains and enhancing the free WiFi services already available, helping to keep our passengers connected, productive and entertained during their journey.

We have introduced first-to-last staffing at all our stations which not only enhances service levels for our customers, but also improves revenue protection across our network with associated margin benefits.

Our strong destination-inspired marketing campaigns have helped to drive significant incremental growth with off-peak revenues up 8%, almost double the average growth rate for London and the South East, and weekend revenues up 15%, resulting in improving load factors and driving higher profitability. We also introduced the largest timetable change in a generation to meet both the significant passenger growth we have seen and the improved London connections required in our franchise agreement with the Department for Transport. We have responded to customer feedback and amended the timetable to address some concerns and are seeking to introduce additional trains as quickly as possible to meet the current and projected future demand.

Overview of 2015

Year ended 31 December	**2015 £m**	2014* £m
Revenue	**168.4**	151.6
Operating profit	**0.6**	(10.1)
Operating margin	**0.4%**	(6.6%)

* FY2014 results restated to adjust for the impact of rail bid costs previously treated as exceptional items

In December 2015 we saw a successful start to the operation of services for our first two German rail contracts in North Rhine-Westphalia and we are pleased with the initial response, where we are already seeing an improved performance in terms of punctuality relative to other operators.

Cash and returns

Rail offers a capital-light model with relatively lower margins but high returns on capital. In 2015 our Rail division delivered £8.2 million of operating cash. In the current year, we anticipate a higher level of growth capital expenditure than normal as we commence a programme of further service improvements, in line with our bid plan commitments for c2c.

Creating new opportunities

We will continue our digital marketing approach to increase passenger numbers and revenue on off-peak services. This will be complemented with the enhanced personalised services we are rolling out this year, including the automatic compensation for delays, Personalised Performance Reports and live journey information available through the c2c Live app.

We have had another successful year in Germany, securing a further €1 billion of future revenues with the award of two contracts to operate services on the Rhine-Ruhr Express, in the North Rhine-Westphalia region. The first of the contracts will commence operations in December 2018, with the second one starting in December 2020, with both contracts running through to 2033. In addition, we await the outcome of a further appeal for the award of the Nuremberg S-Bahn where we have been announced as preferred bidder. The successful conclusion of this appeal would add a further €1.4 billion of future revenues over a 12-year period. With at least 20 contracts coming to market in the next three years in German rail, we see a strong pipeline of opportunities and we will continue to be selective in our bidding approach in order to drive the best returns. We have already successfully pre-qualified for a further franchise in 2016 and are currently targeting contracts with revenue of around €3 billion.

c2c is consistently the best performing rail franchise in the UK and this strength in operational performance is helping to drive growth in new rail markets. We submitted a bid to operate the East Anglia franchise in December 2015, with the award of the franchise due in the summer. Should we be successful in our bid, we expect to begin operating services in October 2016, with the contract lasting up to ten years. Beyond this, our current focus is on securing smaller, lower risk German rail franchises where the risk is acceptable and meets our capital-light investment criteria. We will, of course, also continue to monitor the UK market and consider competitions as they arise and will bid for new franchises where they meet our strict financial criteria. In addition, we will continue to monitor the regulatory environment across Europe and may look to enter other markets as they liberalise.

→ **Read more about our German rail business on pages 48 and 49**

→ In 2015 c2c maintained its position as top-rated performer of all UK rail franchises for punctuality

Building our presence in Europe's largest rail market

→ Our new trains offer more space for passengers than other German regional operators

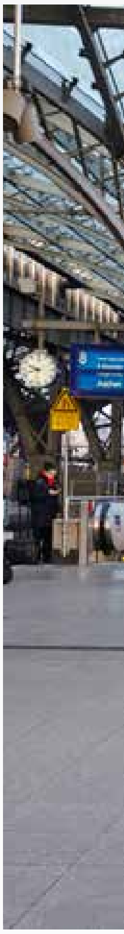
↓ Revenue protection is managed by a dedicated team equipped with the latest technology

The latest addition to our rail business is in Germany. National Express became the first British company to competitively enter the German rail market when it was awarded two contracts in February 2013 to run services in the North Rhine-Westphalia region.

With the largest rail market In Europe, the German rail market provides an attractive growth opportunity for National Express.

This market is attractive not only due to its size, but also due to the capital-light nature of some of the rail franchises. In addition, the bid costs associated with the tendering of rail franchise competitions tend to be lower in Germany than in the UK rail market, with contracts also typically longer than in the UK and margins similar to those in the UK, typically around 3-5%.

Services started on Sunday 12 December last year on two lines: the RE7 regional express service between Krefeld and Rheine and the RB48 regional stopping



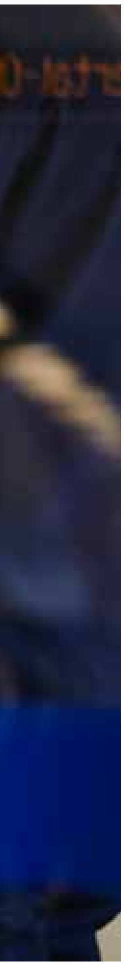
€2.6bn

projected annual revenue
resulting from contract wins in Germany

35

new trains procured

One of our new Talent 2 trains in Cologne central railway station



service between Bonn and Wuppertal. Both lines share the same route between Cologne and Wuppertal. The two services form part of the Rhine-Münster Express (RME) and we expect to carry around 18 million passengers per annum.

New trains

To operate the new services, we procured 35 new Bombardier Talent 2 trains on behalf of the regional transport authorities that are responsible for the routes. They comprise sets of three and five carriages which can be linked to provide extra capacity during peak hours.

The trains have been fitted to a different specification to those run by other German operators, with more leg room and electricity sockets under every pair of seats. They are also fully accessible for disabled passengers, and each train can carry up to ten bikes securely.

New team

In Britain, when a company takes over a rail franchise it transfers the existing staff over under TUPE arrangements. In Germany it is different, and as a result we have successfully recruited a whole new team to operate our services.

New drivers were trained for nine months to become fully qualified, and these were joined by a team of revenue inspectors and head office support staff in Cologne. We now have a team of just over 100 working for us.

New way of working

Although the routes are not new services, the marketing team in Germany has sought to differentiate what we do from the previous operator. Adverts have promoted a 'very British' experience, highlighting the new on-board features which passengers benefit from. This has helped build the National Express profile as the new operator in the region.

Future growth

Alongside the start of RME operations, 2015 has seen further significant successes, winning two rail contracts to operate services on the Rhine-Ruhr Express. We have also been named as preferred bidder to operate services on the Nuremberg S-Bahn. In a relatively short period of time, we have built a business worth €2.6 billion of revenues, securing our position in the German rail market through to 2033. and we have a further €3 billion in our active pipeline of future bids.

Our 2015 Strategic Report, from page 1 to page 49, has been reviewed and approved by the Board of Directors on 25 February 2016.

Dean Finch

Dean Finch
Group Chief Executive
25 February 2016

Committed values result in good governance

Sir John Armitt CBE
Chairman
25 February 2016

This year we are reporting in line with the 2014 version of the UK Corporate Governance Code (the 'Code') which applied to the Company for the whole of the financial year ended 31 December 2015. The full report detailing how we have complied can be found on the following pages. As a Board, we aspire to apply high standards of governance to our conduct around the Board table and we commit to ensure that these standards, values and behaviours are applied consistently by the Executive team and cascaded throughout the Group. Strong governance remains a framework within which the Board sets its values and delivers long-term success for the Company and its investors whilst recognising its duties towards the wider stakeholder community.

I would like to share with you a few key areas which have received focus during 2015 as the Board puts into practice its governance procedures.

Board changes and succession

During the year, we have continued to refresh the Board to ensure that, as the Group evolves to take account of changing external dynamics, we have Directors with the appropriate balance of skills, experience, independence and relevant knowledge in order to deliver our strategy and fulfil our duties as Directors.

In January 2015, the Board appointed Matthew Ashley as Group Finance Director. Matthew was formerly the Finance Director of the UK Bus business, having also previously held the position of Group Financial Controller. Matthew has made a significant contribution to the business in his first year and we look forward to his continued support in developing and implementing Group strategy.

The Board had set itself the specific objective of recruiting a Non-Executive Director with a strong customer focused background with particular emphasis on digital marketing expertise. I am delighted to report that we filled this role with the appointment, in May, of Matthew Crummack as an independent Non-Executive Director. Matthew brings with him significant knowledge of the digital landscape from his previous role as CEO at lastminute.com. His digital experience is directly relevant to National Express as we place customers and digital innovation at the heart of our strategy and focus on delivering continuously improving services.

I am also delighted to report that we have further strengthened the financial expertise on our Board with the appointment of Mike McKeon. He brings significant financial and corporate knowledge, coupled with wide-ranging international experience through his 15 years in the role of Group Finance Director within the listed company environment and latterly at Severn Trent plc. Mike took over as Chairman of the Audit Committee on 1 August.

The appointment of Dr Ashley Steel as a Non-Executive Director and member of the Audit Committee from 1 January 2016 is also very welcome. Ashley has a distinguished track record of providing strategic advice to companies across a range of sectors, particularly transport, and we will benefit from her knowledge and experience.

Effective engagement with shareholders

In line with Code recommendations, the Board recognises and values the importance of maintaining healthy and open communications with our shareholders to ensure mutual understanding of the Group's strategy, objectives, governance and performance.

As a result of a maintained dialogue with our institutional shareholders during the first few months of 2015, I am pleased to report that we gained a substantial increase in the level of shareholder support for our remuneration framework from 64% at our 2014 Annual General Meeting ('AGM') to just under 99% at our 2015 AGM. We remain committed to an open dialogue with our shareholders and to full disclosure of the rationale for the decisions made by the Remuneration Committee.

Similarly, we engaged with our investors ahead of last year's AGM on presenting clearly the Board's position in response to the Teamsters corporate campaign against National Express which included their requisitioned resolution put to the 2015 AGM. In line with the Board's recommendation that shareholders vote against this resolution, the special resolution failed to gain the support of 85% of our shareholders and was therefore not passed. The Board remains firm that we will protect our employees' right to freedom of choice in a free and fair election on whether or not to join a union.

Governance in practice

This year, we have included an additional section within our Corporate Governance Report which provides an insight into how our Non-Executive Directors play an active role in engaging directly with our businesses and workforce. We focus on a variety of site visits made during the year by our Non-Executive Directors to show how they fulfil their governance oversight role in a practical way through supporting and challenging management. I hope you find this new section to be of value and that it adds to your understanding of how we operate as a Board.

Annual General Meeting

This year we are back in our heartland in the West Midlands with our AGM being held at 2.00pm on Wednesday 11 May 2016 in Hall 9 at the International Convention Centre, Broad Street, Birmingham B1 2EA. I would encourage you to attend to meet me and the Board.

Sir John Armitt CBE
Chairman
25 February 2016

Code principles

How the Company has complied with the 2014 UK Corporate Governance Code.

Leadership

How the Board provides leadership for the Group and direction for management.

→ **Read more p56**

Effectiveness

How we seek to build an effective Board with the appropriate balance of skills, experience, independence and knowledge.

→ **Read more p60**

Accountability

How the Board discharges its responsibilities to present a fair, balanced and understandable assessment of the Company's position and prospects.

→ **Read more p62**

Relations with shareholders

How we maintain relations with our investors.

→ **Read more p62**

Remuneration

How we align Executive pay with performance and the long-term success of the Company and the interests of shareholders.

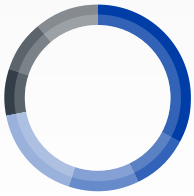
→ **Read more p72**

Audit Committee

"The Audit Committee continues to play a key oversight role in the governance of the Company and I am pleased to report to you on the work undertaken by the Committee during 2015."

Mike McKeon, Audit Committee Chair

How the Audit Committee spent its time in 2015



Financial Statements and reports	33%
External audit	10%
Risk management	12%
Internal audit	17%
IT risk strategy/Cyber security	8%
Tax/Treasury	9%
Corporate governance	11%

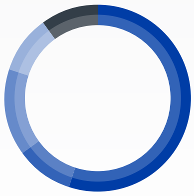
→ **Read more p64**

Nomination Committee

"I am pleased to report to you on the work undertaken by the Committee during 2015."

Sir John Armitt CBE, Nomination Committee Chair

How the Nomination Committee spent its time in 2015



New NED appointments	55%
Election/Re-election of Directors	10%
New Executive Director appointment	15%
Succession planning	10%
Board diversity	10%

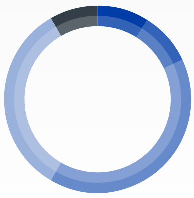
→ **Read more p68**

Safety & Environment Committee

"I am pleased to report that in 2015 we continued to make progress in our safety performance and in the management of the Company's environmental responsibilities."

Chris Muntwyler, Safety & Environment Committee Chair

How the Safety & Environment Committee spent its time in 2015



External audit of corporate governance of safety	9%
Driving Out Harm annual review	10%
Safety performance review	40%
Environmental review	33%
Health and wellbeing	8%

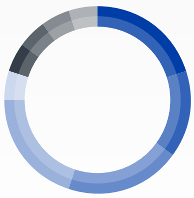
→ **Read more p70**

Remuneration Committee

"I am pleased to report to you on the work undertaken by the Committee during 2015."

Jane Kingston, Remuneration Committee Chair

How the Remuneration Committee spent its time in 2015



Executive Directors' remuneration	20%
Senior Management Group remuneration	15%
Long-Term Incentive Plan	20%
Bonus awards	20%
Chairman's fee	5%
Executive Directors' service contracts	5%
Remuneration budget	5%
Other employee share schemes	5%
Corporate governance – Remuneration Report	5%

→ **Read more p72**

Building a deeper understanding of our business

A clear framework for the Board

Governance provides the framework within which the Board sets its values and delivers long-term success to the Company and its investors, balancing this with its duties to the wider stakeholder community.

Every year our Non-Executive Directors draw on their respective breadth of experience and knowledge when visiting frontline operations across the Group. These offer a great opportunity to get to the heart of business, and deliver a unique insight into how the business operates. This, in turn, informs Board discussions.

This section illustrates a number of these visits. Our Safety and People Values were the focus of two visits with another forming part of our induction programme for new Board members.

↗ ↗
Chris Muntwyler meets the team at Trans Express in Brooklyn

→
Jane Kingston tries out the bus simulator at Memphis

→
Mike McKeon visits the Customer Service Centre in Aurora

Safety – our number one priority

Safety is our highest priority in whatever we do as a business, and our performance is monitored by our Safety & Environment Committee.

All of our Non-Executive Directors are members of our Safety & Environment Committee which is responsible for reviewing and challenging constructively the structure, content and operation of the safety management arrangements put in place by management. Chris Muntwyler chairs this Committee and, in addition to the formal Committee meetings, receives regular input from the Group Safety Director on safety performance across the Group and its independent monitoring by Arthur D Little.

To complement the formal reporting lines in place and to witness first-hand how our safety management arrangements are embedded within our operations, Chris takes the opportunity, wherever possible, to visit key sites and engage with local management.

In September, he paid a visit to one of our newly acquired businesses in North America – Trans Express based in Brooklyn, New York. He met with the previous owners, including the General Manager, Mary Rubino, in order to welcome them to National Express and to gain an insight into how they manage and live our Safety values.

Following meetings with local management and a tour around their bus maintenance facility, Chris gained a better understanding of their business and the new opportunities being explored. Considering the high standards and initiatives set across the Group, Chris said: "I am very pleased to see how dedicated everybody is at Trans Express to safety and how stable the respective processes are." He left Trans Express with the impression of a very strong and motivated team under Mary Rubino's leadership.

Our first German rail services on the Rhine–Münster Express lines launched in mid-December with 35 new Talent 2 electric trains, built by Bombardier, which we procured on behalf of the local authorities. Prior to the start-up of operations, Chris took the opportunity to visit the train manufacturer in Berlin to gain a first-hand impression of the quality of the new trains and to meet with Bombardier management. They replace older and, in many cases, less accessible trains.

"With these new trains, we hope to achieve a dramatic quality and reliability improvement for our train customers in the Cologne area. Not only did we choose the latest and most reliable technology, but these trains bear the full National Express brand inside and out," he said.

People – a great place to work

Jane Kingston, having served on the Board over the past two years, took over from Sir Andrew Foster as Chair of the Remuneration Committee on 6 May 2015. Given her background, experience and specific interest in People issues generally across the Group, Jane has created the time and opportunity to visit some ten sites across all our divisions in the UK, Spain and North America in order to better understand how she might add value and influence, as well as challenge, human resource initiatives in her Non-Executive capacity.

In the North American School Bus business, Jane has been impressed by some great people on the front line – drivers, maintenance teams – all of whom are committed to the safe transport of children and serving the client school boards. Whilst in the US prior to the September Board meeting, Jane was actively involved in an employee focus group at the Memphis Customer Service Centre. She and the local management team wanted to hear directly from our people on their thoughts on what it is like to work for the Durham School business.

Jane said: "This initiative worked very well with some insightful and positive contributions being made at every level. The conclusion was reached that Durham Schools was a good place to work with some thoughtful ideas having emerged which will be followed through over the coming year."

The focus group programme will be developed and rolled out across a number of sites in North America and the UK.

As part of our talent development and succession planning process, we launched the 'National Express Network' in early December. The Network, probably the first worldwide gathering of its kind within the transport industry, enables graduates from our bus, rail and coach operations in the UK, Spain and North America to learn from each other and work more closely together as well as maximising their own individual potential. Jane attended the launch event held at the Warwick Business School along with the Executive Directors and other members of the Senior Management Group. Jane praised the structure of the inaugural meeting of the Network which had been well received by our young talent pool across the businesses. Jane believes that such opportunities to meet Board members and the Senior Management Group are valuable and inspirational. "This type of initiative is very powerful for our graduates, enabling their eyes to be opened to the range of opportunities available to them during the course of their career with National Express. They know what they belong to," she said.

Induction delivers broad business insights

The objective of an effective induction process is to provide a new Director with the information he or she will need to become as effective as possible in their role within the shortest practicable time.

During the year, we appointed three new independent Non-Executive Directors with each following their own induction programme. As part of his induction programme, Mike McKeon, Chairman of the Audit Committee, visited our North American School Bus Customer Service Centres in Memphis and Aurora.

Mike's visit to a Durham School bus site in Aurora coincided with the mid-morning return of all the yellow buses simultaneously which, in his eyes, created the impression of something important happening. "In both Memphis and Aurora hundreds of our staff had safely delivered that day some thousands of children to their school and would do the reverse later in the day. No doubt this was replicated several thousand times over the US and Canada that day and it was only later on my trip home it really sunk in to me the importance of what our staff and ourselves are doing here.

"Our staff are taking the next generation of Americans and Canadians to their schooling in safety every day of their school lives. That is a significant responsibility and great privilege that we, as Board members, must not forget.

"This realisation alone merits the trip in my eyes and adds greatly to my induction as a new Director. It is not something I could easily comprehend just by reading a document back home," he said.

Mike was impressed by the caring qualities demonstrated by our people: "It was very clear to me that what they do really matters to them. Staff were enthusiastic and engaged with me as a visitor – they wanted to tell me what they were doing – a clear sign of enthusiasm for the job."

The benefits of Mike's direct engagement with local management and frontline staff within our operations has allowed him to understand what we do and, more importantly, why we do it. Mike concluded by saying: "The bedrock of what I saw in our people suggested, above all, that they wanted to get the kids to school and back safely. Safety is in their DNA."

A strong and experienced Board delivering the right blend of skills

1. Sir John Armitt CBE
Chairman (70)

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

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

2. Dean Finch
Group Chief Executive (49)

Appointment: 15 February 2010

Experience: Prior to joining National Express, Dean Finch was Group Chief Executive of Tube Lines from May 2009. Before that he worked for over ten years in senior roles within FirstGroup PLC. He joined FirstGroup in 1999 having qualified as a Chartered Accountant with KPMG, where he worked for 12 years specialising in Corporate Transaction Support Services, including working for the Office of Passenger Rail Franchising on the privatisation of train operating companies.

At FirstGroup, he was Managing Director of the Rail Division from 2000 to 2004 and then was appointed to the main board as Group Commercial Director in 2004, before being made Group Finance Director. With the completion of the Laidlaw acquisition, he became Chief Operating Officer in North America before returning to the UK as Group Chief Operating Officer. Dean is also currently a Non-Executive Director of the Royal Free London NHS Foundation Trust.

3. Mike McKeon
Independent Non-Executive Director (59)

Appointment: 3 July 2015

Experience: Mike McKeon was Group Finance Director of Severn Trent plc from 2005 until his retirement from the board in 2015. Prior to that, between 2000 and 2005, he was Group Finance Director of Novar plc. He has held various senior roles, both in the UK and internationally, at Rolls-Royce plc, CarnaudMetalbox, Elf Atochem and PricewaterhouseCoopers. Mike is currently Senior Independent Director and Chairman of the Audit Committee at investment trust, The Merchants Trust PLC. He is a Chartered Accountant.

4. Matthew Ashley
Group Finance Director (42)

Appointment: 28 January 2015

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

5. Jorge Cosmen
Deputy Chairman (47)

Appointment: 1 December 2005

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

6. Dr Ashley Steel
Independent Non-Executive Director (56)

Appointment: 1 January 2016

Experience: Dr Ashley Steel is a former Vice Chairman at KPMG and was Global Chair for its transport, leisure and logistics practice until her retirement from the firm in September 2014. Ashley has significant international experience and has advised numerous FTSE and Fortune 500 boards. Her other sector experience includes professional services, technology, media, business services and healthcare.

Ashley is currently a Non-Executive Director of the Civil Aviation Authority and serves on the International Business Advisory Board at British Airways. She is also Special Advisor to a global aviation technology company owned by Warburg Pincus and an Independent Non-Executive Director to global law firm, Ince & Co. Ashley has a PhD in Management from Henley Business School.

Committee membership

■ Chairman
● Member

Director	Audit Committee	Nomination Committee	Remuneration Committee	Safety & Environment Committee
Sir John Armitt CBE		■		●
Jorge Cosmen		●		●
Lee Sander	●	●	●	●
Joaquín Ayuso		●		●
Matthew Crummack			●	●
Jane Kingston			■	●
Mike McKeon	■			●
Chris Muntwyler	●	●		■
Dr Ashley Steel	●			●
Dean Finch*				
Matthew Ashley*				

* Dean Finch and Matthew Ashley, as Executive Directors, may attend Board Committee meetings at the invitation of the respective Committee Chairman. No Director attends any discussion or participates in any decision concerning their own remuneration.

7. Chris Muntwyler
Independent Non-Executive Director (63)
Appointment: 11 May 2011
Experience: Chris Muntwyler is CEO and Chairman of the Swiss Management Consulting company Conlogic Ltd. He is also Non-Executive Director of Panalpina World Transport (Holding) Ltd (Switzerland) and the Austrian Post Ltd (Austria). During his 27 years at Swissair he held top executive positions in Switzerland, Sweden and North America. In 1999 he joined DHL Express serving as Managing Director of Switzerland, Germany and Central Europe and from 2005 to 2008 as CEO of DHL Express (UK) Ltd based in London.

8. Matthew Crummack
Independent Non-Executive Director (45)
Appointment: 6 May 2015
Experience: Matthew Crummack is currently a Member of the Strategic Advisory Committee of lastminute.com group, the online travel and leisure retailer, where he was previously CEO from 2011 until its acquisition by the Bravofly Rumbo Group in March 2015. He served as Deputy CEO and Chief Integration Officer until 31 December 2015.

Matthew was formerly a Senior Vice President of Lodging at Expedia and has previously worked for Nestlé UK and spent eight years at Procter & Gamble in a variety of roles. He is also a Director of his own UK-based company, Interventus Limited.

9. Joaquín Ayuso
Independent Non-Executive Director (60)
Appointment: 1 June 2011
Experience: Joaquín Ayuso is Board Vice Chairman for Ferrovial, the €8 billion Spanish transport infrastructure and services group that employs over 70,000 people worldwide. He has been with Ferrovial since 1981 and was appointed CEO in 2002 and held that position until October 2009. During this period, Ferrovial expanded internationally with business interests in the UK, US, Canada, Latin America and Europe. He is also currently a Non-Executive Director of Bankia, President of the Board of Autopista del Sol SA, Independent Director of Hispania Activos Inmobiliarios SA and Senior Advisor to AT Kearney in Spain and Portugal.

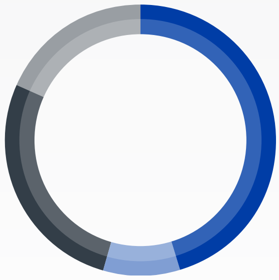
10. Jane Kingston
Independent Non-Executive Director (58)
Appointment: 26 February 2014
Experience: Jane Kingston served as Group Human Resources Director for Compass Group PLC from 2006 until her retirement in 2016. Prior to this, she served as Group Human Resources Director for BPB PLC from 2002 until its acquisition by Saint Gobain SA in 2006.

Jane's earlier career in HR has spanned a variety of sectors including engineering and building materials with Enodis PLC and Blue Circle PLC (now Lafarge SA) and garment and textiles with Coats Viyella PLC, as well as the British car industry. She has significant international experience, having had responsibility for the people agenda in most parts of the world at some point during her career.

11. Lee Sander
Senior Independent Director (59)
Appointment: 1 June 2011
Experience: Elliot 'Lee' Sander is the former Chief Executive Officer of the Metropolitan Transportation Authority of New York and the former Commissioner of the New York City Department of Transportation. He is the Chairman of the Regional Plan Association, a non-governmental organisation that has played a guiding role in the planning of the New York Metropolitan area. Lee was Group Chief Executive for Global Transportation at AECOM, a global architecture and engineering firm. He served as President of The HAKS Group, Inc. and The I. Grace Company, which also specialised in architecture, engineering and construction in the public and private sectors. In addition, Lee founded the Rudin Center for Transportation Policy and Management at New York University.

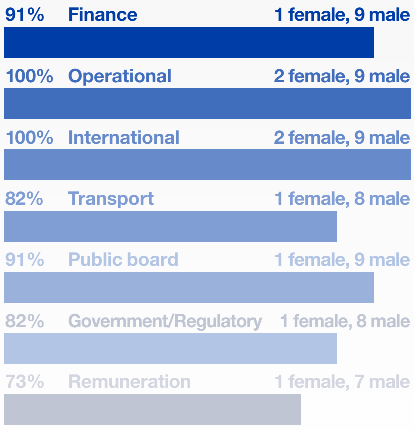
12. Sandra Forbes
Group General Counsel
and Company Secretary
Appointment: 2 June 2014
Experience: Sandra Forbes is a qualified solicitor and, prior to joining National Express, was a specialist banking and transport partner at Burges Salmon where she was the Head of the Corporate and Financial Institutions Department and the firm's Banking Sector Head. Sandra is also a Governor at the University of the West of England where she chairs the Strategic Planning and Performance Committee.

Board tenure

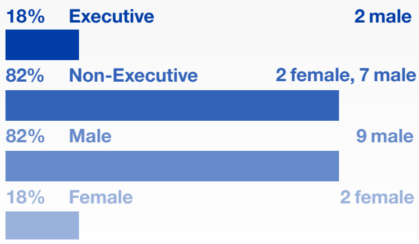


0-2 years	2 female, 3 male
2-4 years	1 male
4-6 years	3 male
6-10 years	2 male

Board experience



Board composition



Governance Report

Compliance with the UK Corporate Governance Code

The Governance Report set out below, together with the Directors' Remuneration Report, is designed to provide shareholders with a summary of the Group's governance policies and practices and an explanation of how the Company has applied the main principles of the UK Corporate Governance Code (the 'Code') that was published in 2014 by the Financial Reporting Council and which applied to the Company for the whole of the financial year ended 31 December 2015. The Directors believe that the Company has complied with the provisions set out in the Code during 2015 save as described below. A copy of the Code is available at www.frc.org.uk.

Until his retirement from the Board following the conclusion of the AGM on 6 May 2015, Sir Andrew Foster had served on the Board for more than nine years and was no longer deemed to be independent under the Code. Given his significant experience, Sir Andrew continued to chair the Remuneration Committee until 6 May 2015 upon which date Jane Kingston became Chair of that Committee. Sir Andrew also remained a member of the Nomination and Audit Committees until he stepped down as a Director as mentioned above. Following the appointments of Matthew Crummack and Mike McKeon as independent Non-Executive Directors on 6 May and 3 July respectively, the opportunity was taken to review the membership of the Audit, Remuneration and Nomination Committees. As a result of this review and the subsequent appointments to the Committees as set out on page 58, the composition of the Committees became in line with Code requirements. The appointment of Dr Ashley Steel as an additional Non-Executive Director to the Board and to the Audit Committee from 1 January 2016 has strengthened further the collective expertise of this Committee.

Leadership

The Role of the Board

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

The Chairman and the Group Chief Executive

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

Non-Executive Directors

The Non-Executive Directors collectively represent a robust element of the Board and each brings with them his or her own expertise gained in a variety of business sectors. They constructively challenge and scrutinise the performance of management and help develop proposals on strategy as well as ensuring high standards of financial probity and corporate governance. The terms and conditions of appointment of the Non-Executive Directors are available for inspection at each AGM, on the Company's website and at its registered office during normal business hours. The Non-Executive Directors disclose to the Board their other significant commitments. The procedure adopted by the Company in relation to Directors' conflicts of interest is detailed on page 96.

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 Executive and Non-Executive Directors.

The Chairman's other significant commitments are detailed in his biography on page 54.

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.

Senior Independent Director
Lee Sander became the Senior Independent Director ('SID') from 6 May 2015 replacing Jackie Hunt who stepped down from the Board on that date, having not sought re-election at the AGM. As well as being available to shareholders whose concerns have not been resolved through normal channels or when such channels would be inappropriate, the SID provides a sounding board for the Chairman and serves as an intermediary for the other Directors, where necessary.

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

Company Secretary
The Board has access to the advice and services of the Company Secretary, Sandra Forbes, who is a qualified solicitor. The Company Secretary supports the Chairman in the delivery of the corporate governance framework and is responsible for advising the Board, through the Chairman, on all governance matters, including the planning of agendas for the annual cycle of Board and Committee meetings so that all key issues are considered at the appropriate times. Every effort is made to ensure that information reported to the Board is of high appropriateness, comprehensiveness and currency. Directors are able to seek clarification or amplification from management where necessary.

The Company Secretary also facilitates the induction process and assists with professional development for Directors as required. The Company Secretary acts as Secretary to the Board and each of its Committees. The appointment or removal of the Company Secretary is a matter for the Board as a whole. As well as the support of the Company Secretary, there is a procedure in place for any Director to take independent professional advice where considered necessary.

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

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

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

Key matters reserved for Board approval

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

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

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

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

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

Governance Report continued

Reporting framework

Remuneration Committee

Reviews and recommends to the Board the Executive Remuneration Policy and determines the remuneration packages of the Executive Directors and members of the Senior Management Group.

More details on pages 72 to 95

Nomination Committee

Reviews and recommends to the Board the structure, size and composition of the Board and its Committees. It also has oversight for succession planning of the Board and senior management.

More details on pages 68 and 69

Group Board

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

Group Executive Committee

Under the leadership of the Group Chief Executive, this Committee comprises the Executive Directors, Group General Counsel, Managing Directors of each of the businesses and functional heads. It meets on a monthly basis and is tasked with considering and approving operational business matters.

In addition, the UK & Middle East, Spanish and North American Executive groups meet on a monthly basis and matters dealt with at these meetings are reported to the Group Executive Committee.

UK & Middle East Executive

Spanish Executive

North American Executive

Audit Committee

Reviews and is responsible for oversight of the Group's financial and reporting processes; the integrity of the Financial Statements; the external and internal audit processes; and the systems of internal control and risk management.

More details on pages 64 to 67

Safety & Environment Committee

Reviews and challenges constructively the structure, content and operation of the safety management arrangements put in place by members of the Executive management. It also reviews and monitors the Group's environment performance and targets.

More details on pages 70 and 71

Board meetings

The Board and its Committees have regular scheduled meetings and hold additional meetings as and when required. Directors are expected, where possible, to attend all Board meetings, relevant Committee meetings, the AGM and any general meetings. The Board met eight times during 2015: six meetings were held in the UK, one in Spain and one in the US. During 2015, strategy was reviewed as part of both the January and September Board meetings. Each Director attended as follows:

Number of Board meetings	The Board of Directors	Audit Committee	Nomination Committee	Remuneration Committee	Safety & Environment Committee
Total meetings in 2015	8	4	4	7	3
Executive Directors					
Dean Finch, Group Chief Executive	8	–	–	–	–
Matthew Ashley, Group Finance Director[1]	8	–	–	–	–
Non-Executive Directors					
Sir John Armitt CBE	8	–	4	–	3
Joaquín Ayuso	7(8)	–	4	–	3
Jorge Cosmen	8	–	4	–	3
Matthew Crummack[2]	5(5)	–	–	5(5)	2(2)
Sir Andrew Foster[3]	3(3)	2(2)	2(2)	2(2)	1(1)
Jackie Hunt[3]	3(3)	2(2)	–	–	1(1)
Jane Kingston	8	–	–	7	3
Mike McKeon[4]	4(4)	2(2)	–	–	1(1)
Chris Muntwyler	8	4	2(2)	–	3
Lee Sander	8	2(2)	2(2)	7	3

Group General Counsel and Company Secretary, Sandra Forbes, also acts as Secretary to the Board Committees.
[1] Appointed to the Board on 28 January 2015. From 10 October 2014 until his date of appointment, Matthew was interim Group Finance Director.
[2] Appointed to the Board on 6 May 2015. Eligible meetings are shown in brackets.
[3] Resigned from the Board on 6 May 2015. Eligible meetings are shown in brackets.
[4] Appointed to the Board on 3 July 2015. Eligible meetings are shown in brackets.

Board activity throughout 2015 (excluding standing items)

Strategy, operational and funding

- Reviewed the Group Strategic Plan for 2016-2018 with external viewpoints being provided
- Reviewed strategy updates on a quarterly basis
- Reviewed, approved and received regular updates on bids in each of the Group's divisions
- Reviewed and approved bolt-on acquisitions in North America
- Received presentations from each of the Group's divisions providing opportunities for the Board to engage with members of the Senior Management Group
- Reviewed and approved capital expenditure requests
- Reviewed and approved the £1 billion Euro Medium-Term Note Programme to provide a flexible means of issuing bonds in various currencies and maturities

Financial performance

- Considered the financial performance of the business and approved the budget and key performance targets
- Reviewed the half year and annual results and approved the Annual Report

Leadership and people

- Reviewed the composition of the Board and its Committees including consideration of diversity in its widest sense
- Appointed three new independent Non-Executive Directors to the Board
- Reviewed succession planning for senior roles and the development of people and talent within the Group

Internal controls and risk management

- Reviewed the Group's Risk Register and reviewed and validated the effectiveness of the Group's internal control and risk management systems
- Assessed significant and emerging risks, quantified the potential impact on business objectives and reviewed the effectiveness of the mitigating actions in place

Governance, stakeholders and shareholders

- Reviewed the Group's five Values and the extent to which they continued to underpin the Group's Vision
- Reviewed regular safety updates together with the structure, content and operation of the safety management arrangements in place and the initiatives to enhance the Group's safety profile
- Reviewed and monitored the Group's environmental performance and targets including the impact of the business on the communities the Group serves and the environment
- Reviewed developments in corporate governance and received regular key legal updates
- Reviewed regular feedback from investors and other stakeholders
- Discussed the outcome of the Board evaluation and effectiveness review and agreed development opportunities

If a Director is unable to attend a Board or Committee meeting, he or she still receives all the papers and materials for discussion at the meeting. He or she will review them and then advise the Board Chairman or Committee Chairman of their views and comments on the matters to be discussed so that they can be conveyed to others at the meeting. Due to a prior engagement, Joaquín Ayuso was unable to participate in the additional Board meeting held by teleconference in December.

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

Board agenda, oversight and benchmarking

The Chairman and the Company Secretary are responsible for ensuring that the Directors receive accurate, timely and clear information on all relevant matters so that they are properly briefed in advance of meetings and the information is of sufficient quality to assist Directors in making informed contributions and decisions.

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

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

Principal Committees of the Board

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

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

Reports of each of the principal Committees are provided on pages 64 to 95, and include information on each Committee's membership, duties and activities throughout the year.

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

The reporting framework of the Board Committees and of the Group Executive Committee and its sub-committees is shown on page 58.

Governance Report continued

Effectiveness

Composition of the Board

We seek to build an effective and complementary Board which comprises the correct balance of individuals whose capabilities are appropriate for the scale, complexity and strategic positioning of our business. The Board consists of an appropriate balance of Executive and Non-Executive Directors who collectively bring a strong and in-depth mix of business skills and experience and considerable knowledge to assist with Board decisions. The process for Board appointments is led by the Nomination Committee and is described on page 69.

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

Independence

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

Jorge Cosmen is not considered to be independent by the Board due to his close links with the ALSA business and significant interests in the shares of the Company which are held through European Express Enterprises Ltd. 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.

Time allocation

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

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

As part of their continuing development, and recognising the significant benefits to be derived to both the Company and the individual, Executive Directors are permitted to accept one external non-executive directorship with a non-competing company provided they first obtain Board approval. Dean Finch continued to hold an external directorship of the Royal Free London NHS Foundation Trust throughout 2015. Matthew Ashley does not currently hold any external directorships.

Induction of new Directors

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

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

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

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

On appointment

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

Following appointment

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

Board, Committees, and Chairman's performance evaluation

An evaluation of the effectiveness of the Board and its Committees is conducted annually in accordance with the following cycle:

Year 1 – External	Evaluation by independent consultants (2014 – Advanced Boardroom Excellence)
Year 2 – Internal	Evaluation focused on Year 1 issues raised and any specific new issues arising (questionnaire based)
Year 3 – Internal	Progress review generally (questionnaire based) with follow-up interviews with the Chairman

This year was the second in the Group's three-year performance evaluation cycle. The overall aim was to focus on those areas identified for development resulting from last year's external Board evaluation through assessing current performance, progress made and opportunities for improvement. These were captured by completion of surveys for the Board and each Committee comprising a number of open questions on the workings and effectiveness of the Board and its Committees. The outcome of the internal evaluation was fed back to the Board at its meeting in November and a series of actions agreed. Lee Sander, the Senior Independent Director, led the evaluation of the Chairman with participation by both Non-Executive and Executive Directors.

Conclusions from the 2015 Internal Board Evaluation

The Board concluded that, overall, the outcome of the 2015 Internal Board Evaluation was very positive in respect of the Board, Committees and Chairman's performance. It was agreed that the workings of the Board and its Committees remained effective and they continued to operate to a high level. In particular, the Board composition was considered strong and reflective of the Group's current operations with a good cross section of experience and sector/non-sector, geographical and functional knowledge with relevant expertise.

Diversity, in its wider sense, is present with four different nationalities. There was consensus that the materials presented to the Board are of very high quality, with this year's discussion material on strategy being singled out for particular praise.

Good progress has been made against the areas for improvement identified in the previous external evaluation.

The review of the performance of the Chairman, led by the Senior Independent Director, concluded that the Chairman continued to operate to a high level, having a good understanding of the varying interests of shareholders and representing a strong and credible external face for the Company.

Progress against 2014 external Board evaluation recommendations

2014 recommendations	Actions taken in 2015
Non-Executive Director composition: Non-Executive Director skills to be kept under review in relation to future digital knowledge and skills needs.	Matthew Crummack, former CEO of lastminute.com Group with the requisite identified digital marketing knowledge and skill set, was appointed as an independent Non-Executive Director on 6 May 2015. A search led by the Nomination Committee for a new Non-Executive Director to replace the departing Chair of the Audit Committee was undertaken over the course of Q1 2015 with Mike McKeon, former CFO at Severn Trent PLC, having been appointed on 3 July 2015, becoming Audit Committee Chairman on 1 August. Additionally, Dr Ashley Steel was appointed to the Board with effect from 1 January 2016. She brings valuable transport, leisure and logistics experience.
Strategy: the Board to further enhance its processes for strategy setting.	Measures have been taken to ensure that Group strategy is subject to more comprehensive debate and more closely aligned to the annual budget setting process. More opportunities for discussion outside of the annual strategy review meetings have been created as part of the annual rolling Board calendar.
Communication to shareholders: the Board to continue to develop a more structured shareholder engagement plan following on from the direct shareholder engagement on remuneration undertaken in 2014/15.	The Board continues to operate to best practice on shareholder engagement as recommended by the UK Corporate Governance Code. Plans for continuing shareholder engagement are on the agenda for discussion at the Remuneration Committee and are also discussed and agreed with the Senior Independent Director. The Chairman also continues to engage regularly with shareholders.
Succession: the Board to have enhanced engagement with the scheduled regular review of the Executive succession pipeline.	Succession planning for the leadership group is reviewed on an annual basis to fit alongside strategy discussion. Detailed reports on succession planning and talent management are prepared for Board consideration by the Group HR Director under the direction of the CEO.
Board information: the Board to build further on exemplary Board information provision.	Enhancements continue to be made to the content and delivery of Board and Committee papers and presentations. The objective is to ensure that Directors continue to receive accurate, timely and clear information on all relevant matters so that they are properly briefed in advance of meetings and the information is of sufficient quality to assist Directors in making informed contributions and decisions.
Risk assessment: the Board to continue its proactive approach to risk assessment.	The Board's current robust and proactive process and approach will be continued and enhanced to address ongoing operational matters as the Group extends into new geographical areas and businesses.
Documentation: the Company Secretary to action the appropriate recommendations on tightening the terms of reference, agenda developments for the Board and its Committees.	A thorough review was initiated in 2015 to review the rolling annual agendas of the Board and its Committees, the terms of reference for the Audit, Remuneration and Executive Committees and matters reserved for the Board. An improved framework for the Board and Committees planning process is now in place.

The key areas for focus in 2016

The conclusions reached and the key areas identified and agreed for the Board's development for 2016 are set out below.

Area for focus during 2016	Comments
Gender diversity	Female representation on the Board currently stands at 18% following the recent appointment of Dr Ashley Steel as an additional Non-Executive Director. The Board will take every opportunity, when available, to increase the gender diversity of the Board further.
Executive pipeline and succession planning	Whilst the Nomination Committee continues to lead the way in the Board's consideration of its own future succession and replacement needs, succession planning for the Senior Management Group and the level immediately below remains an area where additional engagement and dialogue would be welcomed.
More external viewpoints to be heard	Further opportunities will be created for external presentations to be made to the Board on relevant topics.
Educational/development opportunities for Directors to be provided	Greater focus on key areas of relevant education and development for Directors will be addressed during 2016.

Governance Report continued

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

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

Accountability

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

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

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

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

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

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

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

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

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

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

Review of internal control effectiveness
The system of internal control and risk management, described above, has been in place for the year under review and up to the date of approval of this Annual Report and Accounts. Such a system is designed to manage, rather than to eliminate, the risks inherent in achieving the Group's business objectives, and can therefore provide only reasonable and not absolute assurance against material misstatement or loss. The effectiveness of this system has been regularly reviewed by the Directors in line with the Guidance on Audit Committees, published by the Financial Reporting Council in December 2010. Where significant control failings or weaknesses have been identified, appropriate corrective action has been taken.

Going concern and longer-term viability
The Directors' going concern and longer-term viability statements, as required to be made under the Code for the year ended 31 December 2015, are set out on page 37 of the Group Finance Director's review.

Remuneration

The Directors' Remuneration Report, including details of Remuneration Policy and service contracts, is set out on pages 72 to 95.

Relations with shareholders

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

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

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

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

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

Institutional shareholders

The Board is committed to maintaining an open dialogue with shareholders and recognises the importance of that relationship in the governance process. A focused and proactive investor relations programme is in place. The Chairman, Group Chief Executive and Group Finance Director have held a number of meetings with existing and prospective institutional shareholders during the year as well as 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 advisers in turn have provided regular confidential feedback to the Company on the views of the major institutions.

The Chairman, Senior Independent Director and other Non-Executive Directors are also given the opportunity to meet institutional shareholders and are available by contact through the normal channels. During 2015 the Chairman met with major shareholders to discuss the governance and direction of the Company.

During the early part of 2015, members of the Remuneration Committee continued its focused engagement with the Company's key institutional shareholders and representative bodies in order to gain a greater understanding of their views on Executive Directors' remuneration. As a result of this open dialogue, a restructured remuneration package for the Executive Directors and a revised Remuneration Policy were designed to address the specific concerns raised by shareholders. The revised Remuneration Policy was put to shareholders for a binding vote at the 2015 AGM with the resolution being passed by a majority of 99%. The Directors' Remuneration Report on pages 72 to 95 provides full details of the Remuneration Policy which currently applies.

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 advisers on shareholder and market perception of the Group's performance and strategy. Formal written responses are given to correspondence received from shareholders, as well as bilateral engagement through the Group Chief Executive, Group Finance Director and the Company's investor relations function.

Analyst coverage

The Company is aware of 15 analysts who have published equity research notes covering National Express Group PLC during 2015 and we provide names and contact numbers of their firms on our website.

Private shareholders

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

Annual General Meeting

Notice of the 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 of our Directors were available formally to answer questions during the meeting and many circulated and talked to shareholders informally afterwards. Voting on the resolutions was conducted by poll. Some 83% of the shares in issue were voted and all the resolutions were passed with the exception of the requisitionists' resolution.

The results were published on the Group's website shortly after the meeting. We look forward to welcoming shareholders to our 2016 AGM and updating them on the progress of the business this year.

Throughout 2015, the Audit Committee has continued to play a key oversight role for the Board

Dear shareholder,

I am pleased to introduce my first report as Chairman of the Audit Committee (the 'Committee'), having taken over from Jackie Hunt who stepped down from the Board on 6 May 2015 and Chris Muntwyler who held this position on an interim basis pending my own appointment as Committee Chairman on 1 August 2015. I should like to take the opportunity to thank them both for their work in this role during the year. I would also like to thank Sir Andrew Foster, who served on the Committee since 2004, for his valuable contributions and welcome, in his place, Lee Sander, our Senior Independent Director, who joined the Committee on 6 May. From 1 January 2016, Dr Ashley Steel has joined the Committee. As a former Vice Chairman at KPMG and Global Chair for its transport, leisure and logistics practice, we welcome the contribution she will bring to the Committee.

Throughout 2015, the Committee has continued to play a key oversight role for the Board. Through its activities, the Committee focuses on maintaining the integrity and quality of our financial reporting, considering the significant accounting judgements made by management and the findings of the external auditor. It also reviews the appropriateness of our system of risk management and internal controls, and the effectiveness of both our internal and external audit processes. The Committee's activities have continued to grow in the light of the new best practice recommendations of the UK Corporate Governance Code 2014 (the 'Code') and compliance with these has enabled the Committee to add further value to the Group. The Committee's terms of reference were updated in February to reflect changes introduced to the Code and which apply to the Group for the first time in respect of the 2015 financial year. These relate to the more forward looking nature of the going concern statement, a more rigorous and regular review of risk management and the introduction of a longer-term viability statement. We have reported on compliance with these new requirements in this Audit Committee Report, the Corporate Governance Report and elsewhere in the Strategic Report. The regular challenge and engagement with management, internal audit and the external auditor, together with the timely and clear receipt of a high standard of reporting and information from them, has enabled the Committee to discharge its duties and responsibilities effectively. On behalf of the Committee, I thank them for their contributions.

I hope you find my review and the report that follows helpful in understanding the work of the Committee during the year.

Membership

The membership of the Committee during the year ended 31 December 2015 is set out below. Attendance at meetings held during the year is shown on page 58.

Members (biographies appear on pages 54 and 55)	Position	Appointment date
Mike McKeon	Committee Chairman and Non-Executive Director	Chairman from 1 August 2015 and member since 3 July 2015
Chris Muntwyler	Former Committee Chairman and Non-Executive Director	Member since 21 November 2011 and Chairman (interim) from 6 May to 1 August 2015
Jackie Hunt[1]	Former Committee Chairman and Senior Independent Director	Member and Chair from 13 September 2012 until 6 May 2015
Sir Andrew Foster[1]	Non-Executive Director	Member from 23 November 2004 until 6 May 2015
Lee Sander	Senior Independent Director	Member since 6 May 2015

[1] Retired from the Board on 6 May 2015.

Other attendees at Committee meetings:

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

Qualifications of Audit Committee members

I am considered by the Board to meet the requirements of the Code that at least one Committee member has recent and relevant financial experience.

Role and responsibilities

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

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

- reviewing the half year and annual Financial Statements including accounting policies, key accounting and auditing issues, significant financial judgements and the financial control environment.
- Overseeing the process for selecting the external auditor, assessing the continuing independence of the external auditor and recommending approval of the audit fee to the Board.
- Ensuring that provision of non-audit services does not impair the external auditor's independence or objectivity.
- Liaising with the external auditor on matters relating to the nature and scope of the audit and any issues or concerns arising from the audit process.
- Reviewing the effectiveness of the Company's internal control and risk management systems, including fraud prevention and operation of the Company's whistleblowing policy.
- Supervising the planning of activities under the internal audit programme and reviewing the major findings identified from internal audit investigations.

Meetings

Four Committee meetings were held in 2015. Details of attendance at these meetings can be found on page 58. Outside of the meeting process the Committee Chairman has regular contact with the Executive Directors, other Committee members and the internal/external auditor on a variety of topics. The Committee itself meets with both the Head of Group Internal Audit and the external auditor at least once a year without the Executive Directors being present.

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

Audit Committee activity

The key areas of Committee activity during the year, and through to the date of this report, included the planning, monitoring, review and approval of the following:

Financial reporting

- Quality and appropriateness of the half year and annual Financial Statements (including accounting policies, key areas of financial judgement and associated reports from the external auditors regarding their audit findings).
- Assessment and management of significant risks for the Group for the 2015 financial year.
- The information, underlying assumptions and stress test analysis presented in support of the going concern statement.
- Consistency and appropriateness of the financial control environment.
- Extent to which the Annual Report is fair, balanced and understandable.

Viability Statement

- The Committee considered the introduction of the new enhanced requirements of the Code for the Board to assess the Group's future viability and considered the following points before recommending to the Board the statement on viability included on page 37.
- An assessment of the prospects of the Group, taking into account the Group's current position, opportunities, strategic plans and risk appetite.
- The future period over which it is appropriate for the Group to assess its viability.
- Identification of risks which have the potential to affect the Group's strategic plans over the lookout period, including those principal risks and uncertainties described in the Strategic Report and others which could impact the Board's assessment of the Group's viability.
- Qualification of the risks identified in the context of the Group's internal control framework and of potential mitigating actions, and the ability of the Group to withstand severe but plausible downside scenarios.
- Any qualifications necessary to inform or support the reader's understanding of the viability statement.

External audit

- Scope of the 2015 external audit plan and fees.
- Review of the effectiveness of the external audit process and assessment of the performance, continued independence and recommendation to the Board of the re-appointment of the external auditor.
- External audit tendering policy.
- Level of fees paid to the external auditor for non-audit services.
- Selection of the new engagement partner from Deloitte for the 2016 financial year following the mandatory rotation of Nigel Mercer after his five years of engagement. Stephen Griggs, Head of Audit and Risk Advisory for Deloitte in the UK, will take up his duties from the start of the 2016 financial year.

Risk management and internal control

- Scope of the internal control and risk management programme.
- Adequacy and effectiveness of the Group's internal control and risk management systems.
- The results of internal audit reviews and the progress made against agreed management actions.
- The results of internal audit compliance testing of financial controls (annual fitness checks) within the subsidiaries.
- Bi-annual detailed review of the Group's Risk Register, including significant and emerging risks.
- Review of the Group's IT risk strategy and disaster recovery plan.
- Establishment during the year of a Cyber Security Committee, chaired by the Group Finance Director and constituting the Group IT Director, divisional heads of IT and the Group's external security consultants. This committee meets periodically to assess, prioritise and monitor significant cyber security threats facing the Group, and to develop plans for their management.
- Review of reports on fraud and whistleblowing.

Internal audit

- Scope of the internal audit plans for 2015 and 2016.
- Effectiveness of the Group's internal audit function and internal controls including feedback from divisional managing directors.
- Review of annual independence compliance statement.
- Selection of a new Head of Group Internal Audit following the appointment of the previous incumbent to the position of Finance Director of the UK Bus division.

Tax and treasury

- Review of the Group's treasury policy, including consideration of the key treasury risks facing the Group (foreign currency, interest rate, fuel price and counterparty risk) and the approach to their management.
- Review of the annual update of the Group's tax affairs.

Other

- Review of corporate governance and legal and regulatory compliance.
- Review and update of the Committee's terms of reference.
- Internal review of the effectiveness of the Committee concluding that it continued to operate effectively.
- Review and approval of the Committee's report for inclusion in the Annual Report.

Audit Committee Report continued

Financial reporting and significant financial judgements for 2015

- **Goodwill impairment**
  As it is required to do annually, the Committee considered whether the carrying value of goodwill and intangible assets held by the Group should be impaired. The judgements largely related to the assumptions applied in calculating the value in use of the Spanish Coach and Bus and the North American School Bus businesses. When testing for impairment, the key considerations were the underlying cash flows, the discount rates and the future growth rates. The Committee received a detailed report on the outcome of the impairment reviews performed by management and took into account the views of the external auditor. The Committee concluded that the goodwill and intangible assets of the Spanish Coach and Bus and the North American School Bus businesses were not impaired and it approved the disclosures included in the 2015 Financial Statements.
- **Insurance and other claims**
  The Committee considered the adequacy of the provisions associated with insurance and other claims risks, particularly in North America. The assessment focused on the advice received from a third party actuary in connection with the Group's exposure to auto and general liability and workers' compensation insurance claims. Consideration was also given to the most likely outcome, and associated financial effect, of other claims and exposures facing the Group. The Committee received a report from management on North American insurance and other claims and considered the views of the external auditor. The Committee concluded that the insurance and other claims provision was fairly stated.
- **Taxation**
  The Committee considers the adequacy and sufficiency of the disclosure of the Group's tax affairs in the Annual Report and the appropriateness of the accounting treatments adopted to reflect the Group's tax charge, assets and provisions in accordance with International Financial Reporting Standards. Tax legislation across the markets in which the Group operates is complex, and sometimes management and the relevant tax authorities differ in the interpretation and application of tax law, which can lead to uncertainties in the estimation of provisions and recognition of deferred tax balances. On complex issues management may seek external tax advice to ascertain whether provisions should be made. Where tax exposures can be quantified and meet the criteria for recognition, best estimates are made and provisions recognised. These estimates are based on the judgement of senior management in the light of the facts and available information, and are reviewed by the Committee. The Committee also reviews reports from the Company's external auditor as to the appropriateness of the judgements made by management. The Committee is satisfied that the treatment and disclosure of the Group's tax affairs in the Consolidated and Company Financial Statements are appropriate and sufficient.
- **Other matters**
  The Committee also considered the key assumptions underpinning the Group's defined benefit pension obligations, and the accounting for the Group's financial derivatives and the associated tests for hedge effectiveness. The Committee received reports from management and considered the views of the external auditor on the appropriateness of the defined benefit pension assumptions with reference to the latest market assumptions and employee pension benefits. Reports were also received from management and the external auditor on the fair value of the Group's financial derivatives and support for the tests for hedge effectiveness, particularly on the Group's fuel derivatives following recent changes in market values. Following consideration, the Committee concluded that the defined benefit pension assumptions were reasonable and that financial derivatives were fairly stated.

Fair, balanced and understandable

At the request of the Board, the Committee undertook a formal review of the annual report process in terms of preparation, quality of content, key themes and messages, consistency of information and presentation. From the information and assurance provided by management and the review conducted by the external auditor, the Committee was able to confirm to the Board that the 2015 Annual Report, taken as a whole, is fair, balanced and understandable and provides the necessary information for shareholders to assess National Express' performance, business model and strategy.

Risk management and internal controls

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

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

Further details of the internal controls are set out on page 62. A summary of the Company's risk management framework and an overview of its principal risks are detailed on pages 28 to 31.

Internal audit

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

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

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

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

During 2015, a carefully targeted internal audit plan was agreed and undertaken on certain of the Group's operations, systems and support functions with subsequent reports, including management responses and recommended action plan, considered by the Audit Committee in January, July and November.

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

Anti-bribery policy

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

Whistleblowing policy

'Whistleblowing' policies are in place in each of the Group's businesses and are also available on the Group's website, www.nationalexpressgroup.com. The Board supports the highest standards of corporate governance and ethical practices within all its operations and continues to review its policies on an ongoing basis. The Board has endorsed a set of principles which establish the framework for how its businesses operate. Key to these is working in an open and honest manner. The Group is committed to the highest standards of quality, honesty, openness and accountability. Employees are encouraged to raise genuine concerns under the policy either by contacting their line manager or telephoning a dedicated external helpline. Any concerns raised are investigated carefully and thoroughly to assess what action, if any, should be taken and confidential records are maintained. The Company Secretary reports any matters of significance to the appropriate committee. In 2015 there have been no significant cases relating to fraud or financial misconduct.

External audit

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

External audit tendering policy

The Committee confirms its compliance for the financial year ending 31 December 2015 with the provisions of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibililties) Order 2014. The Company last put its external audit contract out to tender in 2011, following which Deloitte LLP replaced Ernst & Young LLP and was appointed as the Group's auditor. The Committee regularly considers the marketplace, benchmarking the current level of audit services that the Company receives along with the fees it pays and the value being delivered. The Committee recognises that audit tenders and transitions to new auditors require significant resource. On the basis that the quality of service remains high and the audit fee represents good value to shareholders, the Committee will next tender the audit for the year ending 31 December 2021.

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

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

Additionally, the effectiveness of the 2015 external audit process was formally assessed by the Committee to meet the expectations set out in provision C3.2 of the Code. This was carried out through the use of a survey and analysis approach taking into account the views and opinions of the Group finance team and divisional Finance Directors. In so doing, the Committee's review and qualitative assessment focused on feedback and insights, process and communication, handling of issues and quality of team. The Committee is satisfied that the external audit process continues to be effective and provides an appropriate independent challenge to the Group's senior management.

Having completed its assessment of both the external audit process and the external auditor for the financial period under review, the Committee is satisfied that the auditor has performed satisfactorily in 2015, that the audit process implemented was effective and that the external auditor remains independent.

The Committee is therefore happy to recommend to the Board that Deloitte LLP be put forward for re-appointment at the 2016 AGM.

Non-audit services

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

- Services that are considered to have 'general pre-approval' by the Audit Committee, by virtue of the approval of the policy.
- Services that require 'specific pre-approval', on a case-by-case basis, before any work can commence.
- 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:

- Whether the external auditor is best placed to provide an effective and efficient service, given its knowledge and understanding of the Company's processes, systems and people.
- The level of non-audit fees paid to the external auditor in the year as a proportion of the annual external audit fee.

The majority of non-audit work undertaken by the external auditor during the year relates to advice in respect of tax advisory and other regulatory services. The split between audit and non-audit fees for the year ended 31 December 2015 appears in note 6 to the Consolidated Accounts.

The Committee is aware of the Audit Regulation and Directive issued by the European Parliament and Council of the European Union in 2014 which, it is expected, will require changes to both the Ethical and Auditing Standards and the Code, including the provision of non-audit services by auditors. The Group is closely monitoring the process by which the Audit Regulation and Directive will ultimately be adopted in the UK and the Committee will make changes as necessary to its policies to ensure compliance with the new regulation ahead of its effective date.

Committee effectiveness

Feedback from the annual performance evaluation of the Board and its Committees, as described earlier in this report on pages 60 and 61, confirmed that the Audit Committee continued to be effective in fulfilling its duties.

Mike McKeon
Audit Committee Chair
25 February 2016

We continue to strengthen our Board in order to compete effectively in the marketplace

Dear shareholder,

The main focus of the Committee this year has been to review the composition of our Board and its Committees to ensure continued effectiveness. Keeping in mind the strategic aims of the Company and to ensure its ability to compete effectively in its marketplace, we have evaluated the balance of skills, knowledge, experience and diversity on the Board to identify those additional key skills required. In addition to the Executive appointment of Matthew Ashley as Group Finance Director in January, which was reported in last year's Nomination Committee Report, three further key Board appointments have been made this year.

The Board had set itself the specific objective of recruiting a Non-Executive Director with a strong customer focused background with particular emphasis on digital marketing expertise. I am delighted to report that we filled this role with the appointment, in May, of Matthew Crummack to the Board as an independent Non-Executive Director. Matthew brings with him significant knowledge of the digital landscape from lastminute.com. His experience is directly relevant to National Express as we place customers at the heart of our strategy and constantly focus on delivering continuously improving services.

I am also pleased to report that we have further strengthened the financial expertise on our Board with the appointment of Mike McKeon. He brings significant financial and corporate knowledge, coupled with wide-ranging international experience through his 15 years in the role of Group Finance Director within the listed company environment. Mike took over as Chairman of the Audit Committee on 1 August.

The appointment of Dr Ashley Steel as a Non-Executive Director from 1 January 2016 is also very welcome. Ashley has a distinguished track record of providing strategic advice to companies across a range of sectors, especially transport, and we will benefit from her knowledge and experience.

In the coming year, we shall renew focus on reviewing succession plans across the Group and lead the process for Board appointments in order to align it to the Company's long-term operational needs and governance oversight.

Membership

The membership of the Committee during the year ended 31 December 2015 is set out below. Four meetings were held during the year with attendance by members shown on page 58.

Members (biographies appear on pages 54 and 55)	Position	Appointment date
Sir John Armitt CBE	Committee Chair and Company Chairman	1 January 2013
Joaquín Ayuso	Independent Non-Executive Director	26 February 2013
Jorge Cosmen	Deputy Company Chairman	2 June 2008
Chris Muntwyler	Independent Non-Executive Director	6 May 2015
Lee Sander	Senior Independent Director	6 May 2015

Other attendees at Committee meetings:

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

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

Role and responsibilities

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

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

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

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

Advisers

During the year, the Committee worked with search consultants, the Zygos Partnership, to undertake a search for two independent Non-Executive Directors. We also worked with Russell Reynolds to identify candidates for the role of Group Finance Director to replace Jez Maiden who stepped down from the Board as an Executive Director with effect from 31 December 2014. Neither the Zygos Partnership nor Russell Reynolds has any other connection to the Company. With respect to Dr Ashley Steel's appointment, a search consultancy was not used on this occasion. Dr Steel had previously come to the attention of the Nomination Committee as part of an earlier search process conducted during the latter part of 2014 which had led to the appointment of Matthew Crummack.

Nomination Committee activity

During the year the Committee:

- made a formal recommendation to the Board for the internal appointment of Matthew Ashley as Group Finance Director with effect from 28 January 2015 following a search conducted by Russell Reynolds and subsequent interview and rigorous assessment process;
- evaluated the balance of skills, experience, independence, diversity and knowledge on the Board and then prepared a description of the role and capabilities required for the recruitment of a new independent Non-Executive Director and Audit Committee Chairman;
- oversaw the appointments process for three new independent Non-Executive Directors and interviewed shortlisted candidates, following which the appointments of Matthew Crummack, Mike McKeon and Dr Ashley Steel were subsequently recommended to the Board;
- recommended to the Board that Lee Sander, with his substantial international and transport infrastructure experience, succeed Jackie Hunt as Senior Independent Director with effect from 6 May 2015; and
- oversaw the induction process for newly appointed Non-Executive Directors.

Diversity

The Board takes the view that an increasing diversity at Board level is acknowledged as an essential element in maintaining a competitive advantage. A truly diverse Board will include and make good use of differences in the skills, regional and industry knowledge/experience, background, race, gender, independence and other qualities of Directors. These differences will be considered in determining the optimum composition of the Board and will continue to be balanced appropriately. All Board appointments are made on merit, in the context of the skills and experience that the Board as a whole requires in order to maintain and enhance its effectiveness.

Female representation on the Board is currently 18% and we are mindful of the recommendations of the Davies Review, 'Women on Boards', published in October 2015 and the voluntary target of 33% for female Board representation to be achieved over the next five years. The Board remains committed to maintain a minimum ratio of 18% and we shall take every opportunity, when available, to increase the gender diversity of our Board further. With respect to Board appointments, we also take into account the guidance issued by the Equality and Human Rights Commission on appointments to boards and equality law.

Committee evaluation

As part of the 2015 internal Board performance evaluation, it was confirmed that the Committee was both effective and efficient in its operation and leadership. Areas identified for improvement concerned the timing and frequency of meetings and undertaking a more regular review of the structure, size and composition of the Board.

Sir John Armitt CBE
Nomination Committee Chair
25 February 2016

Strong and effective, with the highest levels of leadership commitment

Dear shareholder,

Safety is our highest priority as a Board and is embedded throughout our businesses as one of our Values: we only do what is safe and stop any unsafe behaviour. The management of the Group's environmental impact on the communities it serves also forms a key component of our Community Value. The Safety & Environment Committee (the 'Committee'), comprised solely of Non-Executive Directors, plays a fundamental role in reviewing and challenging the structure, content and operation of the safety management arrangements which have been put in place by the Executive and in monitoring environmental performance and targets.

I am pleased to report that in 2015 we continued to make progress in our safety performance with a further reduction in the Fatalities and Weighted Injuries index ('FWI') which provides a meaningful measure of responsible harm for our businesses. Further details on this KPI can be found on page 27. During the year, in line with our Global Standard on Safety Audit and Management, we commissioned safety consultants, Arthur D Little, to conduct its annual audit of corporate governance of safety in order to provide an expert independent review of the effectiveness of the Group's corporate governance arrangements implemented throughout the course of the year, together with recommendations for development. As Committee Chairman, I am pleased to report that the conclusion they reached was that governance of safety continues to be strong and effective and has further developed over the last 12 months. Their independent view was that governance of safety continues to be driven down through to the divisions by the Group Chief Executive's strong and effective safety leadership, enhanced by regular checks of divisional progress and performance. The Group Safety Director is highly regarded both by Board members and in the divisions for supporting safety governance through reviewing progress, undertaking specific interventions following accidents, reporting upwards and engaging with divisions. The Committee was also pleased to note the results of external maintenance inspections over 30 locations in our North America School Bus business undertaken by SGS, the world's leading inspection, verification, testing and certification company. SGS considered the results to be very good with a noticeable improvement over the inspections carried out in 2014.

With respect to the management of the Company's environmental responsibilities, I am pleased to report that, for 2015, the Group continued to have zero prosecutions, enforcement notices or violations. The Group received external recognition by the Carbon Disclosure Project for its significant improvement in environmental performance and sustainability as a UK public company: for 2015, our disclosure score rose from 85 to 95, representing a 36 rating point movement in just two years. The Committee also welcomed management's presentation on the Group's Environment Strategy Review forming part of the Vision and ambition for 2020. This strategy has the aim of developing and embedding a consistent set of processes and procedures across the Group's businesses for environmental performance to support a reduction in operating costs, delivery of environmental commitments and extension of asset life.

Membership

The membership of the Committee during the year ended 31 December 2015 is set out below. Three meetings were held during the year with attendance by members shown on page 58. Subsequent to the year end, Dr Ashley Steel was appointed to the Committee from 1 January 2016.

Members (biographies appear on pages 54 and 55)	Position	Appointment date
Chris Muntwyler	Committee Chairman	11 May 2011
Sir John Armitt CBE	Company Chairman	1 January 2013
Jorge Cosmen	Deputy Company Chairman	14 December 2005
Lee Sander	Senior Independent Director	1 June 2011
Joaquín Ayuso	Independent Non-Executive Director	1 June 2011
Sir Andrew Foster	Non-Executive Director	9 November 2004 until 6 May 2015
Jackie Hunt	Former Senior Independent Director	13 September 2012 until 6 May 2015
Jane Kingston	Independent Non-Executive Director	26 February 2014
Matthew Crummack	Independent Non-Executive Director	6 May 2015
Mike McKeon	Independent Non-Executive Director	3 July 2015

Other attendees at Committee meetings:

Attendee
Company Secretary (as Secretary to the Committee)
Group Chief Executive
Group Finance Director
Group Safety Director
Group Property & Environment Director
External advisers: Arthur D Little

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

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

Role and responsibilities

The Committee's key responsibilities are summarised below:

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

Safety & Environment Committee activity

The key areas of Committee activity during the year, and through to the date of this report, included the following:

- Reviewed the findings and approved the recommendations of the comprehensive external annual Audit of Corporate Governance of Safety undertaken by Arthur D Little in line with our Global Safety Standard.
- Reviewed the findings and approved the recommendations from the 2015 independent review of the Group's Driving Out Harm programme.
- Monitored progress of the divisional action plans arising from the Driving Out Harm review.
- Approved the world class driver training programme forming part of the Group's Vision for 2020.
- Reviewed the independent findings of an external maintenance audit undertaken at 30 locations in the North America School Bus business by SGS.
- Monitored safety practices and procedures across the Group.
- Reviewed activity in health and wellbeing in the Divisions.
- Reviewed environmental policy, strategy, management and key environmental performance indicators across the Group with particular emphasis on the environmental Vision and ambition for 2020.

The Company's detailed mandatory report on greenhouse gas emissions in all of its businesses during 2015 can be found on pages 23 to 25.

Committee effectiveness

Feedback from the annual performance evaluation of the Board and its Committees, which was conducted internally this year as described earlier in this report on pages 60 and 61, confirmed that the Safety & Environment Committee continued to be effective in fulfilling its duties with no particular areas of concern identified for development.

Conclusion

The safety of our employees and customers is of critical importance to the Board, as is the responsible management of our environmental obligations. I would like to thank Dean Finch and his team for the leadership they show in these areas and, in particular, their personal engagement with safety matters across the Group over the course of the past 12 months. It is apparent that, increasingly, divisions are living and breathing the desirable safety culture and tone as set from the top.

Chris Muntwyler
Safety & Environment Committee Chair
25 February 2016

Annual Statement by the Chairman of the Remuneration Committee

Dear shareholder,

I am pleased to introduce my first Directors' Remuneration Report as Chair of the Committee, having taken over the role from Sir Andrew Foster on 6 May 2015. Andrew chaired the Committee from May 2012 and I would like to take this opportunity to thank him, on behalf of the Board, for his work as Chair and his support during our handover period. In addition, I would like to take this opportunity to welcome Matthew Crummack who joined the Committee on 6 May 2015.

Revised Remuneration Policy

Following our extensive shareholder consultation process, which concluded during the early part of this year, the Remuneration Committee was pleased to note that the revised Remuneration Policy, which was put to a binding vote at the Company's 2015 AGM in May, received a very positive 98.91% support in favour. The changes made to our Remuneration Policy, which applied from 6 May 2015, seek to ensure effective alignment of the interests of management with those of shareholders and to reward for the long-term success of National Express.

For this year, the current Remuneration Policy is once again set out in full on pages 74 to 82.

The Annual Report on Remuneration on pages 83 to 95 sets out in detail how the Company has implemented its Remuneration Policy for Directors during 2015 and how it will be implemented for 2016.

Company highlights for the 2015 financial year

The following financial results were achieved in 2015:

- Group revenue of £1.92 billion, a 3.8% increase on 2014 on a constant currency basis.
- Normalised Group profit before tax of £150.1 million which was a 29.3% increase on a constant currency basis from the prior year.
- Statutory Group profit before tax of £124.4 million, which was an 87.1% increase from the prior year.
- Free cash flow was £111 million and net debt was £746 million (2014: £664m).

Summary of major decisions made in 2015

The Group's financial performance for 2015 was considerably ahead of expectations. During 2015, our share price increased by 34% which far exceeded the returns of our direct competitors. In addition, the Executive Directors performed strongly against the non-financial targets set for 2015. Bonuses equal to 192% of salary for the Group Chief Executive and 150% for the Group Finance Director were therefore determined by the Remuneration Committee for the year to reflect the strong performance of the Executive Directors. In accordance with the Remuneration Policy, a portion of their bonus has been deferred into shares. This will assist with retention of the Executive Directors and will align their interests with shareholders. The Long-Term Incentive Plan ('LTIP') awards granted in 2013 are due to vest in 2016 at 73.4% of maximum which is also reflective of strong corporate performance.

We appointed Matthew Ashley to the role of Group Finance Director at the end of January 2015. The Committee set Matthew's base salary at £300,000 with the intention to increase this as he develops in his role. Matthew has made a significant contribution to the business in his first year and performed strongly against the objectives set for him at the start of the year. Therefore the Committee has determined that it would be appropriate to increase his salary from £300,000 to £325,000 in line with our intention to bring him to a more competitive level of base pay over time. This new increase positions his base pay between the lower quartile and median against a comparator group of similarly sized businesses.

The Committee is also increasing the salary level of our CEO from £561,000 to £589,000 which maintains the market competitiveness of his salary when compared against direct peers and companies of similar size. In the last five years, he has only received one increase (2% in 2014). A 5% increase also reflects the aggregate average annual employee increase over the last few years and over a period during which corporate performance has been strong.

Looking at the wider pay environment for the Group, I was delighted to learn that National Express has become an accredited Living Wage employer and the UK's first private transport group to pay the Living Wage. With our UK Bus division leading the way, hundreds of workers across our UK Bus, Coach and Rail businesses (including all agency and contracted staff) will benefit as the Living Wage is rolled out over the course of the next two years.

Following shareholder approval, the National Express 2015 Long-Term Incentive Plan ('2015 LTIP') was implemented with the first awards being made under the 2015 LTIP in June. Awards of nil cost options were granted to the Executive Directors and to a small number of the Senior Management Group whom the Committee considers in a position to drive the Group's performance. The awards were made subject to stretching performance targets over a period of three years. The performance conditions set for the 2015 awards were based equally on a third each of EPS, ROCE and TSR (split between 50% FTSE 250 comparator group and 50% bespoke index of competitors). In the case of the Executive Directors, the Committee determined that the additional two-year holding period of shares post vesting and the malus and clawback provisions under the 2015 LTIP would apply. Full details of the awards made to the Executive Directors under the 2015 LTIP in 2015 are set out on pages 87 to 89 of the Annual Report on Remuneration.

The full list of issues considered by the Committee during the year are summarised on page 83 of the Annual Report on Remuneration.

Looking forward

I am confident that the provisions of our current Remuneration Policy, which received such a positive vote of shareholder support, will ensure that the leaders of National Express are focused on delivering superior returns for shareholders. The introduction of the post-vesting holding period for shares, the tightening of the malus and clawback provisions and the increase in the shareholding guidelines to 200% measured at the end of a five-year period, will all contribute to a longer-term focus from the Executive Directors on behalf of shareholders.

On behalf of the Board, I would like to thank shareholders for their continued support. I am always happy to hear from the Company's shareholders and you can contact me via the Company Secretary if you have any questions on this Report or more generally in relation to the Company's remuneration framework.

Jane Kingston

Jane Kingston
Chair of the Remuneration Committee
25 February 2016

At a glance

Introduction

In this section, we summarise the purpose of our Remuneration Policy and its linkage to our corporate strategic objectives, and we highlight the performance and remuneration outcomes for the 2015 financial year. More detail can be found in the Annual Report on Remuneration.

Our principles of remuneration

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

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

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

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

Link to strategy

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

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

How we have performed in 2015

Bonus KPIs (£m)	Threshold	Target	Maximum	Actual
Normalised profit before tax	122.8	136.4	150.0	150.1
Free cash flow	85.2	94.7	104.2	111.0

Single total figure of remuneration for Executive Directors for 2015

£'000	Base salary	Taxable benefits	Performance-related bonus	Value of LTIP vested	Pension related benefits	2015 Total[2]	2014 Total
Group Chief Executive – Dean Finch	561	27	1,077	1,395	196	3,256	1,562
Group Finance Director – Matthew Ashley[1]	276	126	413	457	69	1,341	N/A

[1] Appointed on 28 January 2015.

[2] The increase in the single total figure for the Group Chief Executive from 2014 to 2015 is primarily due to the vesting of the 2013 LTIP award at 73.4% of maximum. The value of the LTIP vested is based upon the average share price for the last quarter of 2015 (£3.07). There was no LTIP vesting in 2014.

Notes

This Directors' Remuneration Report has been prepared in accordance with Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the 'Regulations') and the provisions of the 2014 UK Corporate Governance Code (the 'Code').

The report consists of the following sections:

- The Annual Statement by the Remuneration Committee Chairman;
- The 'At a glance' section providing a summary overview;
- The current Remuneration Policy report which sets out the Company's Remuneration Policy for directors and the key factors that were taken into account in setting the policy. This policy is currently in operation, having been approved at the 2015 AGM. It is intended that the policy will apply until the conclusion of the 2018 AGM; and
- The Annual Report on Remuneration which sets out payments made to the directors and details the link between Company performance and remuneration for the 2015 financial year.

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

Directors' Remuneration Policy Report

Remuneration structure from 2015

The table below sets out the key elements of the Company's Remuneration Policy for the Executive Directors which was approved at the AGM held on 6 May 2015 and will continue to apply for the period of three years from that date. The policy balances the desire to align remuneration to the long-term success of the business and shareholders whilst also enabling the Company to effectively recruit and motivate key individuals.

Consideration of shareholder views

The Committee is committed to an ongoing dialogue with shareholders and seeks shareholder views when any significant changes are being made to remuneration arrangements.

Remuneration policy table for Executive Directors

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

In particular, the Committee consulted with a number of major shareholders in the formulation of the current Remuneration Policy to understand their views and to inform the Committee's approach. The Committee believes that the feedback received has been crucial in the development of the new structure which is now in place.

In addition to the components described below, it is the policy of the Company to honour any commitments made to a Director before this policy took effect or before he/she became a Director. Such commitments include the Group Chief Executive's unfunded pension arrangement, which is described on page 80 and his Five Year Award, which is described in the Annual Report on Remuneration.

Maximum potential value	Performance conditions and assessment
The Committee's policy is to set base salary at an appropriate level taking into account the factors outlined in this table. The maximum annual salary increase will not normally exceed the average increase which applies across the wider workforce. However, larger increases may be awarded in certain circumstances including but not limited to: • increase in scope of responsibilities of the role; • to apply salary progression for a newly appointed Director; and • where a Director's salary has fallen significantly below market position. In these circumstances, subsequent increases may be staged over a number of years until the target positioning (and desired performance) is reached. In such circumstances, the increase will not exceed RPI + 10%. The Company will set out in the section headed 'Statement of implementation of Remuneration Policy' in the following financial year the salaries for that year for each of the Executive Directors (see page 93).	Not applicable.
The Committee's policy is that the maximum cash allowance payable in lieu of a pension will be 35%.	Not applicable.
The cost to the Company of providing the benefits may vary from year to year in accordance with market conditions and will, therefore, determine the maximum amount that would be paid in the form of benefits during the policy period.	Not applicable.

Directors' Remuneration Policy Report continued

Remuneration policy table for Executive Directors continued

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

Maximum potential value	Performance conditions and assessment
Maximum 200% of base salary.	The targets for the bonus in respect of 2016 are as follows: • 75% bonus is subject to normalised profit and free cash flow targets. • 25% is subject to non-financial targets. The Committee retains discretion in exceptional circumstances to amend the weightings of the financial and non-financial elements of the bonus from year to year and for each Executive as appropriate. The targets attached to the financial condition will typically relate to profit and/or cash generation, are set on an annual basis and are intended to be achievable at threshold and stretching at maximum. The numerical values of the target will not be disclosed in advance as the Committee considers this information commercially sensitive. Actual targets, performance achieved and awards will be published at the end of the performance period in order that shareholders can fully assess the basis for any payouts under the annual bonus. The non-financial targets will be set annually based on strategic objectives for the year. The non-financial targets include safety, customer, operational excellence and people objectives and will be determined by the Committee on an annual basis. The proportion of the bonus determined by performance against non-financial targets will only become payable when the Company achieves a threshold level of normalised profit. It is a pre-condition to the award of any bonus that the Remuneration Committee has determined that there has been an improvement in safety processes, procedures and outcomes during the year in the relevant business unit before any bonus is paid. For further details on the measures and targets which applied to bonuses in 2015, please see pages 85 and 86. The annual bonus contains malus and clawback provisions.
The Group CEO is eligible to receive a conditional award of Performance Shares up to an equivalent of 200% of salary per annum. The Group FD is eligible to receive a conditional award of Performance Shares up to an equivalent of 150% of base salary per annum.	Awards will be subject to stretching performance targets over a period of three years. The Committee may change the balance of the measures, or use different measures for subsequent awards, as appropriate. No material change will be made to the type of performance conditions without prior shareholder consultation. For 2016, the awards will be based equally as follows: • 1/3 earnings per share ('EPS'). • 1/3 return on capital employed ('ROCE'). • 1/3 total shareholder return (split between 50% FTSE 250 comparator group and 50% competitors ('TSR'). Achievement of threshold performance in respect of the EPS and TSR targets results in 30% vesting for each part of the award. Achievement of threshold performance in respect of the ROCE target results in 0% vesting. There is no ability to retest any of the performance conditions. The Committee retains discretion under the rules of the LTIP to amend existing performance conditions to take account of any events that may arise which would mean in its opinion, if such adjustments were not made, the performance condition would not constitute a fair measure of the Company's performance over the period.

Directors' Remuneration Policy Report continued

Elements of remuneration applying under the previous policy applicable for 2015

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

Performance conditions for the National Express Group PLC 2015 Long-Term Incentive Plan ('2015 LTIP')

EPS, TSR and ROCE were chosen for the 2015 LTIP as appropriate measures of the Group's long-term performance. The table below summarises the rationale for the inclusion of these measures in the 2015 LTIP:

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

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

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

Comparison with approach to remuneration across the Group

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

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

Approach to recruitment remuneration of Executive Directors

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

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

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

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

- salary and benefits including defined contribution pension participation or a salary supplement in lieu of pension provision;
- participation in the performance-related bonus pro-rated for the year of recruitment to reflect the proportion of the year for which the new recruit was in post (maximum of 200% of salary). If the commencement date is after 1 September in the year, no award would normally be made for that year;
- participation in the LTIP. The Performance Shares granted will be in line with the grant levels for that grade. In the case of the appointment of a new Group Chief Executive, this grant would be a maximum of 200% and for any other position a grant of 150% would be made. The grant may be pro-rated depending on the time of appointment through the year; and
- costs relating to but not limited to relocation; London allowance; legal, financial, tax and visa advice, and pre-employment medical checks.

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

In the event of recruitment or retention (other than buy-out awards as described above), the Committee may also grant awards to a new or existing Executive Director under Listing Rule 9.4.2 up to an equivalent of 200% of salary per annum. The Remuneration Committee does not currently intend to exercise this discretion to grant total awards in excess of 200% of salary and is committed to fully disclose the nature and reasons for any such discretion used in future.

Directors' Remuneration Policy Report continued

Executive Directors

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

Executive Directors' service contracts and notice periods

Director	Contract date	Notice period from the Company	Notice period from the Director
Dean Finch	16 December 2009	12 months	6 months
Matthew Ashley	16 July 2015	12 months	6 months

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

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

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

The Group Chief Executive is entitled, under an unfunded pension arrangement, to a pension based on the value of notional contributions of 25% of his salary, plus a 5% per annum notional return. On 3 June 2015, the Group Chief Executive was given 12 months' notice of the cessation of this ongoing accrual. The benefits under the unfunded pension arrangement will cease to accrue on 5 June 2016. The pension normally becomes payable, at the earliest, on 1 April 2022. All or part of it may be paid as a lump sum.

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

Executive Directors' external appointments

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

Details of the fee received by the Group Chief Executive in 2015 are shown below:

Director	Fee	External appointment
Dean Finch	£13,700	Royal Free London NHS Foundation Trust

Executive Directors' termination payments

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

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

Reason for termination	Salary and contractual benefits	Performance-related bonus awards	Unvested deferred bonus awards	Unvested LTIP awards	Other
Retirement, disability, redundancy, death, sale of part of Company that employs participant, or any other reason that the Remuneration Committee decides.	Payment equal to the aggregate of the basic salary and the value of any contractual benefits for the notice period including any accrued but untaken holiday.	Bonus awarded (subject to satisfaction of performance targets) for the relevant financial year.	Award vests on the date of cessation of employment.	Awards vest on the date of cessation of employment, unless the Remuneration Committee determines it should vest at normal vesting date. The amount of award vesting will be subject to the satisfaction of performance conditions as at the date the award is deemed to vest. Awards will normally be reduced time pro rata to reflect time elapsed between grant and cessation of employment.	Fees for outplacement and legal advice may be paid.

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

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

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

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

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

Remuneration policy for Non-Executive Directors

Non-Executive Directors' appointments

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

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

Directors' Remuneration Policy Report continued

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

Non-Executive Directors' appointment dates

Director	Date of appointment	Notice period by either Company or Director
Sir John Armitt CBE	1 January 2013	3 months
Joaquín Ayuso	1 June 2011	1 month
Jorge Cosmen	1 December 2005	0 months
Sir Andrew Foster[1]	1 August 2004	1 month
Jackie Hunt[1]	13 September 2012	1 month
Chris Muntwyler	11 May 2011	1 month
Lee Sander	1 June 2011	1 month
Jane Kingston	26 February 2014	1 month
Matthew Crummack	6 May 2015	1 month
Mike McKeon	3 July 2015	1 month

[1] Retired from the Board on 6 May 2015.

The table below sets out the current Company's Remuneration Policy for the Non-Executive Directors which became effective from the 2015 AGM:

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

Statement of conditions elsewhere in the Group

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

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

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

Annual Report on Remuneration

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

Remuneration Committee composition and terms of reference

The individuals who served on the Remuneration Committee during 2015, and those individuals who attended Remuneration Committee meetings, are set out below:

Member (biographies appear on pages 54 and 55)	Position	Appointment Date
Jane Kingston	Committee Chair	Chair from 6 May 2015 and member since 26 February 2014
Sir Andrew Foster[1]	Committee Chairman	Chairman from 10 May 2012 until 6 May 2015
Lee Sander	Senior Independent Director	22 November 2011
Matthew Crummack	Independent Non-Executive Director	6 May 2015

[1] Retired from the Board on 6 May 2015.

Role and responsibilities

The key responsibilities of the Committee are to:

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

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

Meetings

The Committee met seven times during the year. Details of attendance at the formal Committee meetings can be found on page 58.

Remuneration Committee activity

The key areas of Committee activity during the year were as follows:

- Completed the extensive shareholder consultation commenced in 2014 in connection with the formulation of a revised Directors' Remuneration Policy which was put to a binding vote at the 2015 AGM.
- Considered and approved a new long-term incentive plan for the Executive Directors and Senior Management Group, including the types and range of performance conditions to be used, which was approved at the 2015 AGM.
- Approved the remuneration arrangements for the incoming Group Finance Director.
- Reviewed salary levels for the Executive Directors, Company Secretary and Senior Management Group.
- Approved annual bonus payments to the Executive Directors, Company Secretary and Senior Management Group having duly considered the overall strong financial performance of the Company.
- Reviewed the Chairman's fee.
- Considered and approved 2015 award levels under the new 2015 LTIP.
- Tested performance conditions for awards made under the previous 2005 LTIP granted in 2012.
- Reviewed approach to measuring EPS performance in the light of a change in accounting treatment for bid costs.
- Set targets for the Group's 2015 bonus scheme.
- Reviewed the fees paid to the remuneration advisers.
- Reviewed corporate governance and legal and regulatory compliance with regard to Directors' remuneration.
- Reviewed and updated the Committee's terms of reference.
- Undertook an internal review of the effectiveness of the Committee, concluding that it continued to operate effectively.
- Reviewed and approved the Committee's report for inclusion in the 2015 Annual Report.

Annual Report on Remuneration continued

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

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

Advisors to the Committee

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

- PricewaterhouseCoopers LLP ('PwC') – Independent Remuneration Consultants;
- Dean Finch – Group Chief Executive;
- Matthew Ashley – Group Finance Director;
- Mike Goddard – Group HR Director; and
- Sandra Forbes – Group General Counsel & Company Secretary.

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

During 2015, PwC provided advice to the management of the Group on various matters including pensions, international taxation and business consulting.

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

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

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

Advisor	Fees in relation to remuneration advice (£'000)
PwC	170

Single total figure of remuneration

Executive Directors

The table below sets out the single total figure of remuneration and breakdown for each Executive Director in post during the 2015 financial year. Comparative figures for 2014 have also been provided.

	2015						2014					
£'000	Base salary	Taxable benefits[1]	Performance-related bonus	Value of LTIP vested[2]	Pension-related benefits[3]	Total	Base salary	Taxable benefits[1]	Performance-related bonus	Value of LTIP vested	Pension-related benefits[3]	Total
Dean Finch	561	27	1,077	1,395	196	3,256	561	27	778	0	196	1,562
Matthew Ashley[4]	276	126	413	457	69	1,341	n/a	n/a	n/a	n/a	n/a	n/a

[1] Taxable benefits comprise a cash alternative to a fully expensed car (£20,000 for Dean Finch and £10,500 for Matthew Ashley), health insurance and death in service and life assurance cover. Taxable benefits for Matthew Ashley also include £112,000 in respect of relocation expenses.
[2] The value of LTIP vested is based upon the average share price for the last quarter of 2015 (£3.07).
[3] In addition, Dean Finch has an entitlement under an unfunded pension arrangement as described on page 80. From 5 June 2016, benefits under this arrangement will cease to accrue.
[4] Appointed on 28 January 2015.

Base salary

For 2015, the Committee determined that the salary for the Group Chief Executive should remain unchanged at £561,000. Matthew Ashley was appointed to the role of Group Finance Director on 28 January 2015. His base salary was set at £300,000 which will be increased based upon development in role.

Performance-related bonus
A summary of the 2015 performance-related bonus scheme is summarised below.

The maximum potential bonus payable for 2015 to the Group Chief Executive was 200% of salary and, in respect of the Group Finance Director, 150% of salary.

- For the Group Chief Executive, 25% of the bonus earned up to 125% of salary, 50% of the bonus earned from 125% to 150% and 75% of the bonus earned from 150% to 200% of salary was to be deferred.
- For the Group Finance Director, 25% of the bonus earned up to 125% of salary and 50% of the bonus earned from 125% to 150% of salary was to be deferred.

The amounts deferred under the bonus plan in 2015 are deferred into shares awarded under the Executive Deferred Bonus Plan ('EDBP') for one year. Receipt of the deferred shares is subject to continued service and good leaver provisions under the EDBP. The 2015 bonus also includes provisions that require the deferred shares to be forfeited or repaid should it be necessary for the Company to restate materially its 2015 results within a two-year period following the deferred bonus being awarded. The proportion of the bonus that would be subject to these provisions would depend on the extent to which the original bonus payment turned out to be false following the publication of corrected results.

The Committee has reviewed the performance against the conditions attached to the performance-related bonus and, in addition, made an assessment of the performance of the Group as a whole during 2015.

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

In respect of the targets applying to the annual bonus for 2015 for the Group Chief Executive and Group Finance Director, a maximum of 150% and 112.5% respectively of salary was payable based on achievement against a sliding scale of challenging financial targets. A maximum of 50% of salary for the Group Chief Executive and 37.5% for the Group Finance Director was payable based on non-financial targets that encompassed customer, operational excellence and people objectives.

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

The tables below summarises the performance conditions attaching to the 2015 awards and the actual performance and bonus value achieved:

Bonus structure for 2015

	Group Chief Executive Percentage of base salary	Group Finance Director Percentage of base salary	Details
Maximum bonus potential	200%	150%	Proportion of bonus subject to mandatory deferral into Company shares for one year from award
Bonus potential at 90% of budgeted normalised profit before tax ('PBT')	0%	0%	Awarded on achieving threshold level
On-target bonus potential at 100% of budgeted normalised PBT	50%	37.5%	Awarded on achieving budget
Stretch bonus for 110% of budgeted normalised PBT	100%	75%	Awarded on achieving a stretch target of 110% of normalised PBT
Bonus potential at 90% of budgeted free cash flow	0%	0%	Awarded on achieving threshold level
On-target bonus potential at 100% of budgeted free cash flow	25%	18.75%	Awarded on achieving budget
Stretch bonus potential at 110% of budgeted free cash flow	50%	37.5%	Awarded on achieving a stretch target of 110% of budgeted free cash flow
Non-financial targets (underpinned by achievement of 90% of budgeted normalised PBT)	50%	37.5%	Awarded on meeting key strategic Group objectives tailored to each Executive Director's responsibilities

Annual Report on Remuneration continued

A summary of performance during 2015, the targets set and the extent to which the targets were met is set out in the following tables:

Summary of bonuses paid

Performance condition	Weighting	Threshold performance required	On-target performance required	Maximum Performance required	Actual performance	Bonus value achievable for meeting threshold and maximum performance (Percentage of salary)		Actual bonus value achieved (Percentage of salary)	
						Dean Finch	Matthew Ashley	Dean Finch	Matthew Ashley
Normalised profit	50%	£122.8m	£136.4m	£150.0m	£150.1m	0%-100%	0%-75%	100%	75%
Free cash flow	25%	£85.2m	£94.7m	£104.2m	£111.0m	0%-50%	0%-37.5%	50%	37.5%
Non-financial targets	25%		See detail below			0%-50%	0%-37.5%	42%	37.5%
Total awarded								192% salary	150% salary[1]
								£1,077,120	£413,784
Of which deferred in shares								75.25% salary	43.75% salary
								£422,153	£120,687
Of which paid in cash								116.75% salary	106.25% salary
								£654,967	£293,097

[1] Figures are pro-rated based on salary received since joining the Board on 28 January 2015.

Summary of non-financial conditions for 2015

Dean Finch

Objective	Performance
Safety • Deliver a year-on-year improvement in the Fatalities and Weighted Injuries index ('FWI') for like-for-like operations • Achieve a successful Arthur D Little audit • Develop and implement plans to improve professional driving and defensive driving techniques across the Group	• Total harm (measured by the FWI) has further reduced year on year by 0.5% – a 56% reduction since 2011 • CEO externally recognised for strong and effective leadership on Safety matters. 'World Class Driver' initiative launched. During 2015 all drivers across the Group have undertaken practical defensive driving training
Business development • Allocate growth capital to North America and identify bolt-on acquisition opportunities that are value enhancing • Develop revenue management systems in UK Coach and in Spain • Increase liaison with Non-Executive Directors on strategy	• Acquisitions in North America contributed a combined $5.3 million of profit during 2015, net of deal and synergy costs • UK Coach has continued to develop its revenue management capability and grown profits for the third consecutive year; Spain has successfully rolled out its revenue programme but has still to deliver full benefits • CEO provided clear direction on key strategic issues referring back to NED guidance to ensure delivery
Operational • Maintain and improve punctuality, reliability and customer satisfaction targets across the Group • Successfully launch Bahrain and RME	• Whilst customer satisfaction targets were positive, punctuality improvements in UK Bus and Coach were not fully met • Bahrain bus contract successfully mobilised in new region, opening up the Middle East. In Germany, RME succesfully launched in early December
Talent development • Develop graduate and apprenticeship schemes • Succession planning	• 'National Express Network' launched for graduates across all divisions; apprenticeship programmes have been developed in a number of disciplines across the UK businesses • Greater focus on MD succession and good progress on identification of talent have been undertaken
Investor relations • Continue to promote strong investor relations and buying support for National Express shares	• Success recognised by a 34% increase in the value of the Group in a year when the FTSE 250 increased by 8.4%

Matthew Ashley

Objective	Performance
Safety • Deliver a year-on-year improvement in the FWI for like-for-like operations • Achieve a successful Arthur D Little audit	• Total harm (measured by the FWI) has further reduced year on year by 0.5% – a 56% reduction since 2011 • External recognition of strong leadership of the Executive team in governance of safety across the Group
Business development • Allocate growth capital to North America and identify bolt-on acquisition opportunities that are value enhancing • Support the bid for the East Anglia franchise, in particular ensuring the integrity of the model and the completeness of revenue and costs	• Acquisitions in North America contributed a combined $5.3m of profit during 2015 net of deal and synergy costs • Took the lead review on property and station management, property and retail income, digital and IT. CFO's challenges were considered fair and constructive and his input deemed critical to the bid submission
Operational • Put in place robust financial review mechanisms for the new start-up businesses (Bahrain and German rail) • Develop and implement a plan for the refinancing of the £350 million bond expiring in January 2017 including appointment of bookrunners	• Financial control improvements identified and appropriate resources allocated to implement them. Internal audit follow-ups verified the tight controls now in place • Following a competitive process, six banks appointed as bookrunners and £450 million bridge facility negotiated to allow the Group to repay the bond when it expires in 2017
Talent development • Review the strength of the finance teams and develop plans to upgrade talent across the business • Quickly become established as the Group Finance Director developing positive working relationships with the Group Chief Executive, Chairman, and the Board and Committees	• Significant effort has been made in upgrading the finance talent, both at divisional and corporate level, accomplished through both developing and promoting internally and also bringing in fresh talent • Significant effort has been made in acting as a conduit for information between the businesses and the CEO. Recognition by the Non-Executive Directors on clarity of the budget process was made
Investor relations • Continue to promote strong investor relations and buying support for National Express stock • Establish strong personal relations with key investors and analysts	• CFO has developed in the role significantly during the year and has become established in the wider finance community as the Group Finance Director • CFO has now met with most significant shareholders and has had success in presenting the investment case for the Group

Based on the above assessment against the objectives set, the Committee determined that the performance of Dean Finch warranted 42% payout out of a maximum 50% of salary, and Matthew Ashley warranted maximum payout for the non-financial elements of their respective bonuses.

LTIP awards

Performance Share Awards and Matching Share Awards granted under the LTIP in 2013 are scheduled to vest in 2016. The performance period relating to these Awards ended on 31 December 2015. Details of the performance conditions and the extent to which they have been satisfied are set out below:

Performance Shares and Matching Shares

Performance condition	Weighting	Threshold performance required (30% vesting)	Maximum performance required (100% vesting)	Actual performance	% vesting
TSR[1]	50%	Median of comparator group	Upper quintile of comparator group	Between median and upper quintile (7th out of 15 companies)	46.7%
EPS[2]	50%	2015 EPS of 22.1p	2015 EPS of 24.7p	24.8p	100%
Total	100%				73.4%

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

[2] The Committee considered and agreed changes to the performance conditions for outstanding awards made under the previous 2005 LTIP whereby the growth in EPS for outstanding awards under this plan would be based on a consistent accounting basis to exclude actual bid costs incurred. This adjustment serves to ensure that the EPS element of the LTIP continues to incentivise and reward delivery of normalised EPS growth now that bid costs, with effect from 1 January 2015, are treated as a normalised expense which has the impact of reducing normalised EPS in 2015 and subsequent years. Bid costs of £9.2 million for 2015 were added back to the normalised EPS of 23.4p to give an outcome of 24.8p for the LTIP awards tested at the end of the year.

Vesting of Awards

Dean Finch was awarded 280,898 Performance Shares and 337,076 Matching Shares in 2013 and therefore, following 73.4% of the performance conditions being met, a total of 453,283 shares are due to vest in 2016. Matthew Ashley was awarded 94,484 Performance Shares and 108,000 Matching Shares in 2013 and therefore a total of 148,522 shares are due to vest in 2016.

Annual Report on Remuneration continued

Pension entitlements and cash allowances

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

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

Benefits under the Group Chief Executive's unfunded pension arrangement will cease to accrue with effect from 5 June 2016.

The Group Finance Director receives a combination of pension contribution and salary supplement worth 25% of salary in total.

Long-term incentives awarded in 2015

The tables below set out the details of any long-term incentive award granted in the 2015 financial year where vesting will be determined according to the achievement of performance conditions that will be tested in future reporting periods. In addition, the Company has granted market value options to Dean Finch under the Company share option plan section of the LTIP ('CSOP Options') over shares with a face value of £30,000. The exercise price of each CSOP Option is £3.149 per share. The number of shares that is capable of exercise will be reduced by such number of shares as has a market value (at the date of exercise of the linked CSOP Option) equal to the gain made on the exercise of the CSOP Option. Overall, the participant's pre-tax economic gain from the award is the same as if the CSOP Option was not in place.

Dean Finch

Grant date	Award type	Basis on which award made	Face value of award[1] £'000	Percentage of award vesting at threshold performance (ROCE: 0%)	Performance period end date	Performance conditions
11.06.15	LTIP – Nil cost options	200% of salary	1,123	30%	31.12.17	TSR, EPS and ROCE equally weighted

Matthew Ashley

Grant date	Award type	Basis on which award made	Face value of award[1] £'000	Percentage of award vesting at threshold performance (ROCE: 0%)	Performance period end date	Performance conditions
11.06.15	LTIP – Nil cost options	150% of salary	450	30%	31.12.17	TSR, EPS and ROCE equally weighted

1 The face value in the tables above has been calculated by multiplying the maximum number of shares that could vest by the closing share price at the date of grant. The share price was 315.4p on 11 June 2015.

Performance conditions for LTIP awards made in 2015

Performance level	Part A – EPS condition (1/3 of the award)	Part B – ROCE condition (1/3 of the award)	Part C – TSR condition v FTSE 250 comparator group rank over three years to 31 December 2017 (1/6 of the award)	Part D – TSR condition v Index[1] over three years to 31 December 2017 (1/6 of the award)[1]	Vesting percentage of the award
Below threshold	Less than 24.8p	Below 9%	Below median	Below Index	0%
Threshold	24.8p	9%	Median	Equal to Index	30% (with exception of ROCE for which threshold is 0%)
Target	26.3p	10%	Straight line between median and upper quintile	Straight line between Index and Index + 10% pa	50%
Maximum	28.6p or above	12% or above	Upper quintile	Equal or above Index + 10% pa	100%

[1] Index comprising of the total returns of three comparator companies.
Straight-line vesting occurs between intermediate points.

Indicative percentage of LTIP awards vesting based on performance to 31 December 2015

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 2015 (without making any allowance for pro rata reduction for any period of time that is less than the length of the performance period).

	EPS		ROCE		TSR measure 1			TSR measure 2			
Award	Weighting	Vesting	Weighting	Vesting	Details	Weighting	Vesting	Details	Weighting	Vesting	Total (max 100%)
2012 – Chief Executive's Five Year Award	50%	0%	–	–	Bespoke comparator group	50%	0.0%	n/a	–	–	0%
2013 – Chief Executive's Five Year Award	50%	50%	–	–	Bespoke comparator group	50%	46.7%	n/a	–	–	48.4%
2014 – Performance Shares and Matching Shares	50%	100%	–	–	FTSE 250	25%	56.5%	Bespoke index	25%	70.9%	81.9%
2014 – Chief Executive's Five Year Award	50%	51.4%	–	–	FTSE 250	25%	56.5%	Bespoke index	25%	70.9%	57.6%
2015 – Performance Shares	33.3%	30%	33.3%	90%	FTSE 250	16.7%	95.3%	Bespoke index	16.7%	100%	72.6%

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

Deferred bonuses awarded in 2015 (based on performance during 2014) will vest on 18 March 2016 as set out in the table below:

		As at 1 January 2015	During year: Granted	Vested	Lapsed	At 31 December 2015	Market price at date of vesting	Date of grant	Date of vesting
Dean Finch	2014	73,378	–	73,378	–	0	291.0p	28.02.14	02.03.15
	2015	–	76,643	–	–	76,643		18.03.15	18.03.16

The market price per share on the date of award was calculated on the basis of the average market price share in the five days preceding the date of the grant.

Deferred shares will be required to be forfeited or repaid should it be necessary to restate materially the Company's 2014 and 2015 results within a two-year period following the award of the bonus. The proportion of the bonus subject to these provisions would depend on the extent to which the original bonus turned out to be false following the publication of corrected results.

Non-Executive Directors

The table below sets out the single total figure of remuneration and breakdown for each Non-Executive Director serving during 2015. The table includes only those columns in respect of elements of remuneration received by Non-Executive Directors.

	2015 fees £'000	2014 fees £'000	Notes
Sir John Armitt CBE	225	225	
Joaquín Ayuso	51	51	
Jorge Cosmen	47	47	
Sir Andrew Foster	24	57	Resigned on 6 May 2015
Jackie Hunt	26	60	Resigned on 6 May 2015
Jane Kingston	54	40	
Chris Muntwyler	63	61	
Lee Sander	73	71	
Matthew Crummack	32	–	Appointed on 6 May 2015
Mike McKeon	28	–	Appointed on 6 July 2015

Included in the above is a travel allowance of £4,000 payable to each of Joaquín Ayuso, Chris Muntwyler and Lee Sander for attendance at each Board meeting held outside the continent in which the Non-Executive Director is resident. Lee Sander attended five meetings outside the continent in which he is resident.

Annual Report on Remuneration continued

There was no increase in the fees for either the Chairman or the Non-Executive Directors from 1 January 2015.

Payments to past Directors

Other than the payment made to Jez Maiden in respect of the cash element of his performance-related bonus for 2014, as disclosed in last year's Directors' Remuneration Report, there were no payments made to past Directors.

Payments for loss of office

There were no loss of office payments made during the year to any person who has served as a Director of the Group.

Statement of Directors' shareholdings

Directors' shareholdings – Executive Directors' interests and share ownership guidelines

In order to align the interests of the Directors more closely with the shareholders, the Remuneration Committee has determined that the Executive Directors are encouraged to build up a shareholding over a five-year period from 2015 as set out in the share ownership guidelines as described on page 76 of the Remuneration Policy. From 2015, the requirement for the Group Chief Executive is the equivalent of 200% of salary and, for the Group Finance Director, the requirement is the equivalent of 150% of salary. Matthew Ashley's shareholding will continue to be built up following his appointment in January 2015.

The beneficial and non-beneficial interests of the Executive Directors in office and their connected persons as at 31 December 2015 and the details of long-term incentive interests are shown below:

			Shares held directly		Other shares held	
	Shareholding requirement (Percentage of salary)	Current shareholding as at 31 December 2015 (Percentage of salary)[1]	Beneficially owned	EDBP interests not subject to performance conditions	LTIP interests subject to performance conditions	Shareholding requirement currently met?
Executive Directors						
Dean Finch	200%	220%	294,598	76,643	2,148,121	Yes
Matthew Ashley	150%	76%	68,597	0	496,727	No

[1] The share price of 332.8p (as at 31 December 2015) has been taken for the purpose of calculating the current shareholding as a percentage of salary.

Please see the appendix on page 95 for more information on outstanding LTIP awards.

Directors' shareholdings – Non-Executive Directors' interests

Non-Executive Directors are not subject to a shareholding requirement. Details of their interests in shares and those of their connected persons as at 31 December 2015, all of which are held outright with no attaching performance conditions, are shown below:

	At 31 December 2015
Sir John Armitt CBE	6,000
Joaquín Ayuso	0
Jorge Cosmen[1]	88,860,685
Chris Muntwyler	0
Lee Sander	0
Jane Kingston	0
Matthew Crummack	0
Mike McKeon	5,000

[1] Jorge Cosmen's holding includes shares held by European Express Enterprises Ltd which are shown on page 98 in the list of major shareholdings in the Company.

The Register of Directors' interests maintained by the Company contains full details of the Directors' holdings of shares and options over shares in the Company. The closing price of the Company's ordinary shares at 31 December 2015 was 332.8p (2014: 248.4p) and the range during the year ended 31 December 2015 was 247.9p to 334.4p.

Changes since year end
There have been no changes in the shareholdings of the Directors between 31 December 2015 and the date of signing of this Annual Report.

History of CEO's pay

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

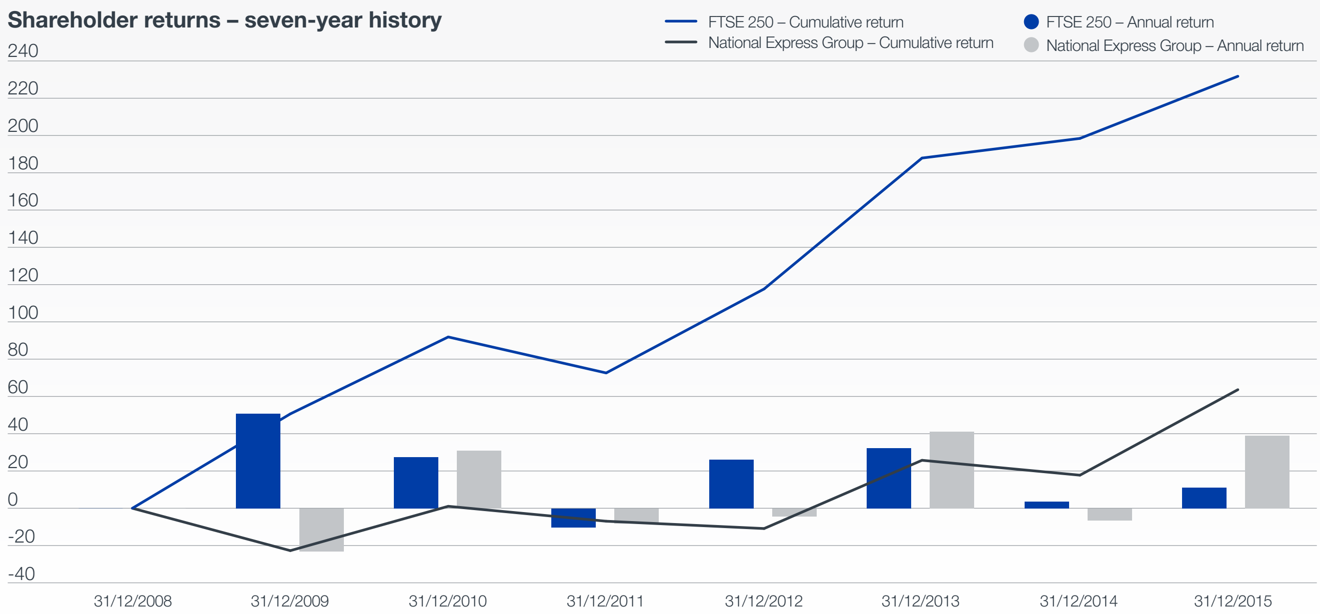
Year	2009	2010	2011	2012	2013	2014	2015
Chief Executive	R Bowker[1]	D Finch	D Finch	D Finch	D Finch	D Finch	D Finch
Total remuneration (£'000)	465	1,356	1,454	1,701	1,553	1,562	3,256
Annual bonus payment (% maximum opportunity)	0%	100%	100%	78%	95%	93%	96%
LTIP vesting level achieved[2] (% maximum opportunity)	n/a	n/a	n/a	32.5%	0%	0%	73.4%

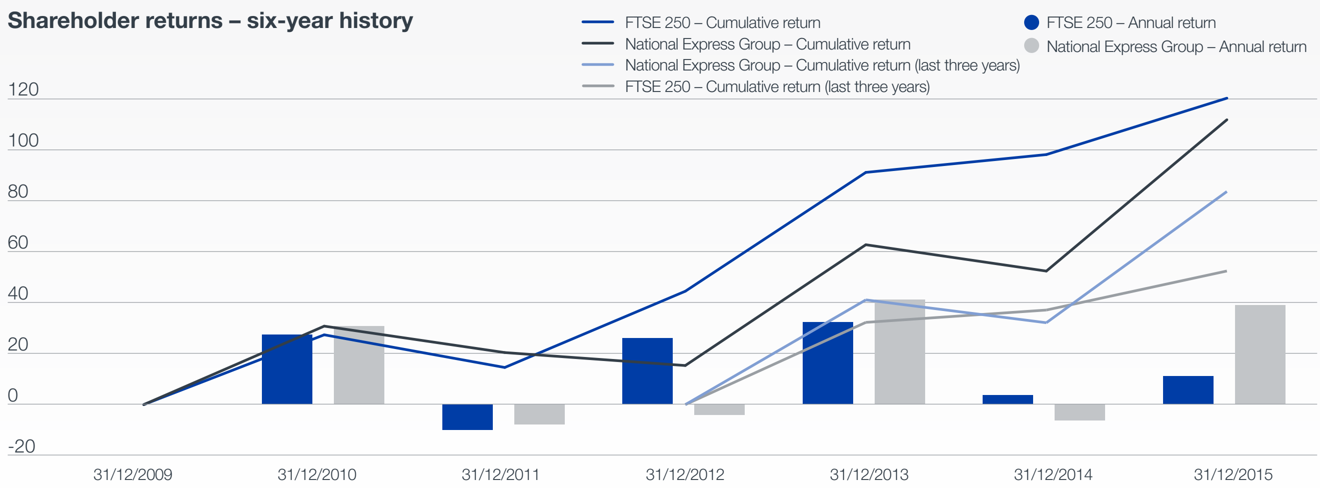
[1] R Bowker resigned as Chief Executive on 10 July 2009.
[2] The incumbent Chief Executive during each of 2010 and 2011 did not have entitlement to any LTIP awards with attaching performance conditions whose final year of performance ended during that year.

Comparison of overall performance

The first graph below shows a comparison of National Express Group PLC's seven-year total cumulative shareholder return against that achieved by the FTSE 250 Index. This index has been selected because the Company is a constituent of this index and the Committee, therefore, feels that this is the most appropriate index with which to represent the Company's relative performance.

The second graph shows a comparison of National Express Group PLC's cumulative shareholder return and annual return since the commencement of the turnaround of the business from 31 December 2009 (and subsequent recruitment of the current CEO in February 2010) and also over the last three years against that achieved by the FTSE 250 Index.





Annual Report on Remuneration continued

The Group achieved a very strong performance during 2015, with revenues, profits and margins up in every division beating the budgeted profit before tax by 10%. This excellent result, underpinned by a strong and sustainable free cash flow, merited an increase in the full year dividend by 10%.

Rail's first full year running its new 15-year c2c franchise achieved growth in revenues of 10%; the division ended the year successfully mobilising its first German rail services. Good revenue growth combined with tight cost control saw UK Coach increase its margin by 130 basis points and UK Bus by 100 basis points. ALSA's revenue management programme in Spain contributed to revenue growth of 3%; revenue in Morocco grew by 14%. Profit in North America grew by 6% on a constant currency basis due to a successful bid season, delivery of the contract margin improvement 'up or out' strategy and bolt-on acquisitions net of deal and synergy costs. The Group also commenced operations in a second new market in the year, running bus services in Bahrain.

Together, this performance contributed to a very strong share price performance in the year compared to both our peer group and the market.

Group Chief Executive pay increases compared with total remuneration for UK employees
The following table sets out the change in certain elements of the remuneration paid to the Group Chief Executive from 2014 to 2015 compared with the average percentage change for the UK employee population.

The Group uses the UK workforce (who receive taxable benefits and bonus) as an appropriate comparator group as this avoids complicated exchange rate adjustments that would have to be used if we included employees in the Group's overseas operations in the calculation.

The Group Chief Executive's remuneration disclosed in the table below has been calculated to take into account base salary, taxable benefits and annual bonus (including any amount deferred) on the basis used for determining the single figure. The UK employee remuneration is based on the base salary, taxable benefits and annual bonus of those UK employees who received taxable benefits and bonuses.

	Average percentage increase/decrease from 2014 to 2015		
	Base salary	Taxable benefits	Performance-related bonus
Group Chief Executive	0%	0%	38.4%[1]
UK employee remuneration	2.0%	-8.0%	43.9%

[1] Under the current Remuneration Policy, the total variable pay for the CEO reduced from 470% to 400% of salary weighted equally between an increase in short-term (from 150% to 200%) and balanced by a reduction in long-term (from 320% to 200%) remuneration. The increase from 2014 to 2015 is therefore primarily due to an increase in maximum bonus opportunity.

Relative importance of the spend on pay

The table below sets out the total spend on pay in the 2015 financial year and 2014 financial year compared with distributions to shareholders:

	2015 (£m)	2014 (£m)	% increase from 2014 to 2015
Overall Group spend on pay including Directors	879.1	850.3	3.4%
Profit distributed by way of dividend	54.4	51.6	5.4%
Profit distributed by way of share buyback	–	–	–

Statement of voting at 2015 AGM

At the AGM held on 6 May 2015, votes cast by proxy and at the meeting in respect of the Directors' remuneration were as follows:

	For		Against				
Resolution text	Number of votes	Percentage of proxy votes cast	Number of votes	Percentage of proxy votes cast	Total votes cast	Percentage of issued share capital voted[1]	Votes withheld[2]
2. To approve the Directors' Remuneration Policy report	408,174,050	98.91	4,491,155	1.09	412,665,205	80.64	16,293,308
3. To approve the Annual Report on Remuneration	413,984,166	99.10	3,757,165	0.90	417,741,331	81.63	11,201,974

[1] The total voting rights in the Company as at the date of the meeting were 511,738,648 ordinary shares of 5p each, each carrying one vote on a poll.
[2] A vote withheld is not a vote in law and is not counted in the calculation of votes for or against the resolutions.

Statement of implementation of Remuneration Policy in 2016

Executive Directors' base salaries

The Committee determined that the salary for the Group Chief Executive would be increased from £561,000 to £589,000 with effect from 1 January 2016. The Committee agreed that this increase was warranted in order to maintain the market competitiveness of his salary when compared against direct peers and companies of similar size. In the last five years, Dean Finch has only received one increase (2% in 2014) over a period during which corporate performance has been strong.

Matthew Ashley was appointed to the role of Group Finance Director on 28 January 2015. His base salary upon appointment was set at £300,000. As Matthew has made a significant contribution to the business in his first year and performed strongly against the objectives set for him, the Committee determined that it would be appropriate to increase his salary from £300,000 to £325,000, in line with our intention to bring him to a more competitive level of base pay over time. This new increase, effective from 1 January 2016, positions his base pay between the lower quartile and median against a comparator group of similarly sized businesses, and still allows for future salary progression as he completes his development in the role.

Pension entitlements and cash allowances

The Group Chief Executive will receive a 35% salary supplement and the Group Finance Director will receive a pension contribution and salary supplement worth 25% of salary in total.

Benefits under the Group Chief Executive's unfunded pension arrangement will cease to accrue with effect from 5 June 2016.

Performance-related bonus

The annual bonus for the 2016 financial year will operate on the same basis as the arrangements in place during 2015.

The structure of the annual bonus for 2016 will be as follows:

- a maximum bonus of 200% of salary for the Group Chief Executive and of 150% of salary for the Group Finance Director;
- the proportion of the bonus linked to non-financial measures will be 25% based on operational excellence, safety standards and other strategic objectives;
- a proportion of bonus earned will be deferred in shares for one year. For 2016, 25% of the bonus earned up to 125% of salary, 50% of the bonus earned from 125% to 150% of salary and, for the Group CEO, 75% of bonus earned above 150% of salary will be deferred; and
- the remaining 75% of the bonus will be based on achievement of financial targets, namely profit before tax and free cash flow.

When setting the bonus target for 2016, the Committee has taken into account:

- stock market consensus for 2016 profit;
- the Directors' commitment to continue to record all bid costs as normalised operating expenses;
- the significant increase in rail franchise premium in c2c compared with 2015;
- the increased competitive pricing pressure from RENFE in Spain; and
- the intercity concession renewal process in Spain.

Targets will be set on a basis consistent with accounting measures, ie, without reference to exceptionals.

The Committee will set calibrated targets for the bonus measures and intends to disclose actual performance against these targets in next year's Directors' Remuneration Report. As a matter of commercial sensitivity, the Committee has decided not to disclose performance targets in advance.

Long-term incentives

Long-term incentive awards granted in the 2016 financial year will be granted in accordance with the policy detailed in the Remuneration Policy section of this report. Awards will be made worth 200% of salary for the Group Chief Executive and 150% of salary for the Group Finance Director.

The performance measures, their weightings and targets for the 2016 awards will be as set out below. EPS targets will be set consistent with normalised EPS for accounting purposes, in particular after the deduction of bid costs.

Metric	Weighting	Threshold (EPS, TSR: 30% vesting ROCE: 0% vesting)	Target (50% vesting)	Maximum (100% vesting)
2018 financial year EPS	1/3	25.6p	27.1p	29.5p
Average ROCE financial years 2016-2018	1/3	9%	10%	12%
Relative TSR vs FTSE 250	1/6	Median	–	Upper quintile
Relative TSR vs Bespoke Index[1]	1/6	Equal to Index	–	Index + 10% pa

[1] Notional index comprising Go-Ahead Group, First Group and Stagecoach Group.

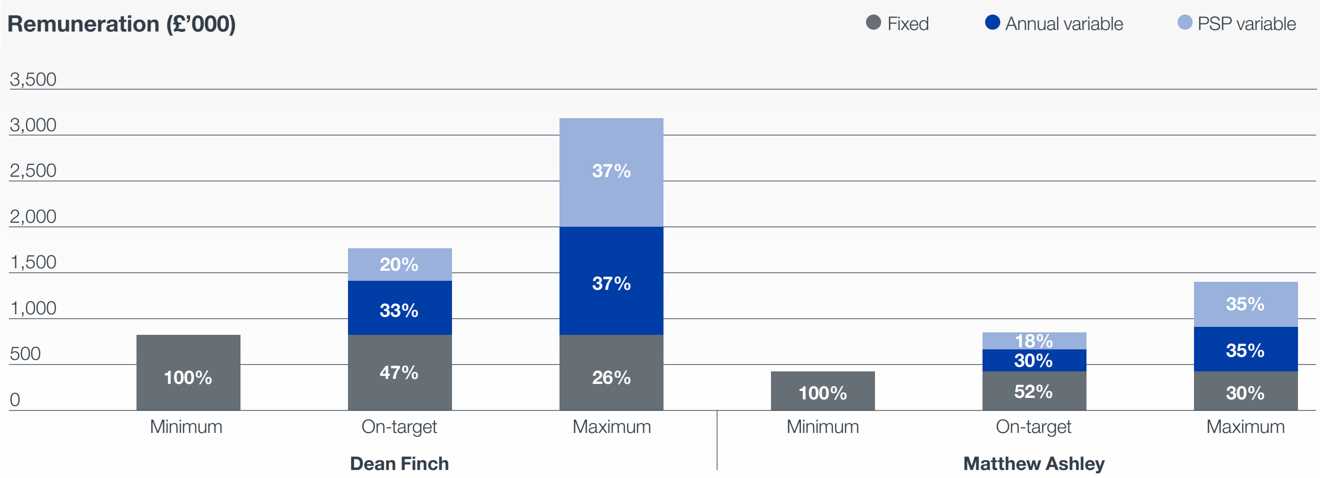
Straight-line vesting will occur between intermediate levels of performance.

Performance will be measured over a three-year period and awards will be subject to a two-year holding period post vesting.

Annual Report on Remuneration continued

Illustrations of application of Remuneration Policy for Executive Directors

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



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

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

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

- Salaries are as at 1 January 2016 for both the Group Chief Executive and the Group Finance Director.
- Benefits are those paid to both the Group Chief Executive and Group Finance Director in 2015 (excluding one-off relocation benefits).
- Performance Share Awards are granted at the maximum level permitted under the policy.
- Minimum performance scenario assumes fixed pay only and no variable payments.
- On-target performance scenario assumes performance in line with the Company's expectations, resulting in 30% of maximum vesting in respect of long-term incentive awards and 50% of maximum payout, assuming 50% achievement of personal objectives, in respect of the annual bonus. Whilst the bonus scheme has targets for threshold, on-target and maximum, the LTIP only has targets for threshold and maximum for some metrics. The value shown above in the on-target scenario includes the values for on-target bonus and threshold LTIP performance.
- Maximum performance scenario assumes outstanding level of performance, ie maximum bonus and full vesting of long-term incentives.

Share price appreciation is not allowed for.

Non-Executive Directors' fees

With effect from 1 January 2016, it was agreed that, in order to maintain market positioning, the Chairman's fee would be increased by 2.2% from £225,000 to £230,000 to reflect general levels of movement in Chairman fees. The fees of the Non-Executive Directors would be increased by 4.26% from £47,000 to £49,000 to reflect general levels of increase in Non-Executive Director fees. The current fees for the Chairman and Non-Executive Directors with effect from 1 January 2016 are as follows:

Role	Fees (£'000)
Chairman	230
Non-Executive Director	49
Senior Independent Director	5
Chairman of Board Committee	10

In addition, a travel allowance of £4,000 is payable to Joaquín Ayuso, Chris Muntwyler and Lee Sander for attendance at Board meetings held outside the continent in which the Non-Executive Director is resident.

Appendix
LTIP Awards to Executive Directors

	LTIP Share Awards	At 1 January 2015	Granted	Exercised	Expired	At 31 December 2015	Market price on date of award	Market price at date of exercise	Date of award	Date from which exercisable	Expiry date
Dean Finch	Performance Shares	240,069	–	–	240,069	–	228.4p	–	11.04.12	11.04.15	11.10.15
	Matching Shares	288,080	–	–	288,080	–	228.4p	–	11.04.12	11.04.15	11.10.15
	Performance Shares	280,898	–	–	–	280,898	199.9p	–	10.04.13	10.04.16	10.10.16
	Matching Shares	337,076	–	–	–	337,076	199.9p	–	10.04.13	10.04.16	10.10.16
	Performance Shares	204,520	–	–	–	204,520	279.5p	–	09.04.14	09.04.17	09.10.17
	Matching Shares	245,424	–	–	–	245,424	279.5p	–	09.04.14	09.04.17	09.10.17
	Performance Shares	–	356,303	–	–	356,303	315.4p	–	11.06.15	05.03.18	05.03.20
	Five Year Award	261,407	–	–	–	261,407	211.7p	–	03.08.12	03.08.17	03.08.18
	Five Year Award	257,973	–	–	–	257,973	210.0p	–	23.05.13	23.05.18	23.05.19
	Five Year Award	204,520	–	–	–	204,520	279.5p	–	09.04.14	09.04.19	09.04.20

	LTIP Share Awards	At 1 January 2015	Granted	Exercised	Expired	At 31 December 2015	Market price on date of award	Market price at date of exercise	Date of award	Date from which exercisable	Expiry date
Matthew Ashley	Performance Shares	38,192	–	–	38,192	–	228.4p	–	11.04.12	11.04.15	11.10.15
	Matching Shares	40,392	–	–	40,392	–	228.4p	–	11.04.12	11.04.15	11.10.15
	Performance Shares	94,484	–	–	–	94,484	199.9p	–	10.04.13	10.04.16	10.10.16
	Matching Shares	108,000	–	–	–	108,000	199.9p	–	10.04.13	10.04.16	10.10.16
	Performance Shares	68,793	–	–	–	68,793	279.5p	–	09.04.14	09.04.17	09.10.17
	Matching Shares	82,548	–	–	–	82,548	279.5p	–	09.04.14	09.04.17	09.10.17
	Performance Shares	–	142,902	–	–	142,902	315.4p	–	11.06.15	05.03.18	05.03.20

By order of the Board

Jane Kingston
Remuneration Committee Chair
25 February 2016

Other statutory information

This section contains additional information which the Directors are required by law and regulation to include within the Annual Report. This section, along with the information from the Chairman's letter on page 4 to the Statement of Directors' Responsibilities on page 100, constitutes the Directors' Report in accordance with the Companies Act 2006.

The information to be included in the Annual Report and Accounts, where applicable under Listing Rule 9.8.4R, is set out in this section or otherwise on the following pages:

	Page
Long-term incentive schemes	126
Waiver of dividends	155

Strategic Report

The Company is required by the Companies Act 2006 to include a strategic report in this document. The information that fulfils the requirements of the strategic report can be found on pages 1 to 49, which are incorporated in this report by reference.

Company status

The Company (company number: 2590560) was incorporated under the Companies Act 1985 as a limited company on 11 March 1991 and re-registered as a public company on 20 October 1992 as National Express Group PLC. The Company holds a premium listing on the London Stock Exchange's main market for listed securities (LON: NEX) and is a constituent member of the FTSE 250 Index.

Disclaimer

This Annual Report and Accounts is intended to focus on matters which are relevant to the interests of shareholders of the Company. The purpose of this Annual Report and Accounts is to assist shareholders in assessing the strategies adopted and performance delivered by the Company and the potential for those strategies to succeed. It should not be relied on by any other party or for any other purpose.

Forward looking statements are made in good faith, based on a number of assumptions concerning future events and information available to Directors at the time of their approval of this report. These forward looking statements should be treated with caution due to the inherent uncertainties underlying any such forward looking information. The user of this Annual Report and Accounts should not rely unduly on these forward looking statements, which are not a guarantee of performance and which are subject to a number of uncertainties and other facts, many of which are outside the Company's control and could cause actual events to differ materially from those in these statements. No guarantee can be given of future results, levels of activity, performance or achievements.

Branches outside the UK

The Group has branches in Spain.

Results and dividends

The profit on ordinary activities before tax from continuing operations for the year ended 31 December 2015 was £124.4 million (2014: £66.5m) and a profit attributable to equity shareholders of £107.0 million (2014: £59.1m) was transferred to reserves.

The Directors recommend a final dividend for the year of 7.645p per ordinary share (2014: 6.95p) which, together with the interim dividend of 3.685p per ordinary share (2014: 3.35p), paid on 25 September 2015, gives a total dividend for the year of 11.33p per share (2014: 10.3p). Subject to shareholder approval, the final dividend will be paid on 20 May 2016 to ordinary shareholders on the register of members at the close of business on 29 April 2016.

Directors

The Directors of the Company as at the date of the approval of this Annual Report are listed on pages 54 and 55, together with their biographical details and identification of the Board Committees on which they serve.

On 28 January 2015 Matthew Ashley was appointed as an Executive Director and Group Finance Director, having fulfilled the role of interim Group Finance Director from 10 October 2014 following the announcement that Jez Maiden would be stepping down as an Executive Director with effect from 31 December 2014. On 6 May 2015, Sir Andrew Foster and Jackie Hunt both retired from the Board having not sought re-election at the Company's AGM. On the same day, the Board appointed Matthew Crummack a Non-Executive Director of the Company. On 3 July 2015 Mike McKeon was appointed a Non-Executive Director of the Board and, subsequent to the financial year end, Dr Ashley Steel was appointed an additional Non-Executive Director with effect from 1 January 2016.

Powers of the Directors

Subject to its Articles of Association and relevant statutory law and to any direction that may be given by the Company in general meeting by special resolution, the business of the Company shall be managed by the Directors, who may exercise all powers of the Company which are not required to be exercised by the Company in general meeting.

Appointment and replacement of Directors

The rules for the appointment and replacement of Directors of the Company are set out in the Articles of Association, the UK Corporate Governance Code (the 'Code'), the Companies Act 2006 and related legislation. In accordance with the Code, all the Directors will retire at the 2016 AGM and offer themselves for election or re-election. The Board is satisfied that each of those Directors standing for election or re-election is qualified by virtue of their skills, experience and contribution to the Board.

Directors' conflicts of interest

The Board has a procedure in place to deal with a situation where a Director has a conflict of interest, as required by the Companies Act 2006. As part of this process, the members of the Board prepare a list of other positions held and all other conflict situations that may need authorising either in relation to the Director concerned or his or her connected persons. The Board considers each Director's situation and decides whether to approve any conflict situations, taking into consideration what is in the best interests of the Company and whether the Director's ability to act in accordance with his or her wider duties is affected. Each Director is required to notify the Company Secretary of any potential or actual conflict situations that will need authorising by the Board. Authorisations given by the Board are reviewed annually.

Directors' and Officers' liability insurance

The Company recognises the potential personal liabilities that the Directors are subject to by agreeing to act as a Board member and believes that it is both fair and reasonable to protect them from innocent error or omission. The Company therefore maintains Directors' and Officers' liability insurance in respect of legal action that might be brought against its Directors which operates in certain circumstances. This does not extend to cover the Directors where it is proved they acted fraudulently or dishonestly. Pursuant to the Company's Articles of Association the Company has indemnified its Directors and Officers in accordance with the provisions of Section 233 of the Companies Act 2006. A copy of the Articles of Association is available for inspection at the Company's registered office.

Directors' interests in contracts

Except as stated in note 35 to the consolidated accounts on page 165, no contract existed during the year in relation to the Company's business in which any Director was materially interested.

Directors' interests in shares

The Board of Directors' interests in shares in the Company are detailed on pages 90 and 91.

Directors' share options

Details of Directors' share options are provided in the Directors' Remuneration Report on page 95.

Directors' indemnities

The Company has entered into deeds of indemnity with each of its Directors, which are qualifying indemnity provisions for the purpose of the Companies Act 2006 and remain in force at the date of this report.

Accountability and audit

Statements of the respective responsibilities of the Directors and auditors are set out on pages 100 to 105.

Corporate governance

A full report on corporate governance can be found in the Governance section of this document and the Company's governance statement is on page 56. Both are incorporated by reference into this report.

Post balance sheet events

There were no post balance sheet events.

Employment policies

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

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

Employee involvement

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

Employee views are also sought through regular employee satisfaction questionnaires, both within business units and across the Group. Following such surveys, results are shared with employees and action plans are put in place to deal with issues arising. The Group encourages innovation from all levels of employees and has a structured programme to encourage suggestions and to recognise employees through awards. The Group also has a well developed succession planning process in place and succession plans are reviewed by the Board annually. As a key part of this process, the Company focuses on emerging talent to ensure the Group has the right people being developed to meet our future business needs. Talent management remains an important priority for the Group.

Information regarding the Company's safeguarding of human rights forms part of the People section on page 21 and on the Company's website, www.nationalexpressgroup.com.

Environmental policy

Information on the Group's environmental initiatives, including the mandatory reporting disclosure on greenhouse gas emissions, can be found in the Strategic Report on pages 22 to 25 and on the Company's website, www.nationalexpressgroup.com.

Political contributions

It is the Group's policy not to make political donations and accordingly none were made in the year. However, the Company did attend party political conferences during the year for which total expenditure was £13,000 (2014: £10,500).

Financial instruments

Details of the use by the Company and its subsidiaries of financial instruments and any related risk management objectives and policies (including hedging policy) and exposure (including price, credit, liquidity or cash flow risk) of the Company in connection with such financial instruments can be found in the notes to the Consolidated Accounts on pages 111 to 171 and are incorporated by reference into this report.

Other statutory information continued

Major shareholdings

As at 23 February 2016, the Company had been notified under the Disclosure and Transparency Rules (DTR 5) of the following interests in its shares which represent 3% or more of the voting rights in the Company. These shareholder levels are unchanged from 31 December 2015.

	Ordinary shares	Percentage of share capital[1]	Nature of holding
European Express Enterprises Ltd	78,795,062	15.4	Direct
Prudential PLC	50,987,079	9.9	Direct
Jupiter Asset Management Ltd	26,288,829	5.1	Indirect
Schroders plc	26,547,716	5.2	Direct
Newton Investment Management Ltd	26,433,003	5.2	Direct

[1] The holdings for European Express Enterprises Ltd are included in Jorge Cosmen's holdings which are shown in the Directors' Remuneration Report on page 90.

Analysis of ordinary shareholdings at 19 February 2016	Number of accounts	Percentage of total number of accounts	Number of shares	Percentage of ordinary capital
By size of holding				
1-500	5,744	47.63	794,735	0.16
501-1,000	1,473	12.21	1,154,452	0.23
1,001-5,000	3,270	27.12	7,695,557	1.50
5,001-50,000	1,334	11.06	15,769,038	3.08
50,001-1,000,000	185	1.53	51,843,511	10.13
Over 1,000,000	54	0.45	434,481,355	84.90
	12,060	100.00	511,738,648	100.00
By investor type				
Individuals	11,214	92.98	22,360,154	4.37
Institutional investors	428	3.55	400,103,272	78.18
Other corporate investors	418	3.47	89,275,222	17.45
	12,060	100.00	511,738,648	100.00

Share capital and rights attaching to the Company's shares

Under the Company's Articles of Association, any share in the Company may be issued with such rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise, as the Company may from time to time by ordinary resolution determine (or, in the absence of any such determination, as the Directors may determine).

The Company has one class of ordinary shares with a nominal value of 5p. At the date of this Annual Report, the issued share capital consisted of 511,738,648 Ordinary shares of 5p each.

At a general meeting of the Company every member has one vote on a show of hands and on a poll one vote for each share held. The Notice of AGM will specify deadlines for exercising voting rights either by proxy or by being present in person in relation to resolutions to be passed at a general meeting. Details of the authorised and issued share capital of the Company and details of shares issued during the year can be found in note 31 to the consolidated accounts on page 155.

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

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

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

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

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

Resolutions will be proposed at the 2016 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 will be set out in the Notice of AGM which will be posted on 8 April 2016.

The Company was granted authority at the AGM in 2015 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 2016 for its renewal. Further details will be set out in the Notice of AGM.

Share schemes

First Names (Jersey) Limited is Trustee of the National Express Group Employee Benefit Trust. As at 19 February 2016 is held 2,495,467 shares (0.49% of the issued share capital) of the Company for employee share schemes. Further details of the Company's employee share schemes can be found in note 7 to the consolidated accounts on pages 125 and 126 and are incorporated by reference into this report. The Trustee may vote the shares held by the Trust at its discretion.

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

Articles of Association

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

Annual General Meeting

The AGM will be held at 2.00pm on 11 May 2016 in Hall 9 at the International Convention Centre, Broad Street, Birmingham B1 2EA. At the Meeting, special resolutions will be proposed to authorise the Directors to issue shares without applying statutory pre-emption rights, to authorise the Company to make market purchases of its own shares and to authorise the calling of general meetings (other than Annual General Meetings) on 14 clear days' notice.

Full details will be provided in the Notice of AGM. If you would like to register any question you may have in advance of the AGM you can do so at agm@nationalexpress.com or you can write to the Company Secretary at National Express Group PLC, National Express House, Birmingham Coach Station, Mill Lane, Digbeth, Birmingham B5 6DD.

Material contracts and change of control agreements

There are a number of agreements that take effect, alter or terminate upon a change of control of the Company following a takeover bid. Save as disclosed below, none of these are considered significant.

Under the terms of the Company's revolving credit facility, upon a change of control, the Company would have five days to enter into negotiations with the lenders to alter the terms. Following ten days of negotiations, if no agreement has been reached, outstanding balances may become repayable.

Under the terms of the £1,000,000,000 Euro Medium-Term Note Programme under which the Company issued Medium Term Notes ('MTNs') to various institutions on 13 January 2010 (as updated on 2 October 2015), there is a change of control put option such that, upon a change of control event, any holder of any MTN may require the Company to redeem or purchase that MTN.

The Company entered into a private placement Note Purchase Agreement on 30 July 2012 relating to the issue by the Company of €78,500,000 4.55% Senior Notes due 16 August 2021. Under the terms of the Agreement the Company is required to offer to Note holders to repay to them the entire unpaid principal amount and interest thereon upon a change of control.

The National Express Group PLC Long-Term Incentive Plan 2015 (the 'Plan') contains provisions as a result of which options and awards may vest and become exercisable on a change of control of the Company in accordance with the rules of the Plan.

The Company's UK rail subsidiary, NXET Trains Limited, which operates the Essex Thameside franchise, is party to a franchise agreement with the Department for Transport ('DfT'). The franchise agreement contains an event of default on a change in control of the franchisee (which would be triggered on a change in control of the Company) if such change in control is not approved by DfT, as well as the right for DfT to charge a facilitation fee on such change in control. Similarly, the licences issued by the Office of Rail and Road ('ORR') to NXET Trains Limited in connection with the franchise all contain change of control provisions which could result in the licences being revoked if the change in control is not approved by ORR.

The Group's UK Bus business operates the Midland Metro tram service and the UK Bus operating subsidiary is party to a contract with Centro governing certain aspects of such operation. The contract with Centro contains an event of default on a change in control of the UK operating subsidiary (which would be triggered on a change in control of the Company) if such change in control is not approved by Centro.

The Group's UK Coach business performs a number of coach and bus services from or at certain UK airports and the UK Coach operating subsidiary is also contracted to provide passenger transport services for certain other third parties. A number of these contracts contain rights for the counterparties to terminate them on a change of control of the relevant subsidiary company party to such contracts (certain of which would be triggered by a change in control of the Company).

While no one of these contracts is considered significant in the context of the Group's business as a whole, the impact on the Group if all such contracts were terminated could be significant.

Directors' and employees' service contracts

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

Risks

A summary of the Company's risk management framework and an overview of its principal risks are detailed on pages 28 to 31 and are incorporated by reference into this report.

Auditors

Resolutions to re-appoint Deloitte LLP as auditor of the Company and to authorise the Directors to determine its remuneration will be proposed at the 2016 AGM.

Disclosure of information to auditors

The Directors confirm that, so far as they are aware, there is no relevant audit information of which the Company's 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. This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

By order of the Board

S. Forbes

Sandra Forbes
Company Secretary
25 February 2016

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 such 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 also chosen to prepare the parent Company Financial Statements in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework. Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the parent Company Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether Financial Reporting Standard 101 Reduced Disclosure Framework has been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group Financial Statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Financial Statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

We confirm that to the best of our knowledge:

- the Financial Statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 25 February 2016.

By order of the Board

Dean Finch

Dean Finch
Group Chief Executive
25 February 2016

Matthew Ashley

Matthew Ashley
Group Finance Director
25 February 2016

Independent auditor's report to the members of National Express Group plc

Opinion on Financial Statements of National Express Group PLC	In our opinion: • the Financial Statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2015 and of the Group's profit and the parent Company's loss for the year then ended; • the Group Financial Statements have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union; • the parent Company Financial Statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 Reduced Disclosure Framework; and • the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group Financial Statements, Article 4 of the International Accounting Standards ('IAS') Regulation. The Financial Statements comprise the Group Income Statement, the Group Statement of Comprehensive Income, the Group and parent Company Balance Sheets, the Group Statement of Changes in Equity, the Group Cash Flow Statement and the related notes 1 to 38 for the Group Financial Statements and 1 to 21 for the parent Company Financial Statements. The financial reporting framework that has been applied in the preparation of the Group Financial Statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent Company Financial Statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.
Going concern and the Directors' assessment of the principal risks that would threaten the solvency or liquidity of the Group	As required by the Listing Rules we have reviewed the Directors' statement regarding the appropriateness of the going concern basis of accounting contained within note 2 to the Financial Statements and the Directors' statement on the longer-term viability of the Group contained within the Strategic Report on page 37. We have nothing material to add or draw attention to in relation to: • the Directors' confirmation on page 28 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; • the disclosures on pages 30 and 31 that describe those risks and explain how they are being managed or mitigated; • the Directors' statement in note 2 to the Financial Statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's ability to continue to do so over a period of at least twelve months from the date of approval of the Financial Statements; • the Director's explanation on page 37 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions. We agreed with the Directors' adoption of the going concern basis of accounting and we did not identify any material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.
Independence	We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and we confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.
Our assessment of risks of material misstatement	The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. Last year our report included a risk around exceptional items. As there have been no exceptional items reported in the current year we have not included this risk in our report.

Independent auditor's report to the members of National Express Group plc continued

Risk	How the scope of our audit responded to the risk
Goodwill and fixed asset impairment This is included in note 2 as one of the significant accounting judgements and key sources of estimation uncertainty given there are a number of key assumptions used in the assessment of the carrying value of goodwill and fixed assets. These are described in note 13 and include future projected cash flows, the perpetual growth rate and the appropriate discount rate. Note 13 also includes details of the extent to which the goodwill and fixed asset impairment test is sensitive to changes in the key inputs. Total goodwill and fixed assets at 31 December 2015 were £2,031.8 million. The most significant goodwill balances relate to the Spanish division (£634.6 million) and the North American division (£371.3 million).	Our procedures for challenging management's methodology and assumptions focused on the Group's interests in Spain and North America and included: • assessing the appropriateness of any changes to assumptions since the prior period; • validating the integrity of the impairment models through testing of the mechanical accuracy and verifying the application of the input assumptions; • understanding the underlying process used to determine the risk adjusted cash flow projections and challenging them with reference to historical forecasts, actual performance and expected future changes to the business; • working with our valuation specialists to benchmark the discount rates and perpetuity growth rates applied to external macro-economic and market data. This involved consideration of the impact of territory-specific risk adjustments to the discount rate versus the risk adjustments made to the underlying cash flows; and • assessing the appropriateness of the disclosures included in the Financial Statements including the sensitivity analysis provided.
North American insurance and other claims provisions Estimation of insurance provisions is highly judgemental and is based on assessment of the expected settlement on known claims together with an estimate of settlements that will be made in respect of incidents incurred but not reported at the balance sheet date. This has been highlighted as a key accounting estimate and judgement in note 2. Of the total Group claims provision of £60.9 million at 31 December 2015, £54.5 million relates to the North American division and includes amounts arising through acquisition in the year that have required separate fair value consideration. Details of the Group claims provision are given in note 25. The measurement of the self-insured claims provision in North America uses a combination of actuarial assumptions around loss development and management judgement to ensure that the Group is appropriately provided.	We used our actuarial specialists to challenge the assumptions inherent in the valuation produced by the Group's actuary in North America for the high volume lower value claims, such as the loss development factors and ultimate expected losses, and to re-perform the actuarial calculation to develop a valuation range. This also included a separate assessment of the discount rate applied in the actuarial valuation. For the individually large claims not subject to actuarial review, we discussed the nature of each claim with the US general counsel and those responsible for claims handling and tested a sample of items to supporting evidence to assess the expected range of possible outcomes. This included testing the fair value of provisions recognised on acquisitions during the year. We compared the overall level of provision recorded to the range determined by management and the Group's actuary, to conclude whether the level of provision was appropriate. This involved consideration of the audit evidence supporting the range as well as the independent assessment of the range for higher volume lower value claims produced by our actuarial specialists.

Tax provisions Judgement is required in relation to the value of the tax provisions recorded in respect of a number of uncertain tax positions across the Group which have not yet been agreed by the tax authorities including potential future tax audits in the UK, Spain and North America, as well as certain elements of the financing structures within the Group. Accordingly tax provisioning is included in note 2 as one of the significant accounting judgements and key sources of estimation uncertainty. As outlined in note 10 there was a release of £8.6 million of tax provisions during the year reflecting the finalisation of the tax audits in Spain for years 2009 through 2011 and the fact there are now no outstanding tax audits in the UK, Spain, the US or Canada. At 31 December 2015 the Group tax provisions totalled £12.7 million.	We used our tax specialists to assist us in appraising the likely outcome of technical tax treatments based on their experience working with the revenue authorities, and reviewed correspondence with the authorities to challenge the reasonableness of the provisions made, including considering consistency and approach to judgements. Our tax specialists also considered management's assessment of the risk inherent in current tax positions taken around the world which could be subject to challenge in the future.
Pensions accounting The measurement of the Group's net pension liability of £12.6 million requires management to make judgements on assumptions including price inflation, discount rates, pension increases, mortality rates, earnings growth and the recognition of pension scheme surpluses. The net liability position reflects a liability on the UK Bus scheme which is largely offset by net surpluses on the Rail and Group schemes. As explained in note 2, the significant accounting judgements and key sources of estimation uncertainty, changes in these assumptions could significantly impact the amount of the Group's retirement benefit obligations. As outlined in note 33, this sensitivity is a function of the size of the gross pension assets being £663.8 million and the gross pension liability being £676.4 million.	We reviewed the actuarial assumptions used to calculate the net pension liability and our actuarial specialists performed a critical assessment of the key assumptions as described in note 33 with reference to comparable market data. We also tested a sample of the pension asset valuations and the data used in the actuarial valuation.
Fuel hedge accounting It is the Group's policy to hedge fuel price fluctuations in order to provide short-term cost certainty. Due to the continued decline in global oil prices during the year, partially offset by the utilisation of 2015 hedge contracts, the fair value of the liability in respect of the forward fuel hedge contracts has increased from £71.3 million at 31 December 2014 to £83.8 million at 31 December 2015. The accounting policy is included in note 2 to the Financial Statements and accounting for fuel commodity contracts is an inherently complex area. The continued decline in oil prices and the resultant increase to the derivative liability recognised has meant the complexity and sensitivity of the hedge effectiveness testing has increased.	We have worked with our treasury accounting specialists to: • challenge the valuations of a sample of forward fuel hedge contracts by calculating independent fair values; • review the hedge documentation with reference to the requirements of IAS 39 and best practice; • completed independent effectiveness testing for a sample of hedges; and • challenged the Group's assessment of the highly probable assumptions in respect of the forecast transactions.

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee discussed on page 66.

These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent auditor's report to the members of National Express Group plc continued

Our application of materiality	We define materiality as the magnitude of misstatement in the Financial Statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work. We determined materiality for the group to be £8 million, which is 5.3% of normalised pre-tax profit (profit before any exceptional items and intangible amortisation), and below 1% of equity. In 2014 this was also £8 million which was 5.5% of profit before normalised pre-tax profit. Normalised profit is one of the key metrics used both externally and internally as excluding exceptional items, although there are none in 2015, which are volatile, as well as amortisation costs, facilitates a better understanding of the underlying trading performance. We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £160,000 (2014: £160,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the Financial Statements.
An overview of the scope of our audit	Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, as in the prior year, we focused our Group audit scope primarily on the audit work at the five operating divisions and the Group head office function. Each operating division was subject to an audit that was scoped relevant to its component materiality level, which did not exceed £5.2 million in either the current or prior year. The Group head office work was performed to a component materiality level of £6.4 million. The five operating divisions and the Group head office function contributed 100% (2014: 100%) of Group revenue and Group operating profit and 99% (2014: 100%) of Group net assets. Group-level analytical review procedures were performed over the amounts held in the Bahrain joint venture. At the parent entity level we also tested the consolidation process. The Group audit team continued to follow a programme of planned visits that has been designed so that the Senior Statutory Auditor or a senior member of the audit team visits each of the five primary divisions where the Group audit scope was focused at least once a year in addition to the work performed at the Group head office.
Opinion on other matters prescribed by the Companies Act 2006	In our opinion: • the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and • the information given in the Strategic Report and the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements.
Matters on which we are required to report by exception	
Adequacy of explanations received and accounting records	Under the Companies Act 2006 we are required to report to you if, in our opinion: • we have not received all the information and explanations we require for our audit; or • adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or • the parent Company Financial Statements are not in agreement with the accounting records and returns. We have nothing to report in respect of these matters.
Directors' remuneration	Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns. We have nothing to report arising from these matters.

Corporate Governance Statement	Under the Listing Rules we are also required to review part of the Corporate Governance Statement relating to the Company's compliance with certain provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.
Our duty to read other information in the Annual Report	Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Report is: • materially inconsistent with the information in the audited Financial Statements; or • apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or • otherwise misleading. In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the Annual Report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.
Respective responsibilities of Directors and auditor	As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews. This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.
Scope of the audit of the Financial Statements	An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the Financial Statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited Financial Statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Nigel Mercer (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Birmingham, United Kingdom
25 February 2016

Group Income Statement
For the year ended 31 December 2015

	Note	Total before intangible amortisation 2015 £m	Intangible amortisation 2015 £m	Total 2015 £m	Total before intangible amortisation and exceptional items (restated)* 2014 £m	Intangible amortisation and exceptional items (restated)* 2014 £m	Total 2014 £m
Continuing operations							
Revenue	3,5	**1,919.8**	**–**	**1,919.8**	1,867.4	–	1,867.4
Operating costs before intangible amortisation and exceptional items		**(1,726.3)**	**–**	**(1,726.3)**	(1,699.8)	–	(1,699.8)
Intangible amortisation	5,13	**–**	**(25.7)**	**(25.7)**	–	(28.6)	(28.6)
Exceptional items	5	**–**	**–**	**–**	–	(24.8)	(24.8)
Total operating costs	6	**(1,726.3)**	**(25.7)**	**(1,752.0)**	(1,699.8)	(53.4)	(1,753.2)
Group operating profit	5	**193.5**	**(25.7)**	**167.8**	167.6	(53.4)	114.2
Share of results of associates	17	**1.8**	**–**	**1.8**	0.3	–	0.3
Finance income	3,9	**5.9**	**–**	**5.9**	6.5	–	6.5
Finance costs	9	**(51.1)**	**–**	**(51.1)**	(54.5)	–	(54.5)
Profit before tax		**150.1**	**(25.7)**	**124.4**	119.9	(53.4)	66.5
Tax charge	10	**(28.5)**	**13.2**	**(15.3)**	(21.8)	15.9	(5.9)
Profit for the year		**121.6**	**(12.5)**	**109.1**	98.1	(37.5)	60.6
Profit attributable to equity shareholders		**119.5**	**(12.5)**	**107.0**	96.6	(37.5)	59.1
Profit attributable to non-controlling interests		**2.1**	**–**	**2.1**	1.5	–	1.5
		121.6	**(12.5)**	**109.1**	98.1	(37.5)	60.6
Earnings per share:							
– basic earnings per share	12			**20.9p**			11.6p
– diluted earnings per share	12			**20.9p**			11.5p
Normalised earnings per share:							
– basic earnings per share	12	**23.4p**			18.9p		
– diluted earnings per share	12	**23.3p**			18.9p		

* restated for the reclassification of business development costs from exceptionals as disclosed in note 2.

Group Statement of Comprehensive Income For the year ended 31 December 2015

	Note	2015 £m	2014 £m
Profit for the year		**109.1**	60.6
Items that will not be reclassified subsequently to profit or loss:			
Actuarial (losses)/gains on defined benefit pension plans	33	**(9.4)**	10.1
Deferred tax on actuarial (losses)/gains		**1.4**	(2.3)
		(8.0)	7.8
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on retranslation of foreign operations (net of hedging)		**(31.0)**	(25.0)
Exchange differences on retranslation of non-controlling interests		**(0.6)**	(0.8)
Loss on cash flow hedges		**(52.5)**	(80.3)
Less: reclassification adjustments for gains or losses included in profit		**36.1**	12.3
Tax on exchange differences		**(1.1)**	0.1
Deferred tax on cash flow hedges		**1.2**	13.6
		(47.9)	(80.1)
Total comprehensive income/(expenditure) for the year		**53.2**	(11.7)
Total comprehensive income/(expenditure) attributable to:			
Equity shareholders		**51.7**	(12.4)
Non-controlling interests		**1.5**	0.7
		53.2	(11.7)

Group Balance Sheet At 31 December 2015

	Note	2015 £m	2014 £m
Non-current assets			
Intangible assets	13	**1,230.7**	1,177.4
Property, plant and equipment	14	**801.1**	729.9
Available-for-sale investments	16	**6.5**	6.8
Derivative financial instruments	16	**22.2**	26.5
Deferred tax assets	26	**31.1**	29.9
Investments accounted for using the equity method	17	**10.6**	5.4
Trade and other receivables	19	**4.0**	1.8
Defined benefit pension asset	33	**49.7**	40.6
		2,155.9	2,018.3
Current assets			
Inventories	20	**22.5**	21.8
Trade and other receivables	21	**241.9**	199.6
Derivative financial instruments	16	**2.4**	1.5
Current tax assets		**1.4**	1.3
Cash and cash equivalents	22	**60.4**	83.7
		328.6	307.9
Total assets		**2,484.5**	2,326.2
Non-current liabilities			
Borrowings	27	**(752.3)**	(741.8)
Derivative financial instruments	27	**(39.6)**	(36.1)
Deferred tax liability	26	**(53.8)**	(66.0)
Other non-current liabilities	24	**(16.0)**	(4.1)
Defined benefit pension liability	33	**(62.3)**	(52.5)
Provisions	25	**(32.1)**	(23.5)
		(956.1)	(924.0)
Current liabilities			
Trade and other payables	23	**(499.5)**	(415.7)
Borrowings	27	**(99.1)**	(55.9)
Derivative financial instruments	27	**(46.0)**	(35.8)
Current tax liabilities		**(16.1)**	(23.3)
Provisions	25	**(36.6)**	(35.3)
		(697.3)	(566.0)
Total liabilities		**(1,653.4)**	(1,490.0)
Net assets		**831.1**	836.2
Shareholders' equity			
Called-up share capital	31	**25.6**	25.6
Share premium account		**532.7**	532.7
Capital redemption reserve		**0.2**	0.2
Own shares		**(7.8)**	(1.5)
Other reserves	32	**(80.1)**	(32.8)
Retained earnings		**345.6**	299.3
Total shareholders' equity		**816.2**	823.5
Non-controlling interests in equity		**14.9**	12.7
Total equity		**831.1**	836.2

D Finch
Group Chief Executive

M Ashley
Group Finance Director

25 February 2016

Group Statement of Changes in Equity
For the year ended 31 December 2015

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Own shares (note 31) £m	Other reserves (note 32) £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
At 1 January 2015	**25.6**	**532.7**	**0.2**	**(1.5)**	**(32.8)**	**299.3**	**823.5**	**12.7**	**836.2**
Shares purchased	**–**	**–**	**–**	**(8.5)**	**–**	**–**	**(8.5)**	**–**	**(8.5)**
Own shares released to satisfy employee share schemes	**–**	**–**	**–**	**2.2**	**–**	**(2.2)**	**–**	**–**	**–**
Total comprehensive income and expenditure	**–**	**–**	**–**	**–**	**(47.3)**	**99.0**	**51.7**	**1.5**	**53.2**
Share-based payments	**–**	**–**	**–**	**–**	**–**	**3.2**	**3.2**	**–**	**3.2**
Tax on share-based payments	**–**	**–**	**–**	**–**	**–**	**0.7**	**0.7**	**–**	**0.7**
Dividends	**–**	**–**	**–**	**–**	**–**	**(54.4)**	**(54.4)**	**–**	**(54.4)**
Dividends paid to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(0.1)**	**(0.1)**
Contribution from non-controlling interest	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**0.8**	**0.8**
At 31 December 2015	**25.6**	**532.7**	**0.2**	**(7.8)**	**(80.1)**	**345.6**	**816.2**	**14.9**	**831.1**

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Own shares (note 31) £m	Other reserves (note 32) £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
At 1 January 2014	25.6	532.7	0.2	(0.8)	46.5	282.4	886.6	10.7	897.3
Shares purchased	–	–	–	(3.2)	–	–	(3.2)	–	(3.2)
Own shares released to satisfy employee share schemes	–	–	–	2.5	–	(2.5)	–	–	–
Total comprehensive income and expenditure	–	–	–	–	(79.3)	66.9	(12.4)	0.7	(11.7)
Share-based payments	–	–	–	–	–	3.1	3.1	–	3.1
Tax on share-based payments	–	–	–	–	–	1.0	1.0	–	1.0
Dividends	–	–	–	–	–	(51.6)	(51.6)	–	(51.6)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	(0.2)	(0.2)
Contribution from non-controlling interest	–	–	–	–	–	–	–	1.5	1.5
At 31 December 2014	25.6	532.7	0.2	(1.5)	(32.8)	299.3	823.5	12.7	836.2

Group Statement of Cash Flows
For the year ended 31 December 2015

	Note	2015 £m	2014 £m
Cash generated from operations	36	**264.1**	245.2
Tax paid		**(11.2)**	(13.0)
Net cash from operating activities		**252.9**	232.2
Cash flows from investing activities			
Payments to acquire businesses, net of cash acquired	18(a)	**(62.3)**	(5.2)
Deferred consideration for businesses acquired and disposed	18(a)	**(0.2)**	(0.5)
Purchase of property, plant and equipment		**(107.5)**	(55.7)
Proceeds from disposal of property, plant and equipment		**10.2**	13.9
Payments to acquire intangible assets		**(16.4)**	(7.5)
Payments to acquire associates		**(3.5)**	(0.2)
Interest received		**5.6**	5.9
Net cash used in investing activities		**(174.1)**	(49.3)
Cash flows from financing activities			
Purchase of own shares		**(8.5)**	(3.2)
Interest paid		**(46.7)**	(49.7)
Finance lease principal payments		**(25.8)**	(28.8)
Net loan receipts/(payments)		**44.3**	(9.7)
(Payments)/receipts for the maturity of foreign currency contracts		**(11.1)**	2.4
Dividends paid to non-controlling interests		**(0.1)**	(0.2)
Contribution from non-controlling interest		**0.8**	1.5
Dividends paid to shareholders of the Company		**(54.4)**	(51.6)
Net cash used in financing activities		**(101.5)**	(139.3)
(Decrease)/increase in cash and cash equivalents		**(22.7)**	43.6
Opening cash and cash equivalents		**83.7**	40.9
(Decrease)/increase in cash and cash equivalents		**(22.7)**	43.6
Foreign exchange		**(0.6)**	(0.8)
Closing cash and cash equivalents	22	**60.4**	83.7

Notes to the Consolidated Accounts
For the year ended 31 December 2015

1 Corporate information

The Consolidated Financial Statements of National Express Group PLC and its subsidiaries (the 'Group') for the year ended 31 December 2015 were authorised for issue in accordance with a resolution of the Directors on 25 February 2016. National Express Group PLC is a public limited company incorporated in England and Wales whose shares are publicly traded on the London Stock Exchange.

The principal activities of the Group are described in the Strategic Report that accompanies these Financial Statements.

2 Accounting policies

Statement of compliance

These Financial Statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') and interpretations of the International Financial Reporting Interpretations Committee ('IFRIC') as adopted by the European Union ('EU'), and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

Basis of preparation

These Financial Statements have been prepared on the going concern basis (see Group Finance Director's Review on page 37) under the historical cost convention, except for the recognition of derivative financial instruments and available-for-sale investments.

These Financial Statements are presented in pounds Sterling and all values are rounded to the nearest one hundred thousand pounds (£0.1m) except where otherwise indicated.

A summary of the Group's accounting policies applied in preparing these Financial Statements for the year ended 31 December 2015 is set out below.

Significant accounting judgements and key sources of estimation uncertainty

The preparation of Financial Statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the Financial Statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge, actual results may ultimately differ from those estimates.

The key accounting estimates and judgements are:

Goodwill impairment

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Details of the assumptions used and key sensitivities are set out in note 13 to these Financial Statements.

Pensions and other post-retirement benefits

Determining the amount of the Group's retirement benefit obligations and the net costs of providing such benefits requires assumptions to be made concerning long-term interest rates, inflation, salary and pension increases, investment returns and longevity of current and future pensioners. Changes in these assumptions could significantly impact the amount of the obligations or the cost of providing such benefits.

The Group makes assumptions concerning these matters with the assistance of advice from independent qualified actuaries. Details of the assumptions made are set out in note 33.

Insurance

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

Tax provisions

Assessing the outcome of tax uncertainties requires judgements to be made regarding the result of negotiations with and enquiries from tax authorities in a number of jurisdictions. Management assessments are supported by external advisors where appropriate, based on our business transaction facts and circumstances and the status of ongoing discussions with the relevant tax authorities.

Notes to the Consolidated Accounts continued For the year ended 31 December 2015

2 Accounting policies continued

Basis of consolidation
These Consolidated Financial Statements comprise the Financial Statements of National Express Group PLC and all its subsidiaries drawn up to 31 December each year. Adjustments are made to bring any dissimilar accounting policies that may exist into line with the Group's accounting policies.

On acquisition of a business, the purchase method of accounting is adopted, and the Group Income Statement includes the results of subsidiaries and businesses purchased during the year from the date control is assumed. The purchase consideration is allocated to assets and liabilities on the basis of fair value at the date of acquisition. On the sale of a business, the Group Income Statement includes the results of that business to the date of disposal.

Intra-Group transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated.

Non-controlling interests represent the portion of comprehensive income and equity in subsidiaries that is not attributable to the parent Company shareholders and is presented separately from parent shareholders' equity in the Consolidated Balance Sheet.

Certain comparatives have been reclassified to be consistent with the current year's changes in presentation.

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

Restatements
Following recent successful bidding in both Rail franchise contracts and public vehicle contracts in the Middle East, the Directors have decided to classify business development costs as part of the recurring operations of the business and hence part of the normalised performance in 2015. For comparability, the similar costs in 2014 (which were treated as exceptional items) have been reclassified to be consistent with the current year presentation, along with the imputed tax credits. The reclassification has no effect on the IFRS reported results.

A reconciliation of prior period operating profit is as follows:

Operating profit before intangible amortisation and exceptional items	£m
As previously reported	**193.1**
Business development costs in Rail	**(19.8)**
Business development costs in Spain and Morocco	**(0.8)**
Business development costs in Central functions	**(4.9)**
As restated	**167.6**

A reconciliation of prior period taxation is as follows:

Tax charge on operating profit before intangible amortisation and exceptional items	£m
As previously reported	**27.7**
Tax credits relating to restated business development costs	**(5.9)**
As restated	**21.8**

Interests in joint ventures
The Group has a number of contractual arrangements with other parties to share control of other entities which represent joint ventures. The Group recognises its interest in the entities' assets and liabilities using the equity method of accounting. The Group Balance Sheet includes the appropriate share of these joint ventures' net assets or liabilities and the Income Statement includes the appropriate share of their results after tax.

Financial Statements of joint ventures are prepared for the same reporting period as the Group. Adjustments are made in the Group's Financial Statements to eliminate the Group's share of unrealised gains and losses on transactions between the Group and its joint ventures. The Group ceases to use the equity method from the date it no longer has joint control over the entity.

2 Accounting policies continued

Interests in associates

Companies, other than subsidiaries and joint ventures, in which the Group has an investment representing not less than 20% of the voting rights and over which it exerts significant influence are treated as associates. The Consolidated Financial Statements include the appropriate share of these associates' results and net assets based on their latest financial statements under the equity method of accounting.

Income Statement presentation

The Group Income Statement has been presented in a columnar format to enable users of the Financial Statements to view the normalised results of the Group. Normalised results are defined as the statutory results excluding loss on the sale of a business, intangible asset amortisation, exceptional items and tax relief thereon.

Exceptional items

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

Revenue recognition

Rendering of services

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

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

Rail revenue in the UK 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 Spain and Morocco 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 America 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 are recognised in the Income Statement on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, 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.

Segmental reporting

Each of the Group's reportable segments provides services that are subject to risks and returns that are different from those of the other 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, with the exception of the Rail segment that comprises operations in both the UK and Germany. The German rail operation forms less than 10% of the Group's total revenues, assets and capital expenditure and therefore has not been disclosed as a separately reportable segment.

The Group's segments comprise: UK Bus; UK Coach; Rail; North America (operates school bus and transit services); Spain and Morocco (operates bus and coach services); and Central functions. These segments are described in more detail in the Business review accompanying these Financial Statements.

Leases

Leases of property, plant and equipment where substantially all the risks and rewards of ownership of the asset have passed to the Group are capitalised in the Balance Sheet as property, plant and equipment. Finance leases are capitalised at the lower of the fair value of the leased property and the present value of the minimum lease payments. The capital element of future obligations under hire purchase contracts and finance leases is included as a liability in the Balance Sheet. The interest element of rental obligations is charged to the Income Statement over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding. Property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term.

Notes to the Consolidated Accounts continued For the year ended 31 December 2015

2 Accounting policies continued

Leases continued
Leases of property, plant and equipment where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Rentals paid under operating leases are charged to the Income Statement on a straight-line basis over the term of the lease. Incentives received under operating leases and initial direct costs in negotiating the lease are amortised to the Income Statement on a straight-line basis over the term of the lease.

All material arrangements and transactions entered into by the Group are reviewed to check whether they contain elements that meet the accounting definition of a lease, although they may not follow the legal form of a lease.

Borrowing costs
Borrowing costs are recognised as an expense when incurred except where they are directly attributable to the acquisition, construction or production of a qualifying asset, in which case they are capitalised as part of the cost of that asset.

Current tax and deferred tax
Current tax is provided on taxable profits earned according to the local tax rates applicable where the profits are earned. Income taxes are recognised in the Income Statement unless they relate to an item accounted for in Other Comprehensive Income or Equity, in which case the tax is recognised directly in Other Comprehensive Income or Equity. The tax rates and tax laws used to compute the current tax are those that are enacted or substantively enacted by the Balance Sheet date.

Deferred tax is provided in full in respect of all material temporary differences at the Balance Sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, apart from the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill;
- where an asset or liability is recognised in a transaction that is not a business combination and that at the time of the transaction affects neither accounting nor taxable profit or loss; and
- in respect of investment in subsidiaries, associates and joint ventures where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is measured on a non-discounted basis at tax rates that are expected to apply in the periods in which the temporary differences reverse based on tax rates and laws enacted or substantively enacted at the Balance Sheet date.

Deferred tax assets are recognised to the extent that it is considered more likely than not that future taxable profits will be available against which the underlying temporary differences can be deducted. Their carrying amount is reviewed at each Balance Sheet date on the same basis.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and when the Group intends to settle its current tax assets and liabilities on a net basis.

Intangible assets
Intangible assets acquired separately that meet the recognition criteria of IAS 38 Intangible Assets are capitalised at cost and when acquired in a business combination are capitalised at fair value at the date of acquisition. Following initial recognition, finite life assets are amortised on a straight-line basis and indefinite life assets are not amortised. The amortisation expense is taken to the Income Statement through operating costs.

Finite life intangible assets have a residual value of £nil and are amortised over their estimated useful lives as follows:

Customer contracts	– over the life of the contract (between 1 and 33 years)
Contract mobilisation costs	– over the life of the franchise (15 years)
Brands	– over the life of the brand (5 years)

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

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

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

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

2 Accounting policies continued

Goodwill

Goodwill on acquisition is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is stated at historical 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 historical cost less accumulated depreciation and accumulated impairment losses. Under the transitional arrangements of IFRS 1, the Group elected to deem the fair value of certain revalued assets to be equivalent to cost.

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

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

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

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

Impairment of non-financial assets

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

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

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

Notes to the Consolidated Accounts continued For the year ended 31 December 2015

2 Accounting policies continued

Financial instruments

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

Financial assets at fair value through profit or loss

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

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

Loans and receivables

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

Available-for-sale financial assets

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

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

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

Financial liabilities

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

Financial liabilities at fair value through profit or loss

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

Other

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

2 Accounting policies continued

Derivative financial instruments

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

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

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

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

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

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

Inventories

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

Contract mobilisation costs

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

Trade and other receivables

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

Cash and cash equivalents

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

Trade and other payables

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

Interest-bearing borrowings

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

Notes to the Consolidated Accounts continued For the year ended 31 December 2015

2 Accounting policies continued

Insurance

The Group's policy is to self-insure high frequency claims within the businesses. To provide protection above these types of losses, the Group purchases insurance cover from a selection of proven and financially strong insurers. The insurance provision is based on estimated exposures at the year end principally for claims arising in the UK and North America prior to the year end date, subject to the overall deductible within the Group's insurance arrangements. The majority of provisions will be utilised within five years, and the provisions have been discounted to take account of the expected timing of future cash settlements.

Pensions and other post-employment benefits

The Group has a number of pension schemes, both of a defined benefit and defined contribution nature. Full details are provided in note 33.

The Balance Sheet position in respect of defined benefit schemes comprises the net of the present value of the relevant defined benefit obligation at the Balance Sheet date and the fair value of plan assets. Recognition of a net asset is limited so that it does not exceed the economic benefits available in the form of refunds from the scheme or reductions in future contributions to the scheme. The trustees complete a full actuarial valuation triennially, separately for each plan, but the obligation is updated annually for financial reporting purposes by independent actuaries, using the projected unit credit method. The present value of the obligation is determined by the estimated future cash outflows discounted using interest rates of high quality corporate bonds which have terms to maturity equivalent to the terms of the related liability.

The current service cost and gains and losses on settlements and curtailments are recognised in staff pension costs within operating costs in the Income Statement. Past service costs are included in operating costs where the benefits have vested, otherwise they are amortised on a straight-line basis over the vesting period. Net interest is calculated by applying a discount rate to the net defined benefit liability or asset and is recognised within finance costs. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to Other Comprehensive Income in the period in which they arise.

Our UK TOCs participate in the Railways Pension Scheme ('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 Financial Statements 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 re-issued. Any consideration subsequently received on sale or re-issue is included in shareholders' equity.

Dividend distributions to the Company's shareholders are recognised as a liability in the Group's Financial Statements on the date when dividends are approved by the Company's shareholders. Interim dividends are recognised in the period they are paid.

Non-current assets held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use.

A discontinued operation is a component of the Group that has been disposed of, or is classified as held for sale and it either represents a separate major line of business or geographical area; is part of a plan to dispose of a separate major line of business or geographical area; or was an acquired subsidiary intended for resale. The resulting profit or loss from discontinued operations is reported separately in the Income Statement.

Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortised.

Foreign currencies

The trading results of foreign currency denominated subsidiaries, joint ventures and associates are translated into Sterling, the presentation currency of the Group and functional currency of the parent, using average rates of exchange for the year as a reasonable approximation to actual exchange rates at the dates of transactions.

The balance sheets of foreign currency denominated subsidiaries, joint ventures and associates are translated into Sterling at the rates of exchange ruling at the year end and exchange differences arising are taken directly to the translation reserve in equity. On disposal of a foreign currency denominated subsidiary, the deferred cumulative amount recognised in the translation reserve (since 1 January 2004 under the transitional rules of IFRS 1) relating to that entity is recognised in the Income Statement. All other translation differences are taken to the Income Statement, with the exception of differences on foreign currency borrowings and forward foreign currency contracts which are used to provide a hedge against the Group net investments in foreign enterprises. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in the Income Statement.

New standards and interpretations not applied

At the date of authorisation of these Financial Statements, the following Standards and Interpretations which have not been applied in these Financial Statements were in issue but not yet effective, and have not yet been adopted by the EU:

IFRS 9 Financial Instruments – effective for periods beginning on or after 1 January 2018. The standard deals with the classification, recognition and measurement of financial assets and liabilities.

IFRS 15 Revenue from Contracts with Customers – effective for periods beginning on or after 1 January 2017. The standard establishes the principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

IFRS 16 Leases – effective for periods beginning on or after 1 January 2019. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases.

The Directors have assessed the following: IFRS 9 may impact both the measurement and disclosures of the Group's financial instruments. IFRS 15 is not likely to have a significant impact on future financial statements. IFRS 16 is expected to result in a material increase to both the assets and liabilities of the Group and may also impact the timing of recognition of operating and finance costs.

A full assessment of the impact of these new standards will be undertaken prior to their application.

Notes to the Consolidated Accounts continued For the year ended 31 December 2015

3 Revenue

	2015 £m	2014 £m
Rendering of services	**1,916.5**	1,865.0
Rental income	**3.3**	2.4
Revenue	**1,919.8**	1,867.4
Finance income	**5.9**	6.5
Total revenue from continuing operations	**1,925.7**	1,873.9

4 Exchange rates

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

	2015 Closing rate	2015 Average rate	2014 Closing rate	2014 Average rate
US dollar	**1.47**	**1.53**	1.56	1.65
Canadian dollar	**2.04**	**1.95**	1.81	1.82
Euro	**1.36**	**1.38**	1.29	1.24

If the results for the year to 31 December 2014 had been retranslated at the average exchange rates for the year to 31 December 2015, North America would have achieved normalised operating profit of £63.0m on revenue of £656.8m, compared to normalised operating profit of £59.5m on revenue of £620.2m as reported, and Spain and Morocco would have achieved a normalised operating profit of £67.6m on revenue of £484.7m, compared to normalised operating profit of £75.0m on revenue of £538.1m as reported.

5 Segmental analysis

The operating businesses are organised and managed separately according to the nature of the public transport services they provide. The geographical markets they operate in match the nature of public transport services provided, with the exception of the Rail segment that comprises operations in both the UK and Germany. The German rail operation forms less than 10% of the Group's total revenues, assets and capital expenditure. Commentary on the segments is included in the Strategic Report.

Revenue is analysed by reportable segment as follows:

	External revenue 2015 £m	Inter-segment sales 2015 £m	Segment revenue 2015 £m	External revenue 2014 £m	Inter-segment sales 2014 £m	Segment revenue 2014 £m
UK Bus	**285.1**	**1.3**	**286.4**	280.8	0.2	281.0
UK Coach	**280.9**	**0.3**	**281.2**	274.6	0.6	275.2
Rail	**168.4**	**–**	**168.4**	151.6	–	151.6
North America	**683.2**	**–**	**683.2**	620.2	–	620.2
Spain and Morocco	**502.2**	**–**	**502.2**	538.1	–	538.1
German Coach	**–**	**–**	**–**	2.1	–	2.1
Inter-segment sales elimination	**–**	**(1.6)**	**(1.6)**	–	(0.8)	(0.8)
Total revenue	**1,919.8**	**–**	**1,919.8**	1,867.4	–	1,867.4

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

5 Segmental analysis continued

Operating profit is analysed by reportable segment as follows:

	Normalised operating profit 2015 £m	Intangible amortisation 2015 £m	Segment result 2015 £m	Normalised operating profit (restated)* 2014 £m	Intangible amortisation and exceptional items (restated)* 2014 £m	Segment result 2014 £m
UK Bus	**37.5**	**–**	**37.5**	34.0	(7.0)	27.0
UK Coach	**32.3**	**(0.5)**	**31.8**	28.0	(3.5)	24.5
Rail	**0.6**	**–**	**0.6**	(10.1)	(0.6)	(10.7)
North America	**66.8**	**(15.2)**	**51.6**	59.5	(27.5)	32.0
Spain and Morocco	**71.5**	**(9.9)**	**61.6**	75.0	(6.4)	68.6
German Coach	**–**	**–**	**–**	(1.7)	(2.1)	(3.8)
Central functions	**(15.2)**	**(0.1)**	**(15.3)**	(17.1)	(6.3)	(23.4)
Operating profit from continuing operations	**193.5**	**(25.7)**	**167.8**	167.6	(53.4)	114.2
Share of results of associates			**1.8**			0.3
Net finance costs			**(45.2)**			(48.0)
Profit before tax			**124.4**			66.5
Tax charge			**(15.3)**			(5.9)
Profit for the year			**109.1**			60.6

* restated for the reclassification of business development costs from exceptionals as reconciled below.

	Rail £m	Spain and Morocco £m	Central functions £m	Group operating profit £m
As previously reported	**9.7**	**75.8**	**(12.2)**	**193.1**
Business development costs	**(19.8)**	**(0.8)**	**(4.9)**	**(25.5)**
As restated	**(10.1)**	**75.0**	**(17.1)**	**167.6**

Intangible asset amortisation is analysed by reportable segment as follows:

	2015 £m	2014 £m
UK Coach	**0.5**	0.5
North America	**15.2**	11.3
Spain and Morocco	**9.9**	16.3
German Coach	**–**	0.4
Central functions	**0.1**	0.1
Total	**25.7**	28.6

Notes to the Consolidated Accounts continued For the year ended 31 December 2015

5 Segmental analysis continued

Exceptional costs/(income) are analysed by reportable segment as follows:

	2015 £m	2014 (restated)* £m
UK Bus	–	7.0
UK Coach	–	3.0
Rail	–	0.6
North America	–	16.2
Spain and Morocco	–	(9.9)
German Coach	–	1.7
Central functions	–	6.2
Total	–	24.8

* restated for the reclassification of business development costs from exceptionals as disclosed in note 2.

Exceptional costs/(income) are further analysed by type as follows:

	2015 £m	2014 (restated)* £m
Restructuring	–	25.8
Strategic rationalisation	–	18.3
Exceptional fuel credits	–	(19.3)
	–	24.8

* restated for the reclassification of business development costs from exceptionals as disclosed in note 2.

In 2014 the Group incurred net exceptional costs of £24.8m relating to restructuring, the rationalisation of onerous contracts and exceptional fuel credits.

Further details are disclosed in the Group’s 2014 Annual Report and Accounts.

5 Segmental analysis continued

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

	Assets 2015 £m	Of which non-current assets* 2015 £m	Liabilities 2015 £m	Capital** expenditure 2015 £m	Assets 2014 £m	Of which non-current assets* 2014 £m	Liabilities 2014 £m	Capital** expenditure 2014 £m
UK Bus	**177.3**	**158.9**	**(157.5)**	**30.0**	156.2	135.8	(144.3)	4.9
UK Coach	**58.3**	**35.1**	**(47.8)**	**3.9**	50.7	35.9	(39.3)	2.3
Rail	**53.7**	**19.7**	**(50.3)**	**8.5**	24.1	4.6	(41.9)	2.9
North America	**972.6**	**859.3**	**(265.9)**	**36.1**	824.5	738.4	(193.7)	22.7
Spain and Morocco	**1,052.0**	**951.2**	**(210.9)**	**27.4**	1,084.4	986.3	(178.0)	21.8
Central functions	**59.9**	**7.6**	**(55.3)**	**1.6**	45.1	6.3	(53.1)	1.1
Unallocated	**124.8**	**–**	**(879.8)**	**–**	150.5	–	(849.0)	–
Intercompany elimination	**(14.1)**	**–**	**14.1**	**–**	(9.3)	–	9.3	–
Total	**2,484.5**	**2,031.8**	**(1,653.4)**	**107.5**	2,326.2	1,907.3	(1,490.0)	55.7

* Non-current assets only include intangible assets, property, plant and equipment.
** The net capital expenditure, after allowing for finance lease additions, disposal of fixed assets and payments to acquire intangibles, was £148.1m (2014: £50.5m).

Capital expenditure comprises property, plant and equipment additions as disclosed above and in note 14. In 2015, software intangible assets of £6.2m (2014: £6.0m) were acquired as disclosed in note 13.

Unallocated assets and liabilities comprise the following items:

	Unallocated assets 2015 £m	Unallocated liabilities 2015 £m	Unallocated assets 2014 £m	Unallocated liabilities 2014 £m
Cash and cash equivalents	**60.4**	**–**	83.7	–
Other debt receivables	**0.8**	**–**	0.8	–
Current tax	**1.4**	**(16.1)**	1.3	(23.3)
Available-for-sale investments	**6.5**	**–**	6.8	–
Derivative financial assets/(liabilities)	**24.6**	**(85.6)**	28.0	(71.9)
Borrowings, excluding finance leases	**–**	**(723.8)**	–	(687.2)
Dividends payable	**–**	**(0.5)**	–	(0.6)
Deferred tax	**31.1**	**(53.8)**	29.9	(66.0)
Total	**124.8**	**(879.8)**	150.5	(849.0)

Notes to the Consolidated Accounts continued For the year ended 31 December 2015

6 Operating costs

			2015 £m	2014 £m
Cost of inventories recognised in expense			**60.1**	70.9
Staff costs (including exceptional costs in 2014 of £8.5m)			**879.1**	850.3
Depreciation	– Owned assets (including exceptional costs in 2014 of £3.4m)		**86.4**	86.4
	– Leased assets		**17.9**	18.5
Amortisation of fixed asset grants			**(0.6)**	(0.8)
Operating lease charges		Rolling stock: capital element	**23.4**	29.0
		Rolling stock: non-capital element	**0.5**	–
		Public service vehicles	**10.5**	9.1
		Other	**9.5**	9.8
	– Plant and equipment		**43.9**	47.9
		Fixed track access	**4.0**	7.2
		Other	**20.7**	22.5
	– Land and buildings		**24.7**	29.7
Foreign exchange differences			**(0.1)**	(0.5)
Other charges (including exceptional expense in 2014 of £12.9m)			**614.9**	622.2
Operating costs before intangible asset amortisation			**1,726.3**	1,724.6
Intangible asset amortisation			**25.7**	28.6
Total operating costs			**1,752.0**	1,753.2

The UK TOC has fixed track access contracts with Network Rail Infrastructure Limited for access to the railway infrastructure (tracks, stations and depots). The TOC also has 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 auditor is provided below:

	2015 £m	2014 £m
Fees payable to the Company's auditor for the audit of the consolidated and parent Company accounts	**0.3**	0.3
Fees payable to the Company's auditor and its associates for other services:		
The audit of the Company's subsidiaries	**0.7**	0.7
Other services	**0.2**	0.2
	1.2	1.2

7 Employee benefit costs

(a) Staff costs

	2015 £m	2014 £m
Wages and salaries	**760.9**	733.6
Social security costs	**103.7**	103.7
Pension costs (note 33)	**11.3**	9.9
Share-based payment (note 8)	**3.2**	3.1
	879.1	850.3

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

	2015	2014
Managerial and administrative	**4,078**	3,869
Operational	**38,544**	38,058
	42,622	41,927

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:

	2015 £m	2014 £m
Basic salaries	**0.8**	1.0
Benefits	**0.4**	0.4
Performance-related bonuses	**0.9**	1.4
Share-based payment	**1.2**	1.1
	3.3	3.9

(b) Share schemes

Details of options or awards outstanding as at 31 December 2015 under the Group's share schemes are as follows:

	Number of share options 2015	Number of share options 2014	Exercise price	Future exercise periods
Long-Term Incentive Plan	**8,539,637**	10,062,870	**nil**	**2016-2020**
Share Matching Plan	**–**	360,233	**nil**	**–**
Deferred Annual Share Bonus Plan	**117,510**	478,820	**nil**	**2016**
WMT Long Service Option Scheme	**266,592**	258,525	**129p-599p**	**2016-2025**
Executive Deferred Bonus Plan	**76,643**	134,598	**nil**	**2016**
	9,000,382	11,295,046		

(i) 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 (ii). Performance conditions are attached to the vesting of Performance and Matching Awards based on the achievement of target growth in earnings per share ('EPS'), return on capital employed ('ROCE') 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.

Notes to the Consolidated Accounts continued For the year ended 31 December 2015

7 Employee benefit costs continued

(b) Share schemes continued

(i) Long-Term Incentive Plan ('LTIP') *continued*

Since 2011, HMRC approved share option plans were added as an appendix to the LTIP ('Approved Plan'). A participant can only hold an option under the Approved Plan over shares with a market value of up to £30,000 at the grant date. Options under the Approved Plan are granted in tandem with the usual options under the LTIP. The options are structured such that on exercise, the proportion of the gain in respect of the first £30,000 worth of shares (as measured at the date of grant) will be delivered under the Approved Option and the LTIP option shall be scaled back to deliver the remaining gross gain that would have been delivered had the option been granted alone. The excess shares under the LTIP will be forfeited such that both awards will never become fully vested.

From 2012 to 2014, a supplementary five-year long-term incentive award was granted to the Chief Executive subject to targets linked to the Group's five-year plan. This comprised a Performance Award (with no matching element). If performance conditions are met, the Performance award will vest on the fifth anniversary of the grant date and remain exercisable for a period of up to 12 months following the vesting date. There are no cash settlement alternatives at present.

(ii) Share Matching Plan (the 'Plan')

The Share Matching Plan was introduced in 2005 as part of the new LTIP arrangements described in (i). Under the Plan, a Matching Award to acquire a specified number of shares for free may be made if the employee pledges a number of shares as investment shares which are then matched by the Company on up to a 4:1 basis with the number of shares that could have been purchased with the gross-tax equivalent of the amount invested. The Matching Awards vest on the third anniversary of the grant date and remain exercisable for a period of up to six months following the vesting date. There are no cash settlement alternatives at present.

(iii) 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. There are no cash settlement alternatives at present.

(iv) 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.

(v) TWM Share Incentive Plan (the 'SIP')

The TWM SIP exists for the benefit of WMT employees. At the end of the year, 1,079 (2014: 1,079) National Express Group PLC shares were held for the benefit of the Trustee. Dividends on shares held in the SIP forfeited shares account are waived. There are no cash settlement alternatives.

(vi) Executive Deferred Bonus Plan

As detailed in the Directors' Remuneration Report, the Committee considered it appropriate for bonuses awarded in respect of the calendar year to be deferred for a period of one year and that these would vest, subject to the terms of the award and the relevant Director's continuing employment. The deferred forfeitable ordinary shares are awarded under the terms of The National Express Group Executive Deferred Bonus Plan which was adopted by the Board of the Company on 10 March 2009.

The principal terms of awards under the Executive Deferred Bonus Plan are summarised below:

- awards under the Plan may be cash awards, conditional awards or forfeitable shares awards;
- awards normally vest one year from the date of grant, subject to the relevant Director's continued employment with the Company;
- the Committee may decide that participants shall be entitled to receive a benefit determined by reference to the value of the dividends that would have been paid on the vested shares in respect of dividend record dates occurring during the period between the grant date and the date of vesting; and
- the awards will normally lapse on cessation of employment save in certain compassionate 'good leaver' circumstances (eg death or disability).

In the event of a variation of the share capital of the Company, the Committee may make such adjustments to the awards as it considers appropriate.

8 Share-based payments

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

	2015 £m	2014 £m
Expense arising from share and share option plans – continuing operations	**3.2**	3.1

There were exceptional costs included within the charge during the year of £nil (2014: £0.7m).

During the year ended 31 December 2015, the Group had six 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:

	2015		2014	
	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	**258,525**	**379**	278,457	380
Granted during the year	**71,773**	**295**	31,876	280
Forfeited during the year	**(11,867)**	**333**	(9,120)	354
Exercised during the year	**(14,363)**	**173**	(10,721)	192
Expired during the year	**(37,476)**	**458**	(31,967)	359
Outstanding at 31 December	**266,592**	**359**	258,525	379
Exercisable at 31 December	**152,408**	**413**	188,470	422
Options with a nil exercise price:				
At 1 January	**11,036,521**	**nil**	12,211,871	nil
Granted during the year	**2,338,019**	**nil**	3,985,698	nil
Forfeited during the year	**(1,646,181)**	**nil**	(1,657,616)	nil
Exercised during the year	**(809,666)**	**nil**	(962,147)	nil
Expired during the year	**(2,184,903)**	**nil**	(2,541,285)	nil
Outstanding at 31 December	**8,733,790**	**nil**	11,036,521	nil
Exercisable at 31 December	**117,510**	**nil**	58,755	nil
Total outstanding at 31 December	**9,000,382**		11,295,046	
Total exercisable at 31 December	**269,918**		247,225	

The options outstanding at 31 December 2015 had exercise prices that were between 129p and 599p (2014: between 129p and 599p) excluding options with a nil exercise price. The range of exercise prices for options was as follows:

Exercise price (p)	2015	2014
0-350	**170,210**	118,916
351-600	**96,382**	139,609
	266,592	258,525

The options have a weighted average contractual life of one year (2014: one year). Options were exercised regularly throughout the year and the weighted average share price at exercise was 314p (2014: 280p).

Notes to the Consolidated Accounts continued For the year ended 31 December 2015

8 Share-based payments continued

The weighted average fair value of the share options granted during the year was calculated using a stochastic model, with the following assumptions and inputs:

	Share options without nil exercise price		Share options with nil exercise price	
	2015	2014	**2015**	2014
Risk free interest rate	**1.09%-1.36%**	1.73%	**0.73%**	1.13%-1.81%
Expected volatility	**25.0%-26.0%**	30.0%	**24.0%**	30.0%
Peer group volatility	**–**	–	**22.0%-25.0%**	28.0%-30.0%
Expected option life in years	**5 years**	5 years	**3 years**	3-5 years
Expected dividend yield	**3.53%-3.63%**	3.64%	**0.0%**	3.58%
Weighted average share price at grant date	**295p**	275p	**314p**	280p
Weighted average exercise price at grant date	**295p**	280p	**nil**	nil
Weighted average fair value of options at grant date	**44p**	51p	**280p**	194p

Experience to date has shown that approximately 24% (2014: 24%) of options are exercised early, principally due to leavers. This has been incorporated into the calculation of the expected option life for the share options without nil exercise price.

Expected volatility in the table above was determined from historical volatility over the last eight years, adjusted for one-off events that were not considered to be reflective of the volatility of the share price going forward. The expected dividend yield represents the dividends declared in the 12 months preceding the date of the grant divided by the average share price in the month preceding the date of the grant.

For share options granted during the year under the LTIP, the TSR targets have been reflected in the calculation of the fair value of the options above.

9 Net finance costs

	2015 £m	2014 £m
Bond and bank interest payable	**(45.5)**	(47.5)
Finance lease interest payable	**(3.2)**	(4.2)
Other interest payable	**(0.9)**	(0.5)
Unwind of provision discounting	**(1.4)**	(1.2)
Net interest cost on defined benefit pension obligations	**(0.1)**	(1.1)
Finance costs	**(51.1)**	(54.5)
Other financial income	**5.9**	6.5
Net finance costs	**(45.2)**	(48.0)
Of which, from financial instruments:		
Cash and cash equivalents	**(2.4)**	(2.3)
Financial liabilities measured at amortised cost	**(44.4)**	(46.7)
Derivatives used for hedging	**5.8**	5.8
Loan fee amortisation	**(2.3)**	(2.1)

10 Taxation

(a) Analysis of taxation charge in the year

	2015 £m	2014 (restated)* £m
Current taxation:		
UK corporation tax	1.7	(2.6)
Overseas taxation	13.3	16.3
Current income tax charge	15.0	13.7
Adjustments with respect to prior years – UK and overseas	(8.5)	0.9
Total current income tax charge	6.5	14.6
Deferred taxation (note 26):		
Origination and reversal of temporary differences – continuing operations	9.2	(11.3)
Adjustments with respect to prior years – UK and overseas	(0.4)	2.6
Deferred tax charge/(credit)	8.8	(8.7)
Total tax charge	15.3	5.9
The tax charge is disclosed as follows:		
Tax charge on profit before intangible asset amortisation and exceptional items	28.5	21.8
Tax credit on intangible asset amortisation and exceptional items	(13.2)	(15.9)
	15.3	5.9
Tax credit on intangible asset amortisation and exceptional items is analysed as follows:		
Tax credit on intangible asset amortisation	(13.2)	(10.9)
Tax credit on exceptional items	–	(5.0)
	(13.2)	(15.9)

* restated for the reclassification of business development costs from exceptionals as disclosed in note 2.

The 2014 tax credit on exceptional items of £5.0m relates to tax deductions on allowable exceptional costs. The £24.8m exceptional costs consist mainly of redundancy and reorganisation costs as well as unsuccessful rail bid costs which are allowable for tax purposes. An element of the exceptional costs in the US and Spain are not allowed for tax purposes and therefore there is no tax credit in relation to these items.

The current year tax credit on intangible items includes adjustments with respect to prior years in relation to Spanish and German intangible tax relief.

(b) Tax on items recognised in Other Comprehensive Income or Equity

	2015 £m	2014 £m
Current taxation:		
Charge on exchange movements offset in reserves	(0.3)	–
	(0.3)	–
Deferred taxation:		
Deferred tax credit/(charge) on actuarial (losses)/gains	1.4	(2.3)
Deferred tax credit on cash flow hedges	1.2	13.6
Deferred tax (charge)/credit on foreign exchange differences	(0.8)	0.1
Deferred tax credit on share-based payments	0.7	1.0
	2.5	12.4

Notes to the Consolidated Accounts continued For the year ended 31 December 2015

10 Taxation continued

(c) Reconciliation of the total tax charge

	2015 £m	2014 £m
Profit before income tax	**124.4**	66.5
Notional charge at UK corporation tax rate of 20.25% (2014: 21.50%)	**25.2**	14.3
Recurring items:		
Non-deductible/(deductible) goodwill impairment and intangible amortisation	**0.6**	(1.0)
Effect of overseas tax rates	**8.8**	5.8
Tax incentives	**(5.6)**	(7.6)
Overseas financing deductions	**(5.8)**	(5.3)
Non-recurring items:		
Adjustments to prior years within current and deferred tax (excluding movements in tax provisions)	**2.2**	3.5
(Release)/increase in tax provisions	**(8.6)**	1.1
Effect of reduction in tax rates (note 10(h))	**0.1**	(4.9)
Non-taxable income	**(1.3)**	(0.5)
(Utilisation)/recognition of a deferred tax asset for previously unrecognised tax losses	**(0.3)**	0.5
Total tax charge reported in the Income Statement (note 10(a))	**15.3**	5.9

Included within the tax reconciliation are a number of non-recurring items, the main ones being changes in tax rates (UK and Spain) which resulted in deferred tax effects due to the restatement of balances, and the release of tax provisions. The UK corporation rates will reduce to 19% from 1 April 2017 and to 18% from 1 April 2020 and the Spanish rate has decreased to 25% from 1 January 2016. Items expected to recur in the tax reconciliation for 2016 include the difference in rates between the UK and our overseas markets, tax incentives on re-investment credits and the merger of our Spanish businesses and the effect of the debt financing of our overseas subsidiaries.

(d) Tax provisions

At 31 December 2014, the Group held tax provisions of £21.3m to cover tax uncertainties across our various markets. During 2015, a tax audit into our Spanish business concluded with a payment of €2.7m to settle tax liabilities for the periods 2009 to 2011. All UK corporation tax returns up to 2013 have been submitted and agreed by HMRC, with 2014 recently submitted for review by HMRC. As a result of this and with no outstanding tax audits in the UK, Spain, the US or Canada, it was decided that £8.6m of the tax provisions are no longer required to cover tax uncertainties and £8.6m was credited to the tax line. The balance of £12.7m of tax provisions represents a number of tax uncertainties such as the deductibility of interest expense in some of our markets, withholding tax on payments and other matters. Based on the experience of the Group Tax department and after discussions of the various tax uncertainties with our tax advisors, the tax provision of £12.7m represents management’s best estimate of the tax uncertainties of which we are aware. The provision for the Group’s tax uncertainties of £12.7m is included in current tax liabilities.

(e) Temporary differences associated with Group investments

No deferred tax (2014: £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 (2014: £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.

(f) 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. Based on current forecasts, it is estimated that the losses recognised for deferred tax purposes will be utilised within three to four years. UK and overseas deferred tax assets that the Group has not recognised in the Financial Statements amount to £6.9m (2014: £7.8m), which arise in tax jurisdictions where the Group does not expect to generate sufficient suitable future taxable profits. The majority of the unrecognised losses relates to UK entities where it is uncertain when, or if, the losses will be utilised. In addition, there are capital losses of £0.9m (2014: £1.8m), relating to the US business, which have not been recognised, recoverability of which is dependent on capital gains arising.

The £0.9m (2014: £1.8m) of unrecognised capital losses will expire in 2016.

10 Taxation continued

(g) Deferred tax included in the Income Statement

	2015 £m	2014 £m
Accelerated capital allowances	**(15.2)**	(11.1)
Other short-term temporary differences	**28.4**	(0.4)
Utilisation of losses	**(4.4)**	2.8
Deferred tax charge/(credit)	**8.8**	(8.7)

Details on the Balance Sheet position of deferred tax are included in note 26.

(h) Factors that may affect future tax charges

During the period, the Finance (No. 2) Act 2015 was passed with UK corporation tax rates of 19% from 1 April 2017 and 18% from 1 April 2020.

At the Balance Sheet date, rates of 19% and 18% (2014: 20%) were substantively enacted. The change in rate from 20% to 18% has resulted in a tax charge of £1.1m to the Income Statement.

In June 2014 the Spanish Government announced a tax rate reduction from 30% to 28% during 2015 and then from 28% to 25% in 2016. At the Balance Sheet date, a rate of 25% was recognised. The change in rate from 28% to 25% has resulted in a £1.0m credit to the Income Statement.

11 Dividends paid and proposed

	2015 £m	2014 £m
Declared and paid during the year		
Ordinary final dividend for 2014 paid of 6.95p per share (2013: 6.75p)	**35.5**	34.5
Ordinary interim dividend for 2015 of 3.685p per share (2014: 3.35p)	**18.9**	17.1
	54.4	51.6
Proposed for approval (not recognised as a liability at 31 December)		
Ordinary final dividend for 2015 of 7.645p per share (2014: 6.95p per share)	**38.9**	35.5

12 Earnings per share

	2015	2014
Basic earnings per share	**20.9p**	11.6p
Normalised basic earnings per share*	**23.4p**	18.9p
Diluted earnings per share	**20.9p**	11.5p
Normalised diluted earnings per share*	**23.3p**	18.9p

* restated for the reclassification of business development costs from exceptionals as disclosed in note 2.

Basic EPS is calculated by dividing the earnings attributable to equity shareholders of £107.0m (2014: £59.1m) by the weighted average number of ordinary shares in issue during the year, excluding those held by the Group's Employee Benefit Trust (note 31) which are treated as cancelled.

For diluted EPS, 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:

	2015	2014
Basic weighted average shares	**510,954,717**	511,125,312
Adjustment for dilutive potential ordinary shares	**2,399,159**	970,374
Diluted weighted average shares	**513,353,876**	512,095,686

Notes to the Consolidated Accounts continued For the year ended 31 December 2015

12 Earnings per share continued

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

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

	2015			2014*		
	£m	Basic EPS p	Diluted EPS p	£m	Basic EPS p	Diluted EPS p
Profit attributable to equity shareholders	**107.0**	**20.9**	**20.9**	59.1	11.6	11.5
Intangible amortisation	**25.7**	**5.0**	**5.0**	28.6	5.6	5.6
Exceptional items	**–**	**–**	**–**	24.8	4.8	4.8
Tax relief on the above items	**(13.2)**	**(2.5)**	**(2.6)**	(15.9)	(3.1)	(3.0)
Normalised profit from continuing operations and attributable to equity shareholders	**119.5**	**23.4**	**23.3**	96.6	18.9	18.9

* restated for the reclassification of business development costs from exceptionals as disclosed in note 2.

13 Intangible assets

	Customer contracts £m	Software £m	Contract mobilisation costs £m	Total finite life assets £m	Goodwill £m	Total £m
Cost:						
At 1 January 2015	513.1	47.0	1.6	561.7	1,095.2	1,656.9
Acquisitions	57.1	–	–	57.1	31.6	88.7
Additions	1.6	6.2	8.3	16.1	–	16.1
Disposals	(1.4)	–	–	(1.4)	–	(1.4)
Reclassifications	–	0.4	–	0.4	–	0.4
Foreign exchange	(15.2)	1.1	–	(14.1)	(27.7)	(41.8)
At 31 December 2015	555.2	54.7	9.9	619.8	1,099.1	1,718.9
Amortisation and impairment:						
At 1 January 2015	365.2	32.4	–	397.6	81.9	479.5
Charge for year	21.2	4.5	–	25.7	–	25.7
Disposals	(1.4)	–	–	(1.4)	–	(1.4)
Reclassifications	3.0	(3.0)	–	–	–	–
Foreign exchange	(14.5)	0.8	–	(13.7)	(1.9)	(15.6)
At 31 December 2015	373.5	34.7	–	408.2	80.0	488.2
Net book value:						
At 31 December 2015	181.7	20.0	9.9	211.6	1,019.1	1,230.7
At 1 January 2015	147.9	14.6	1.6	164.1	1,013.3	1,177.4

13 Intangible assets continued

	Customer contracts £m	Brand £m	Software £m	Contract mobilisation costs £m	Total finite life assets £m	Goodwill £m	Total £m
Cost:							
At 1 January 2014	525.2	2.3	33.0	–	560.5	1,127.1	1,687.6
Acquisitions	4.2	–	–	–	4.2	1.6	5.8
Additions	0.7	–	6.0	1.6	8.3	1.0	9.3
Disposals	–	–	(0.5)	–	(0.5)	–	(0.5)
Reclassifications	4.0	(2.3)	7.3	–	9.0	–	9.0
Foreign exchange	(21.0)	–	1.2	–	(19.8)	(34.5)	(54.3)
At 31 December 2014	513.1	–	47.0	1.6	561.7	1,095.2	1,656.9
Amortisation and impairment:							
At 1 January 2014	360.1	0.8	19.0	–	379.9	84.2	464.1
Charge for year	22.7	–	5.9	–	28.6	–	28.6
Disposals	–	–	(0.5)	–	(0.5)	–	(0.5)
Reclassifications	1.6	(0.8)	7.2	–	8.0	–	8.0
Foreign exchange	(19.2)	–	0.8	–	(18.4)	(2.3)	(20.7)
At 31 December 2014	365.2	–	32.4	–	397.6	81.9	479.5
Net book value:							
At 31 December 2014	147.9	–	14.6	1.6	164.1	1,013.3	1,177.4
At 1 January 2014	165.1	1.5	14.0	–	180.6	1,042.9	1,223.5

Goodwill has been allocated to individual cash-generating units for annual impairment testing on the basis of the Group's business operations. The carrying value by cash-generating unit is as follows:

	2015 £m	2014 £m
UK Coach	**13.2**	13.2
North America	**371.3**	335.0
Spain and Morocco	**634.6**	665.1
	1,019.1	1,013.3

The recoverable amount of indefinite life intangible assets has been determined based on a value in use calculation using cash flow projections based on financial budgets and forecasts approved by senior management covering a five-year period. The assumptions, including growth rates and operating margins, are based on historical experience and detailed budget plans as well as management's assessment of current market and economic conditions. Growth has then been extrapolated forward from the end of the forecasts.

Notes to the Consolidated Accounts continued For the year ended 31 December 2015

13 Intangible assets continued

The calculation of value in use for each group of cash-generating units is most sensitive to the assumptions over discount rates and the growth rate used to extrapolate cash flows beyond the three-year period of the management plan.

The key assumptions used for the cash-generating units are as follows:

	Pre-tax discount rate applied to cash flow projections		Growth rate used to extrapolate cash flows beyond five-year period of management plan	
	2015	2014	**2015**	2014
UK Coach	**8.2%**	8.5%	**2.2%**	2.0%
North America	**8.1%**	8.6%	**2.8%**	2.5%
Spain and Morocco	**8.2%**	8.5%	**2.2%**	2.0%

The value in use of the North America division exceeds its carrying amount by £455.1m (2014: £169.4m). Sensitivity analysis has been completed on each key assumption in isolation, and this indicates that the value in use of the division will be equal to its carrying amount following an increase in the pre-tax discount rate of 290 basis points (2014: 140 basis points) or a reduction in the growth rates used to extrapolate cash flows beyond the three-year period of the management plan of 340 basis points (2014: 160 basis points).

The value in use of the Spain and Morocco division exceeds its carrying amount by £121.9m (2014: £107.1m). Sensitivity analysis has been completed on each key assumption in isolation, and this indicates that the value in use of the division will be equal to its carrying amount following an increase in the pre-tax discount rate of 80 basis points (2014: 70 basis points) or a reduction in growth rates used to extrapolate cash flows beyond the three-year period of the management plan of 80 basis points (2014: 70 basis points).

For both Spain and Morocco and North America the headroom has increased as the increase in the asset base is more than offset by future profit projections.

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

Sensitivities to other assumptions

In North America, a reduction in operating profit margin of 320 basis points (2014: 160 basis points) will result in the value in use of the division being equal to its carrying amount. In Spain and Morocco, a reduction in operating profit margin of 140 basis points (2014: 110 basis points) will also result in the value in use of the division being equal to its carrying amount.

The Directors consider the assumptions used to be consistent with the historical performance of each cash-generating unit and to be realistically achievable in light of economic and industry measures and forecasts.

14 Property, plant and equipment

	Freehold land and buildings £m	Long leasehold property improvements £m	Public service vehicles £m	Plant and equipment, fixtures and fittings £m	Total £m
Cost:					
At 1 January 2015	96.7	5.1	1,247.9	168.9	1,518.6
Acquisitions	0.4	–	18.5	0.1	19.0
Additions	2.9	0.9	138.6	21.2	163.6
Disposals	(1.2)	–	(20.2)	(1.5)	(22.9)
Reclassifications	(0.1)	–	–	(0.3)	(0.4)
Foreign exchange	(3.1)	0.4	3.5	(1.9)	(1.1)
At 31 December 2015	95.6	6.4	1,388.3	186.5	1,676.8
Depreciation:					
At 1 January 2015	18.1	3.4	631.8	135.4	788.7
Charge for the year	2.4	0.7	90.9	10.3	104.3
Disposals	(0.7)	–	(15.2)	(1.1)	(17.0)
Reclassifications	–	(0.1)	–	0.1	–
Foreign exchange	(0.3)	0.3	1.3	(1.6)	(0.3)
At 31 December 2015	19.5	4.3	708.8	143.1	875.7
Net book value:					
At 31 December 2015	76.1	2.1	679.5	43.4	801.1
At 1 January 2015	78.6	1.7	616.1	33.5	729.9

Notes to the Consolidated Accounts continued For the year ended 31 December 2015

14 Property, plant and equipment continued

	Freehold land and buildings £m	Long leasehold property improvements £m	Public service vehicles £m	Plant and equipment, fixtures and fittings £m	Total £m
Cost:					
At 1 January 2014	100.8	4.8	1,178.5	174.1	1,458.2
Acquisitions	–	–	1.5	–	1.5
Additions	2.2	0.4	83.8	12.8	99.2
Disposals	(1.9)	(0.4)	(21.2)	(6.2)	(29.7)
Reclassifications	–	(0.1)	0.2	(9.4)	(9.3)
Foreign exchange	(4.4)	0.4	5.1	(2.4)	(1.3)
At 31 December 2014	96.7	5.1	1,247.9	168.9	1,518.6
Depreciation:					
At 1 January 2014	17.2	2.7	547.9	139.0	706.8
Charge for the year	2.4	0.7	91.6	10.2	104.9
Disposals	(1.0)	(0.4)	(10.5)	(4.8)	(16.7)
Reclassifications	(0.1)	0.1	(0.4)	(7.0)	(7.4)
Foreign exchange	(0.4)	0.3	3.2	(2.0)	1.1
At 31 December 2014	18.1	3.4	631.8	135.4	788.7
Net book value:					
At 31 December 2014	78.6	1.7	616.1	33.5	729.9
At 1 January 2014	83.6	2.1	630.6	35.1	751.4

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

		2015 £m	2014 £m
Public service vehicles	– cost	**225.0**	206.9
	– depreciation	**(84.4)**	(70.3)
Total net book value		**140.6**	136.6

Assets held under finance lease agreements are pledged as security for the related finance lease and hire purchase liabilities.

15 Subsidiaries

The companies listed below include all those which principally affect the results and net assets of the Group. A full list of subsidiaries, joint ventures and associates is disclosed in note 38. The principal country of operation in respect of the companies below is the country in which they are incorporated.

National Express Group PLC is the beneficial owner of all the equity share capital, either itself or through subsidiaries, of the companies.

The Group's train passenger services in the UK are operated through franchises awarded by DfT Rail, as delegated by the UK Government.

Incorporated in England and Wales	
National Express Limited	Administration and marketing of express coach services in Great Britain
Eurolines (UK) Limited	Administration and marketing of express coach services to Europe
Airlinks Airport Services Limited	Operation of coach services
The Kings Ferry Limited	Operation of coach services
West Midlands Travel Limited	Operation of bus services
NXET Trains Limited	Operation of train passenger services

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

Incorporated in the US	
Durham School Services LP	Operation of school bus services
Petermann Ltd	Operation of school bus services
National Express Transit Corporation	Operation of transit bus services
National Express Transit Services Corporation	Operation of transit bus services

Incorporated in Canada	
Stock Transportation Limited	Operation of school bus services

Incorporated in Spain	
NEX Continental Holdings SL*	Holding company for operating companies
Tury Express SA*	Holding company for operating companies
General Tecnica Industrial SLU*	Holding company for operating companies

Incorporated in Morocco	
Groupe Alsa Transport SA	Operation of bus services
Transport de Voyageurs en Autocar Maroc SA	Operation of bus services
Alsa Tanger SA	Operation of bus services
Alsa City Agadir SA	Operation of bus services

Incorporated in Germany	
National Express Rail GmbH	Operation of train passenger services

* The main holding companies of the ALSA Group.

The Group has no material non-controlling interests that require separate disclosure.

Notes to the Consolidated Accounts continued For the year ended 31 December 2015

16 Derivative financial assets and available-for-sale investments

	2015 £m	2014 £m
Available-for-sale investments – Unlisted ordinary shares	**6.5**	6.8
Derivative financial instruments – Interest rate derivatives	**22.2**	26.5
Derivative financial instruments included in non-current assets	**22.2**	26.5
Derivative financial instruments – Foreign exchange derivatives	**2.4**	1.5
Derivative financial instruments included in current assets	**2.4**	1.5

Further information on the Group's use of fuel, interest rate and foreign exchange derivatives is included in note 30.

Available-for-sale investments

	2015 £m	2014 £m
Cost or valuation and net book value:		
At 1 January	**6.8**	7.4
Provided in the year	**–**	(0.1)
Foreign exchange	**(0.3)**	(0.5)
At 31 December	**6.5**	6.8

The principal available-for-sale investments are as follows:

Name	Country of registration	Class of share	2015 Proportion held %	2014 Proportion held %
Metros Ligeros de Madrid, S.A. (MLM)	Spain	Ordinary shares	**15**	15
Various investments within ALSA and Continental Auto	Spain	Ordinary shares	**1-16**	1-16

17 Investments accounted for using the equity method

Investments accounted for using the equity method are as follows:

	2015 £m	2014 £m
Joint ventures	**8.3**	2.7
Associates	**2.3**	2.7
Total investments accounted for under the equity method	**10.6**	5.4

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

	2015 £m	2014 £m
Share of joint ventures' profit	**2.0**	0.2
Share of associates' (loss)/profit	**(0.2)**	0.1
Total share of results from associates and joint ventures	**1.8**	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
Bahrain Public Transport Company W.L.L.	Kingdom of Bahrain	Operation of bus services	50

The financial information of Ibero-Eurosur S.L. and Bahrain Public Transport Company W.L.L. is summarised below:

	Ibero-Eurosur S.L.		Bahrain Public Transport Company W.L.L.	
Share of the joint ventures' balance sheets and results	2015 £m	2014 £m	2015 £m	2014 £m
Non-current assets	**3.3**	3.3	**18.5**	–
Current assets	**0.1**	–	**5.6**	0.2
Share of gross assets	**3.4**	3.3	**24.1**	0.2
Non-current liabilities	**(0.3)**	(0.5)	**(16.0)**	–
Current liabilities	**(0.3)**	(0.3)	**(2.6)**	–
Share of gross liabilities	**(0.6)**	(0.8)	**(18.6)**	–
Net assets	**2.8**	2.5	**5.5**	0.2
Revenue	**0.2**	0.2	**24.2**	–
Operating profit	**0.2**	0.2	**1.3**	–
Profit for the year and total comprehensive income	**0.2**	0.2	**1.8**	–
Dividends received from the joint ventures during the year	**–**	–	**–**	–

A reconciliation of the above summarised financial information to the carrying amount in the consolidated Financial Statements is as follows:

	Ibero-Eurosur S.L		Bahrain Public Transport Company W.L.L.	
	2015 £m	2014 £m	2015 £m	2014 £m
Net assets of the joint venture	**13.2**	12.3	**11.0**	0.2
Proportion of interest belonging to joint venture partners	**(10.4)**	(9.8)	**(5.5)**	–
Group share of net assets	**2.8**	2.5	**5.5**	0.2

Notes to the Consolidated Accounts continued For the year ended 31 December 2015

17 Investments accounted for using the equity method continued

(b) Investments in associates

The Group's interests in associates are as follows:

Name	Country of registration	Proportion held %
Spain and Morocco associates	Spain	20-50

Spain and Morocco's associates are generally involved in the operation of coach and bus services, management of bus stations and similar operations.

The aggregate amounts related to associates (of which none are individually material) are summarised below:

	2015 £m	2014 £m
Share of operating (loss)/profit	(0.2)	0.1
Share of (loss)/profit for the year and total comprehensive income and expenditure	(0.2)	0.1
Group share of net assets	2.3	2.7

The carrying amount of the investment in associates matches the Group's share of the net assets.

18 Business combinations

(a) Acquisitions

During the year the Group acquired 100% of the share capital of five businesses in the US, none of which are material individually:

- Folmsbee's Transportation Inc and SR Leasing Company Inc (April 2015) – school bus transportation services and charter services in upstate New York
- Trans Express Inc, along with On Top Tours NYC Inc and Rainbow Management Service Inc (June 2015) – scheduled transportation services and charter bus services in New York
- The Provider Enterprises Inc (October 2015) – special needs transportation services in New Hampshire and Maine
- Septran Inc (October 2015) – school bus and special needs transportation services in Illinois and Minnesota
- Smith Bus Service Inc (December 2015) – school bus transportation services in Maryland

In aggregate, the provisional fair values of the assets and liabilities acquired in North America are as follows:

	£m
Intangible assets	44.4
Property, plant and equipment	15.6
Trade and other receivables	8.7
Cash and cash equivalents	3.2
Trade and other payables	(35.0)
Deferred tax asset	17.4
Net assets acquired	54.3
Goodwill	27.4
Total consideration	81.7
Represented by:	
Cash consideration	62.5
Payments for cash acquired in the businesses	3.2
Deferred consideration	16.0
	81.7

Trade and other receivables had a fair value and a gross contractual value of £8.7m. The best estimate at acquisition date of the contractual cash flows not to be collected was £nil.

18 Business combinations continued

(a) Acquisitions continued

Goodwill of £27.4m arising from the acquisitions consists of certain intangible benefits that cannot be separately identified and measured due to their nature. This includes control over the acquired businesses and increased scale in our North American operations, along with synergy benefits expected to be achieved.

Included in the consideration shown above is contingent consideration of £10.1m. Under the arrangement the Group is required to pay the seller a multiplier of revenue over a three-year period if the revenue exceeds an agreed base revenue level and EBITDA exceeds an agreed EBITDA floor. The maximum payment under this arrangement is dependent on the amount of excess over the base revenue level, and the minimum payment is £nil. Based on projections, management expect the discounted value of payments to be £10.1m.

Acquisition-related costs included within the Group's operating profit for the year amounted to £0.9m.

The acquired businesses contributed £23.0m of revenue and £3.4m to the Group's net profit for the periods between the dates of acquisition and the Balance Sheet date. Had the acquisitions been completed on the first day of the financial year, Group revenue for the period would have been £1,951.7m and the Group's net profit would have been £110.5m.

Deferred consideration of £0.2m (2014: £0.5m) was paid in the year relating to acquisitions in North America in earlier years.

Total cash outflow in the year from acquisitions in North America was £62.7m, comprising consideration of £65.7m and deferred consideration of £0.2m, less cash acquired in the businesses of £3.2m.

On 10 December 2015, in Spain, the Group acquired certain trade and assets of the Madrid–El Escorial franchise and related transport businesses. The fair value of net assets acquired was £12.7m. Consideration was £16.2m, resulting in provisional goodwill of £3.5m. There was £0.2m of cash acquired in the business and all of the consideration is payable in 2016, therefore the net cash inflow in the year was £0.2m.

(b) Disposals

There were no material business disposals during 2015 or 2014.

19 Non-current assets – trade and other receivables

	2015 £m	2014 £m
Prepayments	**1.8**	0.1
Other receivables	**2.2**	1.7
	4.0	1.8

20 Inventories

	2015 £m	2014 £m
Raw materials and consumables	**22.5**	21.8

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

Notes to the Consolidated Accounts continued For the year ended 31 December 2015

21 Current assets – trade and other receivables

	2015 £m	2014 £m
Trade receivables	**143.1**	116.8
Less: provision for impairment of receivables	**(10.8)**	(11.2)
Trade receivables – net	**132.3**	105.6
Amounts due from associates and joint ventures (note 35)	**1.1**	1.2
Amounts due from other related parties (note 35)	**0.6**	0.7
Other receivables	**56.0**	56.2
Prepayments	**35.0**	23.7
Accrued income	**16.9**	12.2
	241.9	199.6

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

	2015 £m	2014 £m
At 1 January	**(11.2)**	(11.3)
Utilised in the year	**0.4**	0.1
At 31 December	**(10.8)**	(11.2)

Amounts included within trade receivables which are past due at the reporting date are shown in note 29. The Directors believe that based on the ongoing contractual relationships with predominantly government bodies these amounts will be collected.

22 Cash and cash equivalents

	2015 £m	2014 £m
Cash at bank and in hand	**59.2**	36.3
Overnight deposits	**0.7**	6.9
Other short-term deposits	**0.5**	40.5
Cash and cash equivalents	**60.4**	83.7

Cash and cash equivalents include restricted balances of £4.7m (2014: £2.8m) held by the Rail subsidiaries (TOCs). Under the terms of the train franchise agreements, cash can only be distributed by the TOCs either up to the value of retained profits or the amount determined by prescribed liquidity ratios. The restricted cash represents the balance that is either not available for distribution or the amount required to satisfy the liquidity ratio at the Balance Sheet date.

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group and earn interest at the agreed short-term floating deposit rate. The fair value of cash and cash equivalents is equal to the carrying value.

23 Current liabilities – trade and other payables

	2015 £m	2014 £m
Trade payables	**182.3**	144.2
Amounts owed to associates and joint ventures (note 35)	**0.8**	0.9
Amounts owed to other related parties (note 35)	**0.5**	0.7
Other tax and social security payable	**28.8**	27.4
Accruals and deferred income	**119.3**	115.6
Other payables	**167.8**	126.9
	499.5	415.7

Trade payables are non-interest bearing and are normally settled on 30 day terms and other payables are non-interest bearing and have an average term of two months. Included within other payables are deferred fixed asset grants from government or other public bodies of £0.4m (2014: £1.1m).

Other payables includes £23.0m of deferred consideration for businesses acquired in the year (note 18).

24 Other non-current liabilities

	2015 £m	2014 £m
Deferred fixed asset grants	**3.5**	3.4
Other liabilities	**12.5**	0.7
	16.0	4.1

Other liabilities includes £9.2m of deferred consideration for businesses acquired in the year (note 18).

25 Provisions

	Claims provision[1] £m	Other[2] £m	Total £m
At 1 January 2015	**39.3**	**19.5**	**58.8**
Charged to the Income Statement	**20.0**	**0.4**	**20.4**
Utilised in the year	**(30.4)**	**(11.8)**	**(42.2)**
Unwinding of discount	**1.4**	**–**	**1.4**
Acquired in business combinations	**29.0**	**–**	**29.0**
Exchange difference	**1.6**	**(0.3)**	**1.3**
At 31 December 2015	**60.9**	**7.8**	**68.7**
Current 31 December 2015	**31.8**	**4.8**	**36.6**
Non-current 31 December 2015	**29.1**	**3.0**	**32.1**
	60.9	**7.8**	**68.7**
Current 31 December 2014	23.2	12.1	35.3
Non-current 31 December 2014	16.1	7.4	23.5
	39.3	19.5	58.8

1 The claims provision arises from estimated exposures at the year end for auto and general liability, workers' compensation and environmental claims, the majority of which will be utilised in the next five years. It comprises provisions for claims arising in the UK and North America.

2 Other includes amounts provided for restructuring activities across the Group, loss making contracts and dilapidation provisions in Rail. The majority of these provisions are expected to be utilised in the next four years.

When the effect is material, the provisions are discounted to their net present value.

Notes to the Consolidated Accounts continued For the year ended 31 December 2015

26 Deferred tax

	2015 £m	2014 £m
Net deferred tax liability at 1 January	**(36.1)**	(58.4)
(Charge)/Credit to Income Statement	**(8.8)**	8.7
Credit to Other Comprehensive Income or Equity	**2.5**	12.4
Exchange differences	**–**	0.3
Acquired in business combinations	**19.7**	0.9
Net deferred tax liability at 31 December	**(22.7)**	(36.1)

Based on current capital investment plans, the Group expects to be able to claim capital allowances in excess of depreciation in future years at a similar level to the current year.

Deferred tax assets	2015 £m	2014 £m
Accelerated tax depreciation	**1.7**	3.9
Losses carried forward	**8.6**	6.4
Other short-term temporary differences	**20.8**	19.6
Total	**31.1**	29.9

Deferred tax liabilities	2015 £m	2014 £m
Accelerated tax depreciation	**(144.0)**	(150.0)
Losses carried forward	**42.0**	42.1
Other short-term temporary differences	**48.2**	41.9
Total	**(53.8)**	(66.0)

Deferred tax assets and liabilities within the same jurisdiction have been offset.

The UK and German businesses are included in deferred tax assets of £31.1m and the Spanish, US and Canadian businesses are included in deferred tax liabilities of £53.8m.

The deferred tax assets relating to losses carried forward are £50.6m (2014: £48.5m). This comprises £8.6m within deferred tax assets and £42.0m within deferred tax liabilities.

27 Borrowings and derivative financial liabilities

	2015 £m	2014 £m
Non-current		
Bank loans	**6.9**	2.6
Bonds	**583.5**	585.3
Finance lease obligations	**99.7**	87.6
Other debt payable	**62.2**	66.3
Non-current borrowings	**752.3**	741.8
Fuel derivatives	**39.6**	36.1
Non-current derivative financial instruments	**39.6**	36.1
Non-current borrowings and derivative financial liabilities	**791.9**	777.9
Current		
Bank loans	**38.4**	2.6
Bonds – accrued interest	**29.3**	29.2
Finance lease obligations	**27.9**	22.9
Other debt payable	**3.5**	1.2
Current borrowings	**99.1**	55.9
Fuel derivatives	**44.2**	35.2
Foreign exchange derivatives	**1.8**	0.6
Current derivative financial instruments	**46.0**	35.8
Current borrowings and derivative financial liabilities	**145.1**	91.7

An analysis of interest-bearing loans and borrowings is provided in note 28. Further information on derivative financial instruments is provided in note 30.

Notes to the Consolidated Accounts continued For the year ended 31 December 2015

28 Interest-bearing borrowings

The effective interest rates on loans and borrowings at the Balance Sheet date were as follows:

	2015 £m	Maturity	Effective interest rate	2014 £m	Maturity	Effective interest rate
Seven-year Sterling bond	**352.3**	**January 2017**	**6.54%**	353.0	January 2017	6.54%
Ten-year Sterling bond	**231.2**	**June 2020**	**6.85%**	232.3	January 2020	6.85%
Bonds	**583.5**			585.3		
Accrued interest – bonds	**29.3**			29.2		
European bank loans	**34.0**	**November 2020**[1]	**LIBOR + 0.60%**	–	November 2019[1]	LIBOR + 0.60%
European bank loans	**8.6**	**2016-2020**	**4.45%**	3.6	2015-2016	4.25%
European bank loans	**2.1**	**2016-2018**	**EURIBOR + 1.26%**	3.0	2015-2017	EURIBOR + 1.91%
US bank loans	**0.6**		**1.40%**	2.0		1.15%
Bank loans	**45.3**			8.6		
US dollar finance leases at fixed rate	**108.4**	**2016-2021**	**2.13%**	93.1	2015-2020	2.04%
European finance leases at fixed rate	**6.1**	**2016-2023**	**3.02%**	2.0	2015-2017	5.41%
European finance leases at floating rate	**6.6**	**2016-2022**	**EURIBOR + 1.90%**	5.2	2015-2022	EURIBOR + 1.06%
Sterling finance leases at fixed rate	**6.5**	**2016-2018**	**4.76%**	10.2	2015-2018	5.61%
Finance leases	**127.6**			110.5		
Euro Private Placement	**61.8**	**August 2021**	**4.55%**	65.6	August 2021	4.55%
Accrued interest – Private Placement	**1.1**			1.1		
Euro loans	**2.8**	**2016-2026**		0.8	2026	
Other debt payable	**65.7**			67.5		
Total	**851.4**			801.1		

[1] This date is the ultimate maturity date of the syndicated credit facility.

In November 2015, the Group extended its committed unsecured revolving bank facility by one year to November 2020. The facility size remains unchanged at £416m with one further one-year extension option subject to approval by the lenders. At 31 December 2015 there was €50m (2014: €nil) drawn down on the facility, with £2.9m of capitalised deal fees remaining.

In January 2016, the Group entered into additional committed unsecured revolving credit facilities totalling £450m. The new facilities include a £350m bridge facility to provide the Group with an appropriate level of liquidity prior to refinancing the Group's £350m 2017 bond, and a £100m facility to be used for general corporate purposes. Both facilities are for 18 months with three six-month extension options.

Under the terms of the £1bn EMTN programme, there is a change in control put option such that, upon a change of control event, any holder of any MTN may require the Company to redeem or purchase that MTN.

Details of the Group's interest rate risk management strategy and associated interest rate derivatives are included in notes 29 and 30.

The Group is subject to a number of financial covenants in relation to its syndicated credit facilities which, if contravened, could result in its borrowings under the facility becoming immediately repayable. These covenants specify maximum net debt to EBITDA and minimum EBITDA to net interest payable.

28 Interest-bearing borrowings continued

The following table sets out the carrying amount, by maturity, of the Group's interest-bearing borrowings and deposits:

As at 31 December 2015	< 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	(1.9)	(1.9)	(3.5)	(1.3)	(0.2)	–	(8.8)
Bonds	–	(352.3)	–	–	(231.2)	–	(583.5)
Finance leases	(25.9)	(40.4)	(24.9)	(17.2)	(5.2)	(7.5)	(121.1)
Other debt payable	(3.5)	(0.1)	(0.3)	–	–	(61.8)	(65.7)
Floating rate							
Cash assets	60.4	–	–	–	–	–	60.4
Bank loans	(36.5)	–	–	–	–	–	(36.5)
Finance leases	(2.0)	(1.6)	(1.0)	(0.8)	(0.4)	(0.7)	(6.5)

As at 31 December 2014	< 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	> 5 years £m	Total £m
Fixed rate							
Bank loans	(3.0)	(0.5)	–	–	–	–	(3.5)
Bonds	–	–	(353.0)	–	–	(232.3)	(585.3)
Finance leases	(21.1)	(19.8)	(33.5)	(18.5)	(10.8)	(1.5)	(105.2)
Other debt payable	(1.2)	(0.1)	(0.5)	–	–	(65.7)	(67.5)
Floating rate							
Cash assets	83.7	–	–	–	–	–	83.7
Bank loans	0.4	–	(2.1)	–	–	–	(1.7)
Finance leases	(1.8)	(1.2)	(0.9)	(0.4)	(0.4)	(0.6)	(5.3)

29 Financial risk management objectives and policies

Financial risk factors and management

The Group's multinational operations and debt levels expose it to a variety of financial risks, of which the most material are market risks relating to fuel prices, foreign currency exchange rates, interest rates and the availability of funding at reasonable margins. The Group has in place a risk management programme that seeks to manage the impact of these risks on the financial performance of the Group by using financial instruments including borrowings, committed facilities and forward foreign exchange, fuel and interest rate derivatives.

The Board of Directors has delegated the responsibility for implementing the financial risk management policies laid down by the Board to the Group Finance Director and the Group Treasurer. The policies are implemented by the Group Treasury department with regular reporting to the Group Finance Director and the Audit Committee on its activities.

Notes to the Consolidated Accounts continued For the year ended 31 December 2015

29 Financial risk management objectives and policies continued

Foreign currency

The Group has major foreign operations in the US, Canada and Spain and as a result is exposed to the movements in foreign currency exchange rates on the translation of these foreign currency denominated net assets and earnings. These movements can have a significant impact on the Group's reported results. The Group seeks to manage this foreign currency exchange movements risk by aligning its foreign currency denominated liabilities with the EBIT generated in each currency, such that some protection is afforded to the net debt: EBITDA covenant within the Group's core borrowing facility. This is achieved by a combination of foreign currency borrowings and finance leases, and entering into derivative financial instruments such as interest rate swaps and foreign exchange swaps. At the year end, the Group had outstanding foreign exchange derivatives of €125.1m, US$14.5m, CAD$36.0m and CZK13.7m, swaps of US$190.0m and €166.8m, and finance leases of US$159.8m and €17.2m.

Derivative financial instruments are designated as net investment hedges of foreign currency assets. The effective portion of the gain or loss on the hedge is recognised in the Group Statement of Comprehensive Income and recycled to the Income Statement at the same time as the underlying hedged net assets affect the Income Statement. Any material ineffectiveness is taken to the Income Statement.

The table below demonstrates the sensitivity of the Group's financial instruments to a reasonably possible change in foreign exchange rates, with all other variables held constant. This would affect the Group's profit before tax and translation reserve. The effect on the translation reserve represents the movement in the translated value of the foreign currency denominated loans and change in fair value of cross-currency swap contracts. These movements would be offset by an opposite movement in the translated value of the Group's overseas net investments. It is estimated that a 10% change in the corresponding exchange rates would result in an exchange gain or loss in the translation reserve of £10.8m.

		2015		2014	
As at 31 December 2015	Strengthening/ (weakening) in currency	**Effect on profit before tax £m**	**Effect on translation reserve £m**	Effect on profit before tax £m	Effect on translation reserve £m
US dollar	10%	**0.1**	**3.0**	–	(0.2)
Euro	10%	**–**	**7.6**	–	7.7
Canadian dollar	10%	**–**	**0.2**	0.3	0.1
US dollar	(10)%	**(0.1)**	**(3.0)**	–	0.2
Euro	(10)%	**–**	**(7.6)**	–	(7.7)
Canadian dollar	(10)%	**–**	**(0.2)**	(0.3)	(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 2015 the proportion of Group net debt at floating rates was 34% (2014: 28%).

The following table demonstrates the sensitivity of the Group's financial instruments to a reasonably possible change in interest rates, with all other variables held constant, on the Group's profit before tax and on the Group's hedging reserve.

The sensitivity analysis covers all floating rate financial instruments, including the interest rate swaps. If the interest rates applicable to floating rate instruments denominated in Sterling were increased by 100bps, it is estimated that the Group's profit before taxation would decrease by approximately £1.8m. If the interest rates applicable to floating rate instruments denominated in US$ were increased by 50bps, it is estimated that the Group's profit before taxation would increase by £0.1m. If the interest rates applicable to floating rate instruments denominated in Euro were increased by 75bps, it is estimated that the Group's profit before taxation would reduce by £0.3m. The analysis assumes that the amount and mix of floating rate debt, including finance leases, remains unchanged from that in place at 31 December 2015.

29 Financial risk management objectives and policies continued

Interest rate risk continued

As at 31 December	Increase/ (decrease) in basis points	2015 Effect on profit before tax £m	2015 Effect on hedging reserve £m	2014 Effect on profit before tax £m	2014 Effect on hedging reserve £m
Sterling	100	**(1.8)**	**–**	(1.4)	–
US dollar	50	**0.1**	**–**	–	–
Euro	75	**(0.3)**	**–**	(0.4)	–
Sterling	(100)	**1.8**	**–**	1.4	–
US dollar	(50)	**(0.1)**	**–**	–	–
Euro	(75)	**0.3**	**–**	0.4	–

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 2015, the Group had hedged approximately 100% of its 2016 expected usage, 94% of its expected usage in 2017 and 42% of its expected usage in 2018 (see the Group Finance Director's review for further details).

The table below demonstrates the effect of a reasonably possible variation in fuel prices, with all other variables held constant, on the fair value of the Group's financial instruments and accordingly on the Group's profit before tax and on the Group's hedging reserve.

The sensitivity analysis includes all fuel derivatives. The effect on the hedging reserve arises through movements on the fair value of the Group's fuel derivatives. For these derivative contracts the sensitivity of the net fair value to an immediate 20% increase or decrease in all prices would have been £22.1m at 31 December 2015. 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	2015 Effect on profit before tax £m	2015 Effect on hedging reserve £m	2014 Effect on profit before tax £m	2014 Effect on hedging reserve £m
Sterling denominated ULSD	20%	–	**7.9**	–	14.1
US dollar denominated heating oil/diesel	20%	–	**5.4**	–	9.6
Euro denominated ULSD	20%	–	**8.8**	–	15.2
Sterling denominated ULSD	(20)%	–	**(7.9)**	–	(14.1)
US dollar denominated heating oil/diesel	(20)%	–	**(5.4)**	–	(9.6)
Euro denominated ULSD	(20)%	–	**(8.8)**	–	(15.2)

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, and regional authorities in Germany). The Group does not consider these counterparties to pose a significant credit risk. Outside of this, the Group does not consider it has significant concentrations of credit risk. The Group has implemented policies that require appropriate credit checks on potential customers before sales commence.

The only elements of the Group's financial assets which are not impaired but are past due are certain trade receivable items. An ageing of the assets which are past due is included in the following table. In terms of trade receivables that are neither impaired nor past due, there are no indications as at the year end reporting date that the debtors will not meet their payment obligations (see Risk and risk management section for details of how management manages this process).

Notes to the Consolidated Accounts continued For the year ended 31 December 2015

29 Financial risk management objectives and policies continued

Credit risk continued

	Carrying amount £m	Of which: neither impaired nor past due £m	Of which: not impaired and past due in the following periods – Less than 30 days £m	Between 30 and 60 days £m	Between 61 and 90 days £m	Over 90 days £m
Trade receivables at 31 December 2015	**132.3**	**91.9**	**15.4**	**7.7**	**4.1**	**13.2**
Trade receivables at 31 December 2014	105.6	79.3	11.2	4.7	2.5	7.9

Liquidity risk

The Group's liquidity risk is managed centrally by the Group Treasury department with operating units forecasting their cash requirements. The Group actively maintains a mixture of long-term and medium-term committed facilities that are designed to ensure the Group has sufficient available funds to meet current and forecast funding requirements. In managing the liquidity risk, the Group has access to a range of funding sources through the banking and capital markets. In November 2015, the Group extended its committed unsecured revolving bank facility by one year to November 2020. The facility size remains unchanged at £416m with one further one-year extension option subject to approval by the lenders. At 31 December 2015, there was €50m (2014: €nil) drawn on the facility.

In January 2016, the Group entered into additional committed unsecured revolving credit facilities totalling £450m. The new facilities include a £350m bridge facility to provide the Group with an appropriate level of liquidity prior to refinancing the Group's £350m 2017 bond, and a £100m facility to be used for general corporate purposes. Both facilities are for 18 months with three six-month extension options. At 31 December 2015, the Group had committed bank borrowing and finance lease facilities of £506.8m (2014: £526.5m).

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2015 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 2015	**On demand £m**	**Less than 1 year £m**	**1-5 years £m**	**More than 5 years £m**	**Total £m**
Bank loans	**–**	**38.4**	**6.9**	**–**	**45.3**
Bonds	**–**	**36.8**	**656.5**	**–**	**693.3**
Finance lease obligations	**–**	**32.1**	**116.7**	**10.8**	**159.6**
Other debt payable	**–**	**5.0**	**11.0**	**64.4**	**80.4**
Trade and other payables	**–**	**499.1**	**12.5**	**–**	**511.6**
	–	**611.4**	**803.6**	**75.2**	**1,490.2**
Foreign exchange derivatives	**–**	**(0.6)**	**–**	**–**	**(0.6)**
Interest rate derivatives	**–**	**(5.7)**	**(16.6)**	**(0.4)**	**(22.7)**
Fuel derivatives	**–**	**41.7**	**40.7**	**–**	**82.4**
	–	**35.4**	**24.1**	**(0.4)**	**59.1**

Year ended 31 December 2014	On demand £m	Less than 1 year £m	1-5 years £m	More than 5 years £m	Total £m
Bank loans	–	5.9	2.8	–	8.7
Bonds	–	36.8	453.4	239.9	730.1
Finance lease obligations	–	26.4	93.8	2.0	122.2
Other debt payable	–	2.9	11.1	71.7	85.7
Trade and other payables	–	414.6	0.7	–	415.3
	–	486.6	561.8	313.6	1,362.0
Foreign exchange derivatives	–	(0.9)	–	–	(0.9)
Interest rate derivatives	–	(5.8)	(16.3)	(5.0)	(27.1)
Fuel derivatives	–	33.4	37.6	–	71.0
	–	26.7	21.3	(5.0)	43.0

29 Financial risk management objectives and policies continued

Capital risk management

The Group seeks to adopt efficient financing structures that enable it to use its Balance Sheet strength to achieve the Group's objectives without putting shareholder value at risk. The Group's capital structure comprises its equity (refer to the Group Statement of Changes in Equity) and its net debt (refer to note 36).

The increase in the Group's net debt from £664.3m to £745.5m (excluding accrued interest) is explained in the Group Finance Director's review. Information about the financial covenants in relation to the Group's borrowing facilities is included in note 28.

30 Financial instruments (including cash, trade receivables and payables)

Fair values

The table below illustrates the fair values of all financial assets and liabilities held by the Group at 31 December 2015.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are measured at amortised cost using the effective interest rate method and the carrying value in all cases approximates to the fair value.

Available-for-sale investments are non-derivative assets that are either designated as available for sale, or are not classified as loans and receivables or held to maturity investments. The Group's available-for-sale investments have no active market, and in the absence of any other reliable external information are carried at cost or amortised cost which approximates to the fair value.

The fair value of derivatives is either determined by the third party financial institution with which the Group holds the instrument, in line with the market value of similar financial instruments or by use of valuation techniques using market data. Derivatives, other than those designated as effective hedging instruments, are classified as fair value through profit or loss and are carried on the Balance Sheet at their fair value with gains or losses recognised in the Income Statement. Derivatives designated as hedging instruments in an effective hedge are carried on the Balance Sheet at their fair value. For cash flow hedges and hedges of net investments in foreign operations, the effective portion of the gain or loss on the hedging instrument is recognised directly in Other Comprehensive Income, while the ineffective portion is recognised in the Income Statement. Amounts taken to Other Comprehensive Income are transferred to the Income Statement when the hedged transaction affects profit or loss or when the foreign operation is sold or partially disposed. For fair value hedges, all gains or losses are recognised in the Income Statement.

Derivatives are the only instrument which the Group holds at fair value. The fair value measurement of these instruments is categorised within Level 2 (ie the fair values are derived based on observable market inputs). The Group has no financial instruments with fair values that are determined by reference to significant unobservable inputs, ie those that would be classified as Level 3 in the fair value hierarchy, nor have there been any transfers of assets or liabilities between levels of the fair value hierarchy. There are no non-recurring fair value movements.

The Group's bonds are held at a hybrid amortised cost with a fair value adjustment. After initial recognition at fair value, the bonds are measured at amortised cost using the effective interest rate method. A portion of the bonds are designated as the hedged item in an effective fair value hedging relationship. As such, the carrying value of this portion is adjusted for changes in fair value attributable to the risk being hedged. This net carrying value will differ to the fair value depending on movements in the Group's credit risk, movements in interest rates on the un-hedged portion and unamortised fees.

All other liabilities, including finance leases, bank loans, trade and other payables and other debt payable, are held at amortised cost. After initial fair value recognition, these instruments are measured at amortised cost using the effective interest rate method. The carrying value of these liabilities approximates to the fair value.

Notes to the Consolidated Accounts continued
For the year ended 31 December 2015

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

Fair values continued

Classification of financial instruments As at 31 December 2015	**Loans and receivables £m**	**Available-for-sale assets £m**	**Derivatives used for hedging £m**	**Liabilities measured at amortised cost £m**	**At fair value through profit or loss £m**	**Total £m**
Assets						
Investments	**–**	**6.5**	**–**	**–**	**–**	**6.5**
Foreign exchange derivatives	**–**	**–**	**2.4**	**–**	**–**	**2.4**
Interest rate derivatives	**–**	**–**	**22.2**	**–**	**–**	**22.2**
Cash and cash equivalents	**60.4**	**–**	**–**	**–**	**–**	**60.4**
Trade and other receivables	**192.2**	**–**	**–**	**–**	**–**	**192.2**
	252.6	**6.5**	**24.6**	**–**	**–**	**283.7**
Liabilities						
Bank loans	**–**	**–**	**–**	**(45.3)**	**–**	**(45.3)**
Bonds including accrued interest	**–**	**–**	**–**	**(612.8)**	**–**	**(612.8)**
Finance lease obligations	**–**	**–**	**–**	**(127.6)**	**–**	**(127.6)**
Other debt payable	**–**	**–**	**–**	**(65.7)**	**–**	**(65.7)**
Fuel derivatives	**–**	**–**	**(83.8)**	**–**	**–**	**(83.8)**
Foreign exchange derivatives	**–**	**–**	**(1.8)**	**–**	**–**	**(1.8)**
Trade and other payables	**–**	**–**	**–**	**(511.6)**	**–**	**(511.6)**
	–	**–**	**(85.6)**	**(1,363.0)**	**–**	**(1,448.6)**

Classification of financial instruments As at 31 December 2014	Loans and receivables £m	Available-for-sale assets £m	Derivatives used for hedging £m	Liabilities measured at amortised cost £m	At fair value through profit or loss £m	Total £m
Assets						
Investments	–	6.8	–	–	–	6.8
Foreign exchange derivatives	–	–	1.5	–	–	1.5
Interest rate derivatives	–	–	26.5	–	–	26.5
Cash and cash equivalents	83.7	–	–	–	–	83.7
Trade and other receivables	165.2	–	–	–	–	165.2
	248.9	6.8	28.0	–	–	283.7
Liabilities						
Bank loans	–	–	–	(5.2)	–	(5.2)
Bonds including accrued interest	–	–	–	(614.5)	–	(614.5)
Finance lease obligations	–	–	–	(110.5)	–	(110.5)
Other debt payable	–	–	–	(67.5)	–	(67.5)
Fuel derivatives	–	–	(71.3)	–	–	(71.3)
Foreign exchange derivatives	–	–	(0.6)	–	–	(0.6)
Trade and other payables	–	–	–	(415.3)	–	(415.3)
	–	–	(71.9)	(1,213.0)	–	(1,284.9)

Other receivables and other payables are to be settled in cash in the currency they are held in.

In accordance with IAS 39 Financial Instruments: Recognition and Measurement, the Group has reviewed all contracts for embedded derivatives that are required to be separately accounted for. No embedded derivatives have been identified.

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

Fair values continued

The Group assesses at each year end reporting date whether a financial asset or group of financial assets is impaired. In the financial year 2015 there was no objective evidence that would have necessitated the impairment of loans and receivables or available-for-sale assets except the provision for impairment of receivables (see note 21).

Hedging activities

The Group uses derivative financial instruments to manage exposures to market risk, such as movements in foreign exchange rates, fuel prices and interest rates. Such derivative financial instruments are initially recognised at fair value and are subsequently remeasured 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 2015 the Group applied cash flow hedge accounting for hedging floating fuel price risks in highly probable forecast purchase transactions and for hedging net investments in US dollar and Euro foreign operations. The Group applied fair value hedge accounting for the fair value interest rate risk on £200m of the Group's fixed rate bonds and €78.5m Private Placement.

The movement on derivative financial instruments is detailed below:

	Interest rate swaps £m	**Foreign exchange forward contracts £m**	**Fuel swaps £m**	**Total £m**
Net asset/(liability) at 1 January 2015	**26.5**	**0.9**	**(71.3)**	**(43.9)**
Transfers to the Income Statement on cash flow hedges	**–**	**–**	**38.6**	**38.6**
Cash settlements	**–**	**8.6**	**–**	**8.6**
Revaluation through Income Statement	**(4.3)**	**–**	**–**	**(4.3)**
Revaluation through Other Comprehensive Income	**–**	**–**	**(51.1)**	**(51.1)**
Exchange differences	**–**	**(8.9)**	**–**	**(8.9)**
Net asset/(liability) at 31 December 2015	**22.2**	**0.6**	**(83.8)**	**(61.0)**

	Interest rate swaps £m	Foreign exchange forward contracts £m	Fuel swaps £m	Total £m
Net asset/(liability) at 1 January 2014	17.1	1.8	(0.8)	18.1
Transfers to the Income Statement on cash flow hedges	–	–	9.8	9.8
Cash accrual	(0.1)	(2.5)	–	(2.6)
Revaluation through Income Statement	9.5	–	–	9.5
Revaluation through Other Comprehensive Income	–	–	(80.3)	(80.3)
Exchange differences	–	1.6	–	1.6
Net asset/(liability) at 31 December 2014	26.5	0.9	(71.3)	(43.9)

The movement on the hedging reserve is detailed below:

	2015 £m	2014 £m
At 1 January	**(52.3)**	2.1
Transferred to Income Statement	**36.1**	12.3
Revaluation through Other Comprehensive Income	**(51.1)**	(80.3)
Exchange differences	**(1.4)**	–
Tax on revaluation	**1.2**	13.6
At 31 December	**(67.5)**	(52.3)

Notes to the Consolidated Accounts continued For the year ended 31 December 2015

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

Hedge of net investments in foreign entities

The Group uses foreign currency borrowings and derivative financial instruments to hedge the net investment in material foreign currency net assets of the Group which are used to reduce the exposure to foreign exchange rate movements. At 31 December 2015, the Group had designated €166.8m of synthetic debt in the form of foreign exchange derivatives and €78.5m Private Placement as net investment hedges of the net assets of its Spanish subsidiaries. Similarly, $190m of synthetic debt in the form of foreign exchange derivatives were designated as a hedge of the net assets of the Group's US subsidiaries. No ineffectiveness was recognised in relation to these hedges.

Fuel derivatives

The Group has a number of fuel derivatives in place to hedge the different types of fuel used in each division. Ultra low sulphur diesel is used in the UK Bus, UK Coach and Spain and Morocco divisions and is hedged by swaps in the same type of fuel. Diesel used in the North America division is hedged using the diesel market. The timing of the swap cash flows match underlying fuel purchases from 2015 through to 2017.

During the year £51.1m of fair value losses (2014: £80.3m losses) have been transferred to the hedging reserve due to movements in market fuel prices. A fair value loss of £38.6m (2014: £9.8m loss) has been transferred from the hedging reserve to the Income Statement following settlement of fuel trades, of which £31.2m was recognised in the hedging reserve at 1 January 2015 and the remainder was generated during the year due to the movement in market fuel prices. In addition, a gain of £2.5m was recognised in the Income Statement in relation to hedge ineffectiveness (2014: £2.5m loss).

Fuel derivatives can be analysed as follows:

	31 December 2015 Fair value £m	31 December 2014 Fair value £m	**31 December 2015 Volume million litres**	31 December 2014 Volume million litres
Hedge fuel derivatives				
Sterling denominated – UK Bus and UK Coach	**(18.0)**	(14.4)	**80.0**	86.0
US dollar denominated – North America	**(13.1)**	(8.7)	**50.7**	54.9
Euro denominated – Spain and Morocco	**(13.1)**	(12.1)	**88.0**	89.5
Fuel derivatives included in current assets/(liabilities)	**(44.2)**	(35.2)	**218.7**	230.4
Sterling denominated – UK Bus and UK Coach	**(13.0)**	(13.9)	**89.0**	136.0
US dollar denominated – North America	**(10.5)**	(10.1)	**60.9**	93.5
Euro denominated – Spain and Morocco	**(16.1)**	(12.1)	**111.2**	170.5
Fuel derivatives included in non-current assets/(liabilities)	**(39.6)**	(36.1)	**261.1**	400.0
Total hedge fuel derivatives	**(83.8)**	(71.3)	**479.8**	630.4

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

Interest rate swaps at fair value through profit or loss

In July 2010 the Group entered into four £50m denominated interest rate swaps on a total of £200m of the Group's Sterling bonds. These interest rate swaps all pay floating interest (LIBOR + a margin) semi-annually, receive fixed interest annually with maturities matching the Group's Sterling bonds (two swaps with total notional value of £100m mature in January 2017, two swaps with notional value of £100m mature in June 2020) and are designated as a fair value hedge of the interest rate risk on £200m of these bonds. These swaps are measured at fair value through profit or loss, with any gains or losses being taken immediately to the Income Statement to offset any fair value gains or losses due to changes in the risk free interest rate on the swapped portion of the bonds. As at 31 December 2015 a total fair value loss of £3.6m was recognised in the Income Statement in relation to these swaps. This is offset by a fair value gain of £3.2m on the underlying hedged item, in this case changes in fair value on the £200m of the Group's bonds due to changes in the risk free interest rate.

In September 2012, the Group entered into two €39.25m denominated interest rate swaps equal in value to the Euro Private Placement. These interest rate swaps all pay floating interest (EURIBOR + a margin) semi-annually, receive fixed interest annually with maturities matching the Euro Private Placement and are designated as a fair value hedge of the interest rate risk on the Private Placement. These swaps are measured at fair value through profit and loss, with any gains or losses being taken immediately to the Income Statement to offset any fair value gains or losses due to changes in the risk free rate on the Euro Private Placement. As at 31 December 2015 a total fair value loss of £0.7m was recognised in the Income Statement in relation to these swaps. This is offset by a fair value gain of £0.7m on the underlying hedged item, in this case changes in fair value of the Euro Private Placement due to changes in the risk free interest rate.

31 Called-up share capital

	2015 £m	2014 £m
At 31 December:		
Authorised:		
800,000,000 (2014: 800,000,000) ordinary shares of 5p each	**40.0**	40.0
Issued called-up and fully paid:		
511,738,648 (2014: 511,738,648) ordinary shares of 5p each	**25.6**	25.6

The total number of share options exercised in the year by employees of the Group was 824,029 (2014: 972,868) of which 797,801 (2014: 882,000) exercises were satisfied by transferring shares from the National Express Employee Benefit Trust. The remaining exercises were settled via a direct purchase of shares from the open market.

Own shares

Own shares comprises 2,495,467 (2014: 553,268) 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 2,740,000 (2014: 1,033,000) shares and 797,801 (2014: 882,000) shares were used to satisfy options granted under a number of the Company's share schemes. Nil (2014: 24,362) shares were sold during the year to the open market.

The market value of the shares held by the Trust at 31 December 2015 was £8.3m (2014: £1.4m). The dividends payable on 2,418,824 of these shares have been waived (2014: 418,670).

Notes to the Consolidated Accounts continued For the year ended 31 December 2015

32 Other reserves

	Merger reserve £m	Hedging reserve £m	Translation reserve £m	Total £m
At 1 January 2015	**15.4**	**(52.3)**	**4.1**	**(32.8)**
Hedge movements, net of tax	**–**	**(15.2)**	**–**	**(15.2)**
Exchange differences, net of tax	**–**	**–**	**(32.1)**	**(32.1)**
At 31 December 2015	**15.4**	**(67.5)**	**(28.0)**	**(80.1)**

	Merger reserve £m	Hedging reserve £m	Translation reserve £m	Total £m
At 1 January 2014	15.4	2.1	29.0	46.5
Hedge movements, net of tax	–	(54.4)	–	(54.4)
Exchange differences, net of tax	–	–	(24.9)	(24.9)
At 31 December 2014	15.4	(52.3)	4.1	(32.8)

The nature and purpose of the other reserves are as follows:

- the merger reserve includes the premium on shares issued to satisfy the purchase of Prism Rail PLC in 2000;
- the hedging reserve records the movements on designated hedging items, offset by any movements recognised in equity on underlying hedged items; and
- the translation reserve records exchange differences arising from the translation of the accounts of foreign currency denominated subsidiaries offset by the movements on loans and derivatives used to hedge the net investment in foreign subsidiaries.

33 Pensions and other post-employment benefits

(a) Summary of pension benefits and assumptions

The UK Bus division and National Express Group PLC (the ‘Company’) operate defined benefit schemes. The Company defined benefit scheme also includes certain employees of the UK Coach division. In addition, a defined contribution scheme operates for staff in the UK Bus and UK Coach divisions and the Company.

The majority of employees of the Rail companies are members of the appropriate shared cost section of the Railways Pension Scheme (‘RPS’), a funded defined benefit scheme.

The assets of the defined benefit schemes are held separately from those of the Group and contributions to the schemes are determined by independent professionally qualified actuaries.

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

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

The Company 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; The Company contributes £4.2m annually to this scheme. In 2011 UK Bus agreed a £5.5m annual deficit repayment plan with the trustees of the West Midlands Integrated Transport Authority Pension Fund to fund a £71m scheme funding deficit over 12 years. The plan remains open to accrual for existing members only.

The total pension cost charged to operating profit in the year was £11.3m (2014: £9.9m), of which £3.9m (2014: £3.7m) relates to the defined contribution schemes.

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33 Pensions and other post-employment benefits continued

(a) Summary of pension benefits and assumptions continued

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

	2015 £m	2014 £m
UK Bus	**(60.4)**	(50.6)
Rail	**14.8**	10.0
Company	**34.9**	30.6
Other	**(1.9)**	(1.9)
Total	**(12.6)**	(11.9)

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		Rail	Company
Date of actuarial valuation	Tayside 31 March 2014	Travel West Midlands 31 March 2013	31 December 2013	5 April 2013
Actuarial method used	Attained age*	Attained age*	Projected unit	Projected unit
Rate of investment returns per annum	3.4%-5.9%	3.5%-5.5%	5.0%-7.3%	4.1%
Increase in earnings per annum	4.6%	2.6%	4.2%	–%
Scheme assets taken at market value	£54.2m	£448.9m	£82.4m	£77.3m
Funding level	100%	84%	84%-100%	82%

* Amounts included in the Income Statement, Other Comprehensive Income and the Balance Sheet are calculated using the projected unit method.

The most recent triennial valuations are then updated by independent professionally qualified actuaries for financial reporting purposes, in accordance with IAS 19. The main actuarial assumptions underlying the IAS 19 valuations are:

	2015			2014		
	UK Bus	**Rail**	**Company**	UK Bus	Rail	Company
Rate of increase in salaries	**2.5%**	**2.6%**	**2.5%**	2.5%	2.4%	2.5%
Rate of increase of pensions	**2.1%**	**2.1%**	**3.1%**	1.9%	1.9%	2.9%
Discount rate	**3.9%**	**3.9%**	**3.9%**	3.6%	3.6%	3.6%
Inflation assumption (RPI)	**3.1%**	**3.1%**	**3.1%**	2.9%	2.9%	2.9%
Inflation assumption (CPI)	**2.1%**	**2.1%**	**2.1%**	1.9%	1.9%	1.9%
Post-retirement mortality in years:						
Current pensioners at 65 – male	**21.3**		**24.4**	21.2		24.2
Current pensioners at 65 – male, pension under £10,300 pa or pensionable pay under £35,000 pa		**21.0**			20.9	
Current pensioners at 65 – male – others		**23.4**			23.2	
Current pensioners at 65 – female	**24.1**		**26.9**	24.0		26.7
Current pensioners at 65 – female, pension under £3,700 pa or pensionable pay under £35,000 pa		**22.8**			22.7	
Current pensioners at 65 – female – others		**24.6**			24.5	
Future pensioners at 65 – male	**22.7**		**26.2**	22.6		26.0
Future pensioners at 65 – male, pension under £10,300 pa or pensionable pay under £35,000 pa		**23.3**			23.2	
Future pensioners at 65 – male – others		**25.7**			25.5	
Future pensioners at 65 – female	**25.6**		**28.9**	25.5		28.7
Future pensioners at 65 – female, pension under £3,700 pa or pensionable pay under £35,000 pa		**25.2**			25.1	
Future pensioners at 65 – female – others		**27.0**			26.8	

Notes to the Consolidated Accounts continued For the year ended 31 December 2015

33 Pensions and other post-employment benefits continued

(a) Summary of pension benefits and assumptions continued

The demographic assumptions reflect those adopted in the most recent triennial actuarial valuation. For the Rail scheme, mortality assumptions have been set by reference to the recent experience of the scheme. Mortality is assumed to improve in the future in line with the 'core projection' model published by the actuarial profession's Continuous Mortality Investigation, incorporating a long-term improvement rate of 1.5% pa.

The Directors regard the assumption around the discount rate to be the key assumption in the IAS 19 valuation, and the following table provides an approximate sensitivity analysis of the impact of a 0.1% change in the discount rate assumption:

	UK Bus £m	Rail £m	Company £m
Defined benefit pension (liability)/asset at 31 December 2015	(60.4)	14.8	34.9
Effect of a 0.1% increase in the discount rate	7.4	0.5	1.6
Current service cost for the year ended 31 December 2015	(3.6)	(2.9)	–
Effect of a 0.1% increase in the discount rate	0.1	–	–

Scheme assets are stated at their market values at the respective Balance Sheet dates. The expected rate of return on scheme assets is determined based on market returns on each category of scheme assets.

(b) Accounting for the Railways Pension Scheme

The majority of employees of the Rail companies in the UK are members of the appropriate section of the RPS, a funded defined benefit scheme. The RPS is a shared cost scheme, which means that costs are formally shared 60% employer and 40% employee. To date, the Group has experienced 11 changes of Rail franchise ownership where the current owner has funded the scheme during the franchise term and the pension deficit at franchise exit has transferred to the new owner, without cash settlement. By entering into the franchise contract, the TOC becomes the designated employer for the term of the contract and under the rules of the RPS must fund its share of the pension liability in accordance with the schedule of contributions agreed with the scheme trustees and actuaries.

In determining the appropriate accounting policy for the RPS to ensure that the Group's accounts present fairly its financial position, financial performance and cash flows, management has consulted with TOC industry peers and has concluded that the Group's constructive obligations should be accounted for in accordance with IAS 19. This accounting policy, which in all other respects is consistent with that set out in this note for the Group's other defined benefit schemes, means that the Group's accounts reflect that element of the deficits anticipated to be settled by the Group during the franchise term and will prevent gains arising on transfer of the existing RPS deficits to a new owner at franchise exit.

In calculating the Group's constructive obligations in respect of the RPS, the Group has calculated the total pension deficits in each of the RPS sections in accordance with IAS 19 and the assumptions set out above. These deficits are reduced by a 'franchise adjustment' which is that portion of the deficit projected to exist at the end of the franchise and which the Group will not be required to fund. The franchise adjustment, which has been calculated by the Group's actuaries, is offset against the present value of the RPS liabilities so as to fairly present the financial performance, position and cash flows of the Group's obligations.

The franchise adjustment increased from £30.8m at 31 December 2014 to £35.6m at 31 December 2015. The principal reasons for the movement were increased interest and administrative expenses, partly offset by a reduction in actuarial movements. In the prior year, the franchise adjustment increased from £15.5m at 31 December 2013 to £30.8m at 31 December 2014. The principal reason for the movement was the renewal of the Essex Thameside franchise (previously c2c) that increased the franchise adjustment by £10.7m.

33 Pensions and other post-employment benefits continued

(c) Financial results for pension benefits

The amounts charged to the Group Income Statement and Group Statement of Comprehensive Income for the years ended 31 December 2015 and 2014 are set out in the following tables:

Group Income Statement	UK Bus 2015 £m	Rail 2015 £m	Company 2015 £m	Other 2015 £m	Total 2015 £m
Amounts (charged)/credited:					
Current service cost	**(3.6)**	**(2.9)**	**–**	**(0.3)**	**(6.8)**
Net interest (expense)/income	**(1.7)**	**(0.7)**	**1.2**	**–**	**(1.2)**
Interest on franchise adjustment	**–**	**1.1**	**–**	**–**	**1.1**
Total (charge)/credit to Income Statement	**(5.3)**	**(2.5)**	**1.2**	**(0.3)**	**(6.9)**

During the year £0.6m (2014: £0.6m) of administrative expenses were incurred.

The net interest expense together with the interest on franchise adjustment has been included within Finance Costs (see note 9).

Group Statement of Comprehensive Income	UK Bus 2015 £m	Rail 2015 £m	Company 2015 £m	Total 2015 £m
Actuarial gain during the period from obligations	**9.7**	**3.8**	**1.3**	**14.8**
Expected return on plan assets greater/less than discount rate	**(7.9)**	**1.1**	**(2.2)**	**(9.0)**
Change in asset ceiling	**(15.2)**	**–**	**–**	**(15.2)**
Net actuarial (losses)/gains	**(13.4)**	**4.9**	**(0.9)**	**(9.4)**

Group Income Statement	UK Bus 2014 £m	Rail 2014 £m	Company 2014 £m	Other 2014 £m	Total 2014 £m
Amounts (charged)/credited:					
Current service cost	(3.3)	(2.4)	–	(0.5)	(6.2)
Curtailment	0.6	–	–	–	0.6
Net interest (expense)/income	(1.7)	(0.7)	0.7	(0.1)	(1.8)
Interest on franchise adjustment	–	0.7	–	–	0.7
Total (charge)/credit to Income Statement	(4.4)	(2.4)	0.7	(0.6)	(6.7)

Group Statement of Comprehensive Income	UK Bus 2014 £m	Rail 2014 £m	Company 2014 £m	Total 2014 £m
Actuarial (loss)/gain during the period from obligations	(47.4)	7.6	(8.5)	(48.3)
Expected return on plan assets greater/less than discount rate	32.7	3.1	22.6	58.4
Net actuarial (losses)/gains	(14.7)	10.7	14.1	10.1

Notes to the Consolidated Accounts continued For the year ended 31 December 2015

33 Pensions and other post-employment benefits continued

(c) Financial results for pension benefits continued

The amounts recognised in the Balance Sheet at 31 December are:

As at 31 December 2015	UK Bus 2015 £m	Rail 2015 £m	Company 2015 £m	Other 2015 £m	Total 2015 £m
Equities	**107.6**	**88.3**	**–**	**–**	**195.9**
Bonds	**70.4**	**0.7**	**124.9**	**–**	**196.0**
Property	**4.8**	**–**	**–**	**–**	**4.8**
Insurance policy	**228.0**	**–**	**–**	**–**	**228.0**
Diversified growth fund	**75.0**	**–**	**–**	**–**	**75.0**
Other	**(1.6)**	**0.7**	**(19.8)**	**–**	**(20.7)**
Fair value of scheme assets	**484.2**	**89.7**	**105.1**	**–**	**679.0**
Present value of scheme liabilities	**(529.4)**	**(124.1)**	**(70.2)**	**(1.9)**	**(725.6)**
Franchise adjustment	**–**	**35.6**	**–**	**–**	**35.6**
Defined benefit obligation	**(529.4)**	**(88.5)**	**(70.2)**	**(1.9)**	**(690.0)**
Asset ceiling	**(15.2)**	**–**	**–**	**–**	**(15.2)**
Members' share of deficit	**–**	**13.6**	**–**	**–**	**13.6**
Defined benefit pension (deficit)/surplus	**(60.4)**	**14.8**	**34.9**	**(1.9)**	**(12.6)**

As at 31 December 2014	UK Bus 2014 £m	Rail 2014 £m	Company 2014 £m	Other 2014 £m	Total 2014 £m
Equities	103.7	79.6	–	–	183.3
Bonds	65.7	4.4	123.9	–	194.0
Property	4.3	–	–	–	4.3
Insurance policy	241.7	–	–	–	241.7
Diversified growth fund	72.9	–	–	–	72.9
Other	5.1	0.4	(22.1)	–	(16.6)
Fair value of scheme assets	493.4	84.4	101.8	–	679.6
Present value of scheme liabilities	(544.0)	(118.5)	(71.2)	(1.9)	(735.6)
Franchise adjustment	–	30.8	–	–	30.8
Defined benefit obligation	(544.0)	(87.7)	(71.2)	(1.9)	(704.8)
Members' share of deficit	–	13.3	–	–	13.3
Defined benefit pension (deficit)/surplus	(50.6)	10.0	30.6	(1.9)	(11.9)

The movement in the present value of the defined benefit obligation in the year is as stated below. For Rail, the RPS is a shared cost scheme, which means that costs are formally shared 60% employer and 40% employee.

The Group's defined benefit obligation comprises £688.1m (2014: £702.9m) (including the members' share of the deficit) arising from plans that are wholly or partly funded and £1.9m (2014: £1.9m) from unfunded plans.

	UK Bus £m	Rail £m	Company £m	Other £m	Total £m
Defined benefit obligation at 1 January 2015	**(544.0)**	**(87.7)**	**(71.2)**	**(1.9)**	**(704.8)**
Current service cost	**(3.6)**	**(2.9)**	**–**	**(0.3)**	**(6.8)**
Benefits paid	**28.7**	**3.1**	**2.2**	**0.3**	**34.3**
Contributions by employees	**(1.1)**	**(1.6)**	**–**	**–**	**(2.7)**
Finance charge	**(19.1)**	**(2.5)**	**(2.5)**	**–**	**(24.1)**
Interest on franchise adjustment	**–**	**1.1**	**–**	**–**	**1.1**
Members' share of movement on liabilities	**–**	**(1.8)**	**–**	**–**	**(1.8)**
Actuarial loss arising from changes in financial assumptions	**6.3**	**(0.4)**	**1.3**	**–**	**7.2**
Actuarial gain arising from changes in demographics	**0.2**	**–**	**–**	**–**	**0.2**
Actuarial loss arising from experience adjustments	**3.2**	**4.2**	**–**	**–**	**7.4**
Defined benefit obligation at 31 December 2015	**(529.4)**	**(88.5)**	**(70.2)**	**(1.9)**	**(690.0)**

33 Pensions and other post-employment benefits continued

(c) Financial results for pension benefits continued

	UK Bus £m	Rail £m	Company £m	Other £m	Total £m
Defined benefit obligation at 1 January 2014	(497.2)	(85.8)	(62.0)	(1.5)	(646.5)
Current service cost	(3.3)	(2.4)	–	(0.5)	(6.2)
Curtailment	0.6	–	–	–	0.6
Benefits paid	26.7	2.5	2.1	0.2	31.5
Contributions by employees	(1.1)	(1.5)	–	–	(2.6)
Finance charge	(22.3)	(2.8)	(2.8)	(0.1)	(28.0)
Interest on franchise adjustment	–	0.7	–	–	0.7
Members' share of movement on liabilities	–	(6.0)	–	–	(6.0)
Actuarial loss arising from changes in financial assumptions	(43.6)	4.3	(8.5)	–	(47.8)
Actuarial gain arising from changes in demographics	0.7	(0.2)	–	–	0.5
Actuarial loss arising from experience adjustments	(4.5)	3.5	–	–	(1.0)
Defined benefit obligation at 31 December 2014	(544.0)	(87.7)	(71.2)	(1.9)	(704.8)

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

	UK Bus £m	**Rail £m**	**Company £m**	**Total £m**
Fair value of scheme assets at 1 January 2015	**493.4**	**84.4**	**101.8**	**679.6**
Expected return on plan assets	**17.4**	**1.8**	**3.7**	**22.9**
Expected return on plan assets greater/less than discount rate	**(7.9)**	**1.1**	**(2.2)**	**(9.0)**
Cash contributions – employer	**9.1**	**2.6**	**4.2**	**15.9**
Administrative expenses	**(0.2)**	**(0.2)**	**(0.2)**	**(0.6)**
Cash contributions – employee	**1.1**	**1.6**	**–**	**2.7**
Benefits paid	**(28.7)**	**(3.1)**	**(2.2)**	**(34.0)**
Members' share of return on assets	**–**	**1.5**	**–**	**1.5**
Fair value of scheme assets at 31 December 2015	**484.2**	**89.7**	**105.1**	**679.0**

	UK Bus £m	Rail £m	Company £m	Total £m
Fair value of scheme assets at 1 January 2014	456.4	75.0	74.6	606.0
Expected return on plan assets	20.6	2.1	3.5	26.2
Expected return on plan assets greater/less than discount rate	32.7	3.1	22.6	58.4
Cash contributions – employer	9.6	2.3	3.2	15.1
Administrative expenses	(0.3)	(0.3)	–	(0.6)
Cash contributions – employee	1.1	1.5	–	2.6
Benefits paid	(26.7)	(2.5)	(2.1)	(31.3)
Members' share of return on assets	–	3.2	–	3.2
Fair value of scheme assets at 31 December 2014	493.4	84.4	101.8	679.6

Notes to the Consolidated Accounts continued
For the year ended 31 December 2015

33 Pensions and other post-employment benefits continued

(c) Financial results for pension benefits continued

The Group expects to contribute £13.6m to its defined benefit pension plans in 2016.

History of experience gains and losses:	2015 £m	2014 £m	2013 £m	2012 £m	2011 £m
UK Bus					
Fair value of scheme assets	**484.2**	493.4	456.4	448.0	431.9
Present value of defined benefit obligation	**(529.4)**	(544.0)	(497.2)	(480.9)	(448.7)
Asset ceiling	**(15.2)**	–	–	–	–
Deficit in the scheme	**(60.4)**	(50.6)	(40.8)	(32.9)	(16.8)
Experience adjustments arising on liabilities	**3.2**	(4.5)	(2.9)	5.0	(23.3)
Experience adjustments arising on assets	**(7.9)**	32.7	1.4	8.6	(7.3)
Rail					
Fair value of scheme assets	**89.7**	84.4	75.0	67.1	321.0
Present value of defined benefit obligation	**(88.5)**	(87.7)	(85.8)	(81.2)	(363.7)
Members' share of deficit	**13.6**	13.3	10.4	12.3	40.5
Surplus/(deficit) in the scheme	**14.8**	10.0	(0.4)	(1.8)	(2.2)
Experience adjustments arising on liabilities	**4.2**	3.5	(0.1)	2.7	(8.5)
Experience adjustments arising on assets	**1.1**	3.1	2.0	8.0	13.4
Company					
Fair value of scheme assets	**105.1**	101.8	74.6	73.1	67.9
Present value of defined benefit obligation	**(70.2)**	(71.2)	(62.0)	(56.5)	(49.3)
Surplus in the scheme	**34.9**	30.6	12.6	16.6	18.6
Experience adjustments arising on liabilities	**–**	–	(3.8)	–	0.1
Experience adjustments arising on assets	**(2.2)**	22.6	(2.8)	0.5	9.7
Other					
Fair value of scheme assets	**–**	–	–	–	–
Present value of defined benefit obligation	**(1.9)**	(1.9)	(1.5)	(1.2)	(1.4)
Deficit in the scheme	**(1.9)**	(1.9)	(1.5)	(1.2)	(1.4)
Experience adjustments arising on liabilities	**–**	–	–	–	–

The cumulative amount of actuarial gains and losses recognised in the Statement of Comprehensive Income since 1 January 2004 is a £68.6m loss (2014: £59.2m loss). The Directors are unable to determine how much of the pension scheme deficit recognised on transition to IFRSs and taken directly to equity of £51.9m is attributable to actuarial gains and losses since inception of those pension schemes. Consequently the Directors are unable to determine the amount of actuarial gains and losses that would have been recognised in the Statement of Comprehensive Income before 1 January 2004.

34 Commitments and contingencies

Operating lease commitments

The Group's total operating lease commitments are as follows:

		2015 £m	2014 £m
Future minimum rentals payable under non-cancellable operating leases:			
Within one year:	Land and buildings	**20.8**	20.6
	Plant and equipment	**50.5**	42.3
		71.3	62.9
After one year but not more than five years:	Land and buildings	**54.3**	55.5
	Plant and equipment	**191.0**	139.0
		245.3	194.5
More than five years:	Land and buildings	**84.6**	102.8
	Plant and equipment	**475.2**	243.2
		559.8	346.0
		876.4	603.4

Rail lease commitments

Rail division companies have contracts with various bodies for access to the railway infrastructure (tracks, stations and depots). They also have contracts under which rolling stock is leased. The table below reflects the commitments up to the current franchise end dates (or the end of the current contract) unless an extension or new franchise agreement has been signed. The commitments are based on charges advised by the rail regulators or on separate leasing agreements with other counterparties. Commitments for future minimum rental payments under these contracts are shown below:

		Land and buildings		Plant and equipment	
Rail division commitments		2015 £m	2014 £m	2015 £m	2014 £m
Future minimum rentals payable under non-cancellable operating leases:					
Within one year:	Fixed track access	**4.0**	4.0	**–**	–
	Rolling stock	**–**	–	**34.5**	24.2
	Other	**1.6**	1.7	**–**	0.1
		5.6	5.7	**34.5**	24.3
After one year but not more than five years:	Fixed track access	**15.8**	15.9	**–**	–
	Rolling stock	**–**	–	**153.3**	96.9
	Other	**6.5**	6.6	**0.1**	0.2
		22.3	22.5	**153.4**	97.1
Over five years:	Fixed track access	**35.6**	39.7	**–**	–
	Rolling stock	**–**	–	**474.0**	242.2
	Other	**14.6**	16.5	**0.2**	0.5
		50.2	56.2	**474.2**	242.7
		78.1	84.4	**662.1**	364.1

Fixed track access agreements have an average remaining life of 14.0 years (2014: 15.0 years) and other land and buildings have an average duration of 14.0 years (2014: 15.0 years). Rolling stock agreements have an average life of 11.7 years (2014: 15.0 years) and other plant and equipment 14.0 years (2014: 12.7 years).

Notes to the Consolidated Accounts continued For the year ended 31 December 2015

34 Commitments and contingencies continued

Other lease commitments

Outside of the Rail division the Group has entered into operating leases on certain properties, public service vehicles and various items of plant and equipment. Commitments for future minimum rental payments under non-cancellable operating leases are shown below:

Other divisions' commitments	Land and buildings 2015 £m	Land and buildings 2014 £m	Public service vehicles 2015 £m	Public service vehicles 2014 £m	Other 2015 £m	Other 2014 £m
Within one year	**15.2**	14.9	**14.3**	17.9	**1.7**	0.1
After one year but not more than five years	**32.0**	33.0	**33.9**	41.7	**3.7**	0.2
More than five years	**34.4**	46.6	**1.0**	0.5	**–**	–
	81.6	94.5	**49.2**	60.1	**5.4**	0.3

The average remaining life of operating lease commitments in the other divisions is 5.3 years (2014: 6.7 years) for land and buildings, 3.4 years (2014: 3.4 years) for public service vehicles and 3.2 years (2014: 2.6 years) for other plant and equipment.

Operating lease agreements where the Group is the lessor

The Group receives rent on properties as follows:

	2015 £m	2014 £m
Future minimum rentals receivable under non-cancellable operating leases:		
Within one year	**0.1**	0.1
After one year but not more than five years	**2.8**	1.5
Over five years	**2.8**	2.4
	5.7	4.0

The leases have an average unexpired duration of 6.4 years (2014: 6.4 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.

	2015 Minimum payments £m	2015 Present value of payments £m	2014 Minimum payments £m	2014 Present value of payments £m
Within one year	**30.9**	**27.9**	25.5	22.9
After one year but not more than five years	**95.5**	**91.5**	89.5	85.6
More than five years	**8.4**	**8.2**	2.0	2.0
Total minimum lease payments	**134.8**	**127.6**	117.0	110.5
Less future financing charges	**(7.2)**	**–**	(6.5)	–
Present value of minimum lease payments	**127.6**	**127.6**	110.5	110.5

Capital commitments

	2015 £m	2014 £m
Contracted	**53.0**	77.0

The Group is committed to vehicle purchases and various land and buildings improvements. The commitments include orders for capital items placed with suppliers for the National Express Essex Thameside franchise within the Rail division.

34 Commitments and contingencies continued

Contingent liabilities

Guarantees

The Group has guaranteed credit facilities totalling £36.4m (2014: £2.9m) of certain joint ventures.

Bonds and letters of credit

In the ordinary course of business, the Group is required to issue counter-indemnities in support of its operations. As at 31 December 2015 there were Rail performance bonds of £63.3m (2014: £61.3m) and Rail season ticket bonds of £21.9m (2014: £21.6m). The Group has other performance bonds which include performance bonds in respect of businesses in the US of £95.8m (2014: £114.5m) and in Spain of £66.1m (2014: £32.1m). There are also bonds of £8.1m relating to operations in the Middle East (2014: £nil). Letters of credit have been issued to support insurance retentions of £66.1m (2014: £65.7m).

Tax

Tax authorities in the markets in which we operate (UK, Spain, the US, Canada and Morocco) carry out tax audits from time to time. As was detailed in note 10(d) Tax provisions, a Spanish tax audit concluded during 2015 with a corporate income tax payment of €2.7m made. Differences of opinion between taxpayers and tax authorities generally arise due to the complexity of tax legislation and also how that legislation is interpreted. Also, seemingly simple questions of whether capital expenditure qualifies for tax depreciation can result in significant disputes with tax authorities.

During tax audits, the Group will defend its tax positions when challenged by tax authorities. However, on certain occasions a settlement to conclude a tax audit will be made. For each accounting period, the Group makes an assessment to ensure that adequate tax provisions are held to cover the resolution of any tax uncertainties. The Directors are satisfied that, based on current knowledge, adequate tax provisions are held to cover any tax uncertainties. There are not any material contingent liabilities relating to tax.

35 Related party transactions

	Amount of transactions		Amounts due from related parties		Amounts due to related parties	
	2015 £m	2014 £m	**2015 £m**	2014 £m	**2015 £m**	2014 £m
Joint Ventures						
Spain joint venture	**–**	–	**0.2**	–	**–**	–
Associates						
Spain associates	**1.6**	2.1	**0.9**	1.2	**(0.8)**	(0.9)
Trade investments						
Spain trade investments	**3.8**	3.9	**0.3**	0.4	**(0.4)**	(0.4)
Property transactions						
North America	**0.8**	0.4	**–**	–	**–**	–
Spain	**3.1**	3.3	**0.3**	0.3	**(0.1)**	(0.3)
Total other related parties	**7.7**	7.6	**0.6**	0.7	**(0.5)**	(0.7)
Total	**9.3**	9.7	**1.7**	1.9	**(1.3)**	(1.6)

A number of Spanish companies have leased properties from companies related to the Cosmen family. Jorge Cosmen is a Non-Executive Director of the Group and was appointed as Deputy Chairman in October 2008. These leases were in place before the Group's acquisition of ALSA and are for appropriate market rates.

The details of the post-employment benefit plans operated for the benefit of employees of the Group are disclosed in note 33.

Compensation of key management personnel of the Group

	2015 £m	2014 £m
Total compensation paid to key management personnel (note 7)	**3.3**	3.9

Notes to the Consolidated Accounts continued For the year ended 31 December 2015

36 Cash flow statement

The net cash inflows from operating activities include outflows of £10.0m (2014: £44.7m) from continuing operations which are related to exceptional costs incurred in 2014.

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

Total operations	2015 £m	2014 £m
Net cash inflow from operating activities		
Profit before tax	**124.4**	66.5
Net finance costs	**45.2**	48.0
Share of post-tax results under the equity method	**(1.8)**	(0.3)
Depreciation of property, plant and equipment	**104.3**	104.9
Intangible asset amortisation	**25.7**	28.6
Amortisation of fixed asset grants	**(0.6)**	(0.8)
Profit on disposal of property, plant and equipment	**(2.3)**	(1.7)
Share-based payments	**3.2**	3.1
Increase in inventories	**(0.7)**	(0.6)
Increase in receivables	**(32.7)**	(26.9)
Increase in payables	**34.8**	26.8
Decrease in provisions	**(35.4)**	(2.4)
Cash generated from operations	**264.1**	245.2

(b) Analysis of changes in net debt

	At 1 January 2015 £m	Cash flow £m	Acquisitions £m	Exchange differences £m	Other movements £m	At 31 December 2015 £m
Cash	36.3	20.1	3.4	(0.6)	–	59.2
Overnight deposits	6.9	(6.2)	–	–	–	0.7
Other short-term deposits	40.5	(40.0)	–	–	–	0.5
Cash and cash equivalents	83.7	(26.1)	3.4	(0.6)	–	60.4
Other debt receivables	0.8	–	–	–	–	0.8
Borrowings:						
Bank and other loans	(5.2)	(42.3)	–	2.8	(0.6)	(45.3)
Bonds	(585.3)	–	–	–	1.8	(583.5)
Fair value of hedging derivatives	18.6	–	–	–	(4.3)	14.3
Finance lease obligations	(110.5)	25.8	(3.4)	(5.2)	(34.3)	(127.6)
Other debt payable	(66.4)	(2.0)	–	3.1	0.7	(64.6)
Total borrowings	(748.8)	(18.5)	(3.4)	0.7	(36.7)	(806.7)
Net debt*	(664.3)	(44.6)	–	0.1	(36.7)	(745.5)

* Excludes accrued interest on long-term borrowings.

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

Borrowings include non-current interest-bearing borrowings of £752.3m (2014: £741.8m) as disclosed in note 27.

Other non-cash movements in net debt include finance lease additions of £34.3m (2014: £1.2m) and a £2.0m reduction in loan and bond arrangement fees (2014: £2.3m). A £4.3m decrease to the fair value of the hedging derivatives is offset by opposite movements in the fair value of the related hedged borrowings. This comprises a £3.2m fair value movement in bonds and a £0.7m fair value movement in other debt payable.

36 Cash flow statement continued

(b) Analysis of changes in net debt continued

	At 1 January 2014 £m	Cash flow £m	Exchange differences £m	Other movements £m	At 31 December 2014 £m
Cash	37.7	(0.6)	(0.8)	–	36.3
Overnight deposits	–	6.9	–	–	6.9
Other short-term deposits	3.2	37.3	–	–	40.5
Cash and cash equivalents	40.9	43.6	(0.8)	–	83.7
Other debt receivables	1.0	(0.2)	–	–	0.8
Borrowings:					
Bank and other loans	(19.3)	9.6	5.2	(0.7)	(5.2)
Bonds	(579.5)	–	–	(5.8)	(585.3)
Fair value of hedging derivatives	9.2	–	–	9.4	18.6
Finance lease obligations	(132.9)	28.8	(5.2)	(1.2)	(110.5)
Other debt payable	(65.5)	0.1	4.2	(5.2)	(66.4)
Total borrowings	(788.0)	38.5	4.2	(3.5)	(748.8)
Net debt*	(746.1)	81.9	3.4	(3.5)	(664.3)

* Excludes accrued interest on long-term borrowings.

(c) Reconciliation of net cash flow to movement in net debt

	2015 £m	2014 £m
(Decrease)/increase in cash and cash equivalents in the year	**(26.1)**	43.6
Cash outflow from movement in other debt receivables	**–**	(0.2)
Cash (outflow)/inflow from movement in debt and finance leases	**(18.5)**	38.5
Change in net debt resulting from cash flows	**(44.6)**	81.9
Change in net debt resulting from non-cash movements	**(36.6)**	(0.1)
Movement in net debt in the year	**(81.2)**	81.8
Opening net debt	**(664.3)**	(746.1)
Net debt	**(745.5)**	(664.3)

37 Post Balance Sheet events

In January 2016, the Group entered into committed unsecured revolving credit facilities totalling £450m. The new facilities include a £350m bridge facility to provide the Group with an appropriate level of liquidity prior to refinancing the Group's £350m 2017 bond, and a £100m facility to be used for general corporate purposes. Both facilities are for 18 months with three six-month extension options. Further notes on the Group's facilities are disclosed in note 28.

Notes to the Consolidated Accounts continued
For the year ended 31 December 2015

38 Subsidiary undertakings

A full list of subsidiaries, joint ventures and companies in which National Express Group has a controlling interest as at 31 December 2015 is show below, along with the country of incorporation and the effective percentage of equity owned.

Name and country of incorporation	% Equity interest
United Kingdom	
Airlinks Airport Services Limited	100
Airlinks The Airport Coach Company Limited	100
Altram LRT Limited	100
c2c Rail Limited	100
Central Trains Limited	100
Eurolines (UK) Limited	100
Inter-Capital And Regional Rail Limited	40
London Eastern Railway Limited	100
Maintrain Limited	100
Midland Main Line Limited	100
National Express East Anglia Trains Limited	100
National Express European Holdings Limited (05652775)*	100
National Express Finance Company Limited	100
National Express Group Holdings Limited (04339932)*	100
National Express Holdings Limited (02156473)*	100
National Express Intermediate Holdings Limited	100
National Express Limited	100
National Express Manchester Metrolink Limited	100
National Express Netherlands UK Limited	100
National Express North America Holdings Limited (07855182)*	100
National Express Operations (Stansted) Limited	100
National Express Operations Limited	100
National Express Overseas Limited	100
National Express Petermann UK Limited (07855188)*	100
National Express Rail Replacement Limited	100
National Express Services Limited	100
National Express Spanish Holdings Limited	100
National Express Trains Limited	100
National Express Trains Regional Limited	100
National Express Transport Holdings Limited (04338163)*	100
National Express UK Limited	100
NE Canada Limited (08596333)*	100
NE Durham UK Limited (08270480)*	100
NE Europe Finance Limited (07876047)*	100
NE No.1 Ltd	100
NE No.2 Ltd	100
NE Trains South Limited	100
NX Bahrain Bus Company Plc	100
NX Crossrail Limited	100

Name and country of incorporation	% Equity interest
United Kingdom continued	
NX Services Limited	100
NXEA Trains Limited	100
NXEC Trains Limited	100
NXET Trains Limited	100
NXSR Trains Limited	100
PTI Website Limited	20
Scotrail Railways Limited	100
Silverlink Train Services Limited	100
Speedlink Airport Services Limited	100
Taybus Holdings Limited	100
Tayside Public Transport Co Limited	100
The Kings Ferry Limited	100
The National Express UK Pension Scheme Trustees Limited	100
Travel Birmingham Limited	100
Travel Coventry Limited	100
Travel Dundee Limited	100
Travel Merryhill Limited	100
Travel West Midlands Limited	100
Travel WM Limited	100
Travel Yourbus Limited	100
West Anglia Great Northern Railway Limited	100
West Midlands Passenger Transport Limited	100
West Midlands Transport Information Services Limited	48
West Midlands Travel Limited	100
WM Card Systems Limited	100
WM Property Holdings Limited	100
WM Travel Limited	100
WM Ventures Limited	100
WMT Leasing Limited	100
Guernsey	
National Express Guernsey Limited	100
Bahrain	
Bahrain Public Transport Company W.L.L.	50
Germany	
Deutsche Touring GmbH	17
National Express Germany GmbH	100
National Express Holding GmbH	100
National Express Rail GmbH	100
National Express Südwest GmbH	100

38 Subsidiary undertakings continued

Name and country of incorporation	% Equity interest
Czech Republic	
National Express Cz Sro	100
Netherlands	
Texan Partner BV	100
National Express Holdings LLC BV	100
Andorra	
Estació d'Autobusos d'Andorra	100
Transports Dels Pirineus	100
France	
Iberolines	46
Morocco	
Alsa City Agadir S.A.	100
Alsa City Sightseeing Maroc	100
Alsa City Tour Sarl	95
Alsa Education a la Sécurité Routière Sarl	98
Alsa Khouribga Sa	100
Alsa Tanger, S.A.	100
Centre de Formation Techn. Profes. Transport Sarl	99
Groupe Alsa Transport S.A.	100
Immeubles,Vehicules Accesoires Maroc S.A.R.L.	80
Interprovincial Maroc S.A.R.L.	100
Transport de Voyageurs en Autocar Maroc S.A.	100
Portugal	
Alsa Metropolitano do Porto, Lda	100
Tiac Viagens e Turismo Lda	100
Slovakia	
Efc Spol S.R.O.	80
Spain	
Alianza Bus, S.L.U.	100
Almeria–Murcia Bus, S.L.	100
Alsa Atlántica, S.L.U.	100
Alsa Ferrocarril, S.A.U.	100
Alsa Granada Airport S.L.	100
Alsa Grupo Intercontinental, S.L.U.	100
Alsa Grupo, S.L.U.	98
Alsa Internacional S.L.U. y Otros U.T.E.	100
Alsa Internacional, S.L.U.	100
Alsa Metropolitana, S.A.U.	100
Alsa Rail, S.L.U.	100
Andreo, S.A.U.	100
Aplic. y Sist. Integrales Para el Transporte, S.A.	100
Aragonesa de Estacion de Autobuses, S.A.	23

Name and country of incorporation	% Equity interest
Spain continued	
Astibus, S.L.U.	100
Autedia, S.A.	100
Autobuses Urbanos de Bilbao, S.A.	75
Autobuses Urbanos de León, S.A.U.	100
Autocares Castilla–León, S.A.U.	100
Autocares Discrecionales del Norte, S.L.U.	100
Automóviles Luarca, S.A.U.	100
Autos Pelayo, S.A.U.	100
Buses de Palencia, S.L.	100
Busturialdea Lea Artibai Bus, S.A.	62
Cetralsa Formación, S.L.U.	100
Cía. del Tranvía Eléctrico de Aviles, S.A.	87
Compañia Navarra de Autobuses, S.A.	50
Compostelana S.A.U.	100
Concesionario Estación Autobuses Logroño, S.A.	21
Continental-Comercial 21, S.L.U.	100
Dainco, S.A.	50
Ebrobus, S.L.U.	100
Estación Autobuses de Cartagena, S.A.	54
Estación Autobuses de Ponferrada, S.A.	49
Estación Central de Autobuses de Zaragoza, S.A.	19
Estación de Autobuses de Siero, S.L.	50
Estación de Autobuses Aguilar de Campoo, S.L.	67
Estación de Autobuses Chamartin, S.A.	49
Estación de Autobuses de Aranda de Duero, S.L.	43
Estación de Autobuses de Astorga, S.L.	79
Estación de Autobuses de Aviles S.L.	100
Estación de Autobuses de Benavente, S.L.	23
Estación de Autobuses de León, S.A.	89
Estación de Autobuses de Plasencia, S.A.	52
Estación de Autobuses de Ribadeo, S.L.	50
Estación de Autobuses de Vitoria, S.L.	32
Estación de Lineas Regulares, S.L.	46
Estaciónes Terminales de Autobuses ,S.A.	79
Euska Alsa, S.L.U.	100
Ezkerraldea-Meatzaldea Bus, S.A.	65
G.S. Carretera	25
General Técnica Industrial, S.L.U.	100
Gorbea Representaciones, S.L.	100
Grupo Enatcar, S.A.	100
Ibero-Euro Sur, S.L.	20

Notes to the Consolidated Accounts continued
For the year ended 31 December 2015

38 Subsidiary undertakings continued

Name and country of incorporation	% Equity interest
Spain continued	
Iber Rutas, S.A.U.	100
Inforcyl, S.A.U.	100
Informática, Comunicaciones y Logística, S.L.U.	100
Intercambiadores Europeos, S.L.	95
Internacional de Autocares, S.A.	93
International Business Limousines, S.A.U.	100
Interurbana de Autocares, S.A.U.	100
Irubus, S.A.U.	100
Jimenez Lopera, S.A.U.	100
Julia Travel S.A., Automoviles Luarca S.A.U., Transportes Bacoma S.A.U. U.T.E.	50
Julia Travel y Automoviles Luarca Sa Ute	50
La Tafallesa, S.A.U.	50
La Unión Alavesa, S.L.	50
La Unión de Benisa, S.A.	98
Lineas Europeas de Autobuses, S.A.	43
Los Abades de la Gineta, S.L.U.	100
Movelia Tecnologias, S.L.	78
Mundaka Consultoria, S.L.U.	100
Natur-Bus, S.L.	100
NEX Continental Holdings, S.L.	100
NX Middle East, S.L.U.	100
Proyectos Unificados, S.A.U.	100
Rapid Aeroport, S.A.U.	100
Representaciones Mecánica, S.A.U.	100
Rutas a Cataluña, S.A.	28
Rutas del Cantábrico, S.L.	95
Semarvi	34
Serviareas 2000, S.L.U.	100
Servicios Auxiliares del Transporte C.B.	100
Servicios del Principado, S.A.U.	100
Servicios Empresariales Especiales, S.L.U.	100
Servicios Generales de Automoción, S.A.U.	100
Setra Ventas y Servicios, S.A.U.	100
Sociedad Anónima Unipersonal Alsina Graells de A.T.	100
Técnicas en Vehículos Automóviles, S.L.U.	100
Terminal de Autobuses de Garellano, S.L.	41
Tibus, S.A.	100
Toledo City Tour, S.L.	50
Transporte Colectivos, S.A.U.	100
Transportes Accesibles de Asturias, S.L.	100
Transportes Adaptados Andaluces, S.A.U.	100

Name and country of incorporation	% Equity interest
Spain continued	
Transportes Adaptados Regionales, S.L.U.	100
Transportes Adaptados Cántabros, S.A.	98
Transportes Bacoma, S.A.U.	100
Transportes de Viajeros de Aragón, S.A.	59
Transportes Solera, S.A.U.	100
Transportes Terrestres Cantabros, S.A.	93
Transportes Unidos de Asturias, S.L.	100
Transportes Unidos, S.L.U.	100
Transportes Urbanos de Cantabria, S.L.U.	100
Transportes Urbanos de Cartagena, S.A.	97
Tranvía de Velez, S.A.U.	100
Tury Express, S.A.	100
Ute Catamaranes Bahia Cadiz	23
Ute Ea Cordoba	50
Ute Extremadura	100
Ute Guadalajara	100
Ute Mundiplan	17
Ute Murcia City Tour	50
Ute Ea Alicante	50
Viajes Por Carretera, S.A.U.	100
Zamorana de Transportes, S.A.U.	100
Switzerland	
Eggmann Frey	100
Linien Abfertigung GmbH	80
USA	
"The Provider" Enterprises, Inc.	100
Beck Bus Transportation Corp.	100
Beck Bus Transportation III, LLC	100
Beck Bus Transportation IV, LLC	100
Beck Bus Transportation, LLC	100
Bus Co., Inc.	100
Carrier Management Corporation	100
Community Transportation, Inc.	100
Durham D&M LLC	100
Durham Holding I, LLC	100
Durham Holding II, LLC	100
Durham School Services, L.P.	100
Greensburg Yellow Cab Co.	100
MF Petermann Investment Corporation	100
MV Student Transportation, Inc.	100
National Express Acquisition Corporation	100
National Express Durham Holding Corporation	100

38 Subsidiary undertakings continued

Name and country of incorporation	% Equity interest
USA continued	
National Express Holdings Limited Liability Company B.V.	100
National Express LLC	100
National Express Transit Corporation	100
National Express Transit Services Corporation	100
On Top Tours NYC, Inc.	100
Petermann Acquisition Co., LLC	100
Petermann Acquisition Corporation	100
Petermann Holding Co., LLC	100
Petermann Ltd.	100
Petermann Northeast, LLC	100
Petermann Northwest, LLC	100
Petermann Partners, Inc.	100
Petermann Southwest, LLC	100
Petermann STS, LLC	100
Petermann STSA, LLC	100
PM2 Co. LLC	100
Rainbow Management Service, Inc.	100
Septran, Inc.	100
Smith Bus Service, Inc.	100
SR Leasing Company, Inc.	100
Trans Express, Inc.	100
TWB Transport, LLC	100
Whitetail Bid Co., LLC	100
Canada	
National Express Canada (Holdings) Ltd.	100
National Express Canada Transit Ltd.	100
Stock Transportation Ltd.	100

* It is the Group's intention that these subsidiaries be made exempt from the requirements of the UK Companies Act 2006 relating to the audit of individual accounts by virtue of s479A of the Act. Outstanding liabilities of the exempt companies at the balance sheet date will be guaranteed pursuant to sections 479A-C of the Act.

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Company Balance Sheet At 31 December 2015

	Note	2015 £m	2014 (restated)* £m
Fixed assets			
Intangible assets	4	**0.1**	0.2
Tangible assets	5	**0.2**	0.2
Investments in subsidiaries	6	**1,740.4**	1,736.7
Derivative financial instruments	7	**22.2**	26.5
Defined benefit pension asset	17	**34.9**	30.6
		1,797.8	1,794.2
Current assets			
Debtors	8	**64.7**	71.8
Derivative financial instruments	7	**2.4**	1.5
Cash at bank and in hand	9	**0.1**	130.2
		67.2	203.5
Creditors: amounts falling due within one year	10	**(309.3)**	(323.1)
Derivative financial instruments	7	**(1.8)**	(0.6)
Provisions for liabilities and charges	12	**(8.9)**	(8.8)
Net current liabilities		**(252.8)**	(129.0)
Total assets less current liabilities		**1,545.0**	1,665.2
Creditors: amounts falling due after more than one year	11	**(645.3)**	(650.9)
Net assets		**899.7**	1,014.3
Shareholders' equity			
Called-up share capital	15	**25.6**	25.6
Share premium account	16	**532.7**	532.7
Capital redemption reserve	16	**0.2**	0.2
Own shares	16	**(7.8)**	(1.5)
Profit and loss account	16	**349.0**	457.3
Shareholders' equity		**899.7**	1,014.3

* Restated for the adoption of FRS 101 as disclosed in note 1.

D Finch
Group Chief Executive

M Ashley
Group Finance Director

25 February 2016

Company Number 2590560

Notes to the Company Accounts
For the year ended 31 December 2015

1 Accounting policies

Basis of preparation

The separate accounts of the parent Company are presented as required by the Companies Act 2006. The accounts have been prepared on the going concern basis and under the historical 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 loss of the Company for the year is £53.1m (2014: £88.0m profit, as restated for defined benefit pension described below).

Adoption of FRS 101

The Company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council. Accordingly, in the year ended 31 December 2015 the Company has changed its accounting framework from UK GAAP to FRS 101 as issued by the Financial Reporting Council and has, in doing so, applied the requirements of IFRS 1.6-33 and related appendices.

These financial statements were prepared in accordance with FRS 101 (Financial Reporting Standard 101) 'Reduced Disclosure Framework' as issued by the Financial Reporting Council. The prior year financial statements have been restated to recognise the surplus on a defined benefit pension scheme of which certain employees of the Company are members, along with the related deferred tax. Previously this was not recognised in the accounts of the Company in accordance with the multi-employer exemption allowance under FRS 17. There are no other prior year restatements arising from the adoption of FRS 101. A reconciliation of the movement in equity is provided in note 21.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, standards not yet effective, impairment of assets and related party transactions. Where required, equivalent disclosures are included within the consolidated accounts.

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 historical cost less accumulated depreciation and any impairment. Tangible fixed assets are depreciated on a straight-line basis over their estimated useful lives as follows:

Plant and equipment	– 3 to 5 years

The carrying value of fixed assets is reviewed for impairment if events or changes in circumstances indicate that the current carrying value may not be recoverable, and are written down immediately to their recoverable amount. Repairs and maintenance are charged to the profit and loss account during the financial period in which they are incurred.

Software

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

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

Investments in subsidiaries

Investments are held at historical cost less any provision for impairment.

Notes to the Company Accounts continued For the year ended 31 December 2015

1 Accounting policies continued

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.

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 Staff Pension Fund (a defined benefit scheme) and a defined contribution scheme.

For the defined benefit scheme, the Balance Sheet position comprises the net of the present value of the relevant defined benefit obligation at the Balance Sheet date and the fair value of plan assets. The trustees complete a full actuarial valuation triennially 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 as operating costs. Past service costs are included in operating costs where the benefits have vested, otherwise they are amortised on a straight-line basis over the vesting period. Net interest is calculated by applying a discount rate to the net defined benefit liability or asset and is recognised within finance costs. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to the profit and loss reserve in the period in which they arise.

For the defined contribution scheme, the amount charged to the profit and loss is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the Balance Sheet.

Share-based payment
The Company awards equity-settled share-based payment to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant by an external valuer using a stochastic model. Non-market-based performance-related vesting conditions are not taken into account when estimating the fair value; instead those non-market conditions are taken into account in calculating the current best estimate of the number of shares that will eventually vest and at each Balance Sheet date before vesting. The cumulative expense is calculated based on that estimate. Market-based performance conditions are taken into account when determining the fair value and at each Balance Sheet date before vesting, the cumulative expense is calculated irrespective of whether or not the market conditions are satisfied, provided that all other performance conditions are met.

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.

1 Accounting policies continued

Deferred tax

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 where the Company 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.

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.

Notes to the Company Accounts continued For the year ended 31 December 2015

2 Exchange rates

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

	2015		2014	
	Closing rate	**Average rate**	Closing rate	Average rate
US dollar	**1.47**	**1.53**	1.56	1.65
Canadian dollar	**2.04**	**1.95**	1.81	1.82
Euro	**1.36**	**1.38**	1.29	1.24

3 Directors' emoluments

Detailed information concerning Directors' emoluments, shareholdings and options is shown in the Directors' Remuneration Report.

4 Intangible assets

	Software £m
Cost:	
At 1 January and 31 December 2015	**0.4**
Amortisation:	
At 1 January 2015	0.2
Charge in the year	0.1
At 31 December 2015	**0.3**
Net book value:	
At 31 December 2015	**0.1**
At 31 December 2014	0.2

5 Tangible assets

	Plant and equipment £m
Cost:	
At 1 January and 31 December 2015	**0.3**
Depreciation:	
At 1 January and 31 December 2015	**0.1**
Net book value:	
At 1 January and 31 December 2015	**0.2**

6 Investments in subsidiaries

	£m
Cost or valuation:	
At 1 January 2015	2,688.8
Additions	3.7
At 31 December 2015	**2,692.5**
Provisions:	
At 1 January and 31 December 2015	**(952.1)**
Net carrying amount:	
At 31 December 2015	**1,740.4**
At 1 January 2015	1,736.7

The information provided below is given for the Company's principal subsidiaries. A full list of subsidiaries and investments can be found in note 38 to the consolidated accounts. The principal country of operation in respect of the companies below is the country in which they are incorporated.

The Group's train passenger services in the UK are operated through franchises awarded by DfT Rail, as delegated by the UK Government.

The following holdings are 100% held directly by the Company:

Incorporated in England and Wales	
National Express Intermediate Holdings Limited	Holding company for all Group operating companies except Rail
National Express Trains Limited	Holding company for Rail operating companies
National Express Finance Company Limited	Finance company for Group fuel derivative arrangements

Notes to the Company Accounts continued
For the year ended 31 December 2015

7 Derivative financial instruments

	2015 £m	2014 £m
Interest rate derivatives	**22.2**	26.5
Derivative financial assets due over one year	**22.2**	26.5
Foreign exchange forward contracts	**2.4**	1.5
Derivative financial assets due under one year	**2.4**	1.5
Foreign exchange forward contracts	**(1.8)**	(0.6)
Derivative financial liabilities due under one year	**(1.8)**	(0.6)

Full details of the Group's financial risk management objectives and policies can be found in note 29 to the consolidated accounts. As the holding company for the Group, the Company faces similar risks over foreign currency and interest rate movements.

8 Debtors

	2015 £m	2014 £m
Amounts falling due within one year:		
Amounts owed by subsidiary undertakings	**48.8**	57.0
Corporation tax recoverable	**5.7**	2.2
Other debtors	**2.2**	2.1
Prepayments	**4.6**	3.6
	61.3	64.9
Deferred tax asset: amounts falling due after more than one year (note 13)	**3.4**	6.9
	64.7	71.8

9 Cash at bank and in hand

	2015 £m	2014 £m
Short-term deposits	**–**	40.0
Cash at bank	**0.1**	90.2
	0.1	130.2

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Company, and earn interest at the respective short-term deposit rates. The fair value of cash equals the carrying value.

10 Creditors: amounts falling due within one year

	2015 £m	2014 £m
Bank overdraft	**34.3**	43.0
Bank loans	**34.0**	–
Trade creditors	**4.6**	5.0
Amounts owed to subsidiary undertakings	**187.9**	231.7
Accruals and deferred income	**18.1**	13.1
Bonds – accrued interest	**29.3**	29.2
Other debt payable	**1.1**	1.1
	309.3	323.1

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.

11 Creditors: amounts falling due after more than one year

	2015 £m	2014 £m
Bonds	**583.5**	585.3
Other debt payable	**61.8**	65.6
	645.3	650.9

12 Provisions for liabilities and charges

	Deferred tax* £m	Claims provision £m	Total £m
At 1 January 2015	**6.1**	**2.7**	**8.8**
Utilised in the year	**–**	**(0.1)**	**(0.1)**
Charge to income statement	**1.0**	**–**	**1.0**
Credit to other comprehensive income	**(0.8)**	**–**	**(0.8)**
At 31 December 2015	**6.3**	**2.6**	**8.9**

* The deferred tax liability relates to the Company defined benefit pension scheme and has been included following the adoption of FRS 101 as disclosed in note 1.

Notes to the Company Accounts continued For the year ended 31 December 2015

13 Deferred tax

Deferred tax included in the Balance Sheet is as follows:

	2015 £m	2014 £m
Deferred tax asset, included in debtors (note 8)	**3.4**	6.9
Deferred tax liability, included in provisions (note 12)	**(6.3)**	(6.1)
Net deferred tax (liability)/asset	**(2.9)**	0.8

The major components of the provision for deferred taxation are as follows:

	2015 £m	2014 £m
Accelerated capital allowances	**0.2**	0.2
Other timing differences	**–**	0.1
Losses carried forward	**3.2**	6.6
Defined benefit pension	**(6.3)**	(6.1)
Net deferred tax (liability)/asset	**(2.9)**	0.8

The reconciliation of the deferred tax asset is as follows:

	£m
Deferred tax asset at 1 January 2015	**6.9**
Charge to income statement	**(3.5)**
Deferred tax asset at 31 December 2015	**3.4**

Timing differences associated with Group investments

No deferred tax (2014: £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 £3.9m (2014: £4.3m), which arise where the Company does not expect to generate sufficient suitable future profits.

14 Interest-bearing loans and borrowings

The effective interest rates at the Balance Sheet date were as follows:

	2015 £m	Maturity	Effective interest rate	2014 £m	Maturity	Effective interest rate
Current						
Bank overdraft	**34.3**			43.0		
European bank loans	**34.0**	**November 2019[1]**	**LIBOR + 0.60%**	–	November 2019[1]	LIBOR + 0.60%
Accrued interest	**30.4**			30.3		
Total current	**98.7**			73.3		
Non-current						
Seven-year Sterling bond	**352.3**	**January 2017**	**6.54%**	353.0	January 2017	6.54%
Ten-year Sterling bond	**231.2**	**January 2020**	**6.85%**	232.3	January 2020	6.85%
Bonds	**583.5**			585.3		
Euro Private Placement	**61.8**	**August 2021**	**4.55%**	65.6	August 2021	4.55%
Other debt payable	**61.8**			65.6		
Total non-current	**645.3**			650.9		

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

Details of the Company's interest rate management strategy and interest rate swaps are included in note 29 and note 30 to the consolidated accounts.

15 Called-up share capital

	2015 £m	2014 £m
At 31 December:		
Authorised:		
800,000,000 (2014: 800,000,000) ordinary shares of 5p each	**40.0**	40.0
Issued called-up and fully paid:		
511,738,648 (2014: 511,738,648) ordinary shares of 5p each	**25.6**	25.6

The total number of share options exercised in the year by employees of the Group was 824,029 (2014: 972,868) of which 797,801 (2014: 882,000) exercises were satisfied by transferring shares from the National Express Employee Benefit Trust. The remaining exercises were settled via a direct purchase of shares from the open market.

Notes to the Company Accounts continued For the year ended 31 December 2015

16 Shareholders' funds and statement of changes in shareholders' equity

	Share capital £m	Share premium £m	Capital redemption reserve £m	Own shares £m	Profit and loss account (restated)* £m	Total (restated)* £m
At 1 January 2015	**25.6**	**532.7**	**0.2**	**(1.5)**	**457.3**	**1,014.3**
Shares purchased	**–**	**–**	**–**	**(8.5)**	**–**	**(8.5)**
Own shares released to satisfy employee share schemes	**–**	**–**	**–**	**2.2**	**(2.2)**	**–**
Share-based payments	**–**	**–**	**–**	**–**	**1.6**	**1.6**
Actuarial loss, net of tax	**–**	**–**	**–**	**–**	**(0.2)**	**(0.2)**
Loss for the year	**–**	**–**	**–**	**–**	**(53.1)**	**(53.1)**
Dividends	**–**	**–**	**–**	**–**	**(54.4)**	**(54.4)**
At 31 December 2015	**25.6**	**532.7**	**0.2**	**(7.8)**	**349.0**	**899.7**

* restated for the adoption of FRS 101 as disclosed in note 1.

The majority of the Company's profit and loss account is available for distribution. Own shares have been purchased out of distributable profits and therefore reduce the reserves available for distribution. The share premium and capital redemption reserves are not distributable.

Details of dividends paid, declared and proposed during the year are given in note 11 to the consolidated accounts.

Own shares
Own shares comprises 2,495,467 (2014: 553,268) 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 2,740,000 (2014: 1,033,000) shares and 797,801 (2014: 882,000) shares were used to satisfy options granted under a number of the Company's share schemes. Nil (2014: 24,362) shares were sold during the year to the open market.

The market value of the shares held by the Trust at 31 December 2015 was £8.3m (2014: £1.4m). The dividends payable on 2,418,824 of these shares have been waived (2014: 418,670).

	Share capital £m	Share premium £m	Capital redemption reserve £m	Own shares £m	Profit and loss account (restated)* £m	Total (restated)* £m
At 1 January 2014	25.6	532.7	0.2	(0.8)	410.4	968.1
Shares purchased	–	–	–	(3.2)	–	(3.2)
Own shares released to satisfy employee share schemes	–	–	–	2.5	(2.5)	–
Share-based payments	–	–	–	–	1.6	1.6
Actuarial gain, net of tax	–	–	–	–	11.4	11.4
Profit for the year	–	–	–	–	88.0	88.0
Dividends	–	–	–	–	(51.6)	(51.6)
At 31 December 2014	25.6	532.7	0.2	(1.5)	457.3	1,014.3

* restated for the adoption of FRS 101 as disclosed in note 1.

17 Retirement benefits

The Company participates in both the National Express Group Staff Pension Fund (a defined benefit scheme) and a defined contribution scheme.

Defined benefit scheme

The defined benefit scheme 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; The Company contributes £4.2m annually to this scheme.

The assets of the scheme are held separately from those of the Company.

The valuation as at 31 December 2015 is based on the results of the 5 April 2013 actuarial valuation, which has been updated by independent professionally qualified actuaries to take account of the requirements of IAS 19. The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice. Details of the latest actuarial valuation are included in note 33 to the consolidated accounts.

The relevant assumptions used are as follows:

	2015 £m	2014 £m
Rate of increase in salaries	**2.5%**	2.5%
Rate of increase of pensions	**3.1%**	2.9%
Discount rate	**3.9%**	3.6%
Inflation assumption (RPI)	**3.1%**	2.9%
Inflation assumption (CPI)	**2.1%**	1.9%
Post-retirement mortality in years:		
Current pensioners at 65 – male	**24.4**	24.2
Current pensioners at 65 – female	**26.9**	26.7
Future pensioners at 65 – male	**26.2**	26.0
Future pensioners at 65 – female	**28.9**	28.7

The amounts charged to the income statement and comprehensive income for the years ended 31 December 2015 and 2014 are set out in the following tables:

Income statement	**2015 £m**	2014 £m
Net interest income	**1.2**	0.7
Total credit to the income statement	**1.2**	0.7

During the year £0.2m (2014: £nil) of administrative expenses were incurred.

Comprehensive income	**2015 £m**	2014 £m
Actuarial gain/(loss) during the period from obligations	**1.3**	(8.5)
Expected return on plan assets greater/less than discount rate	**(2.2)**	22.6
Net actuarial (loss)/gain	**(0.9)**	14.1

The amounts recognised in the Balance Sheet at 31 December are:

	2015 £m	2014 £m
Bonds	**124.9**	123.9
Other	**(19.8)**	(22.1)
Fair value of scheme assets	**105.1**	101.8
Present value of scheme liabilities	**(70.2)**	(71.2)
Defined benefit obligation	**(70.2)**	(71.2)
Defined benefit pension surplus	**34.9**	30.6

Notes to the Company Accounts continued
For the year ended 31 December 2015

17 Retirement benefits continued

Defined benefit scheme continued

The movement in the present value of the defined benefit obligation in the year is as stated below:

	2015 £m	2014 £m
Defined benefit obligation at 1 January	**(71.2)**	(62.0)
Benefits paid	**2.2**	2.1
Finance charge	**(2.5)**	(2.8)
Actuarial gain/(loss) arising from changes in financial assumptions	**1.3**	(8.5)
Defined benefit obligation at 31 December	**(70.2)**	(71.2)

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

	2015 £m	2014 £m
Fair value of scheme assets at 1 January	**101.8**	74.6
Expected return on plan assets	**3.7**	3.5
Expected return on plan assets greater/less than discount rate	**(2.2)**	22.6
Cash contributions – employer	**4.2**	3.2
Administrative expenses	**(0.2)**	–
Benefits paid	**(2.2)**	(2.1)
Fair value of scheme assets at 31 December	**105.1**	101.8

History of experience gains and losses:	2015 £m	2014 £m	2013 £m	2012 £m	2011 £m
Fair value of scheme assets	**105.1**	101.8	74.6	73.1	67.9
Present value of defined benefit obligation	**(70.2)**	(71.2)	(62.0)	(56.5)	(49.3)
Surplus in the scheme	**34.9**	30.6	12.6	16.6	18.6
Experience adjustments arising on liabilities	**–**	–	(3.8)	–	0.1
Experience adjustments arising on assets	**(2.2)**	22.6	(2.8)	0.5	9.7

18 Share-based payment

During the year ended 31 December 2015, the Company had a number of share-based payment arrangements, which are described in note 7(b) to the consolidated accounts.

The options have a weighted average contractual life of one year (2014: one year). Options were exercised throughout the year and the weighted average share price at exercise was 313p (2014: 280p).

19 Commitments and contingencies

Operating lease commitments

The Company had total commitments under non-cancellable operating leases as set out below:

	Land and buildings	
	2015 £m	2014 £m
Operating leases which expire:		
Within two to five years	**0.1**	0.1

Contingent liabilities

(a) Guarantees

The Company has guaranteed credit facilities totalling £195m (2014: £163m) of certain subsidiaries.

(b) Bonds and letters of credit

In the ordinary course of business, the Company is required to issue counter-indemnities in support of its operations. Letters of credit have been issued to support insurance retentions of £66.1m (2014: £65.7m).

20 Post Balance Sheet events

In January 2016, the Company entered into committed unsecured revolving credit facilities totalling £450m. The new facilities include a £350m bridge facility to provide the Group with an appropriate level of liquidity prior to refinancing the Group's £350m 2017 bond, and a £100m facility to be used for general corporate purposes. Both facilities are for 18 months with three six-month extension options.

21 Explanation of transition to FRS 101

This is the first year that the Company has presented its financial information under FRS 101 issued by the Financial Reporting Council. The following disclosures are required in the year of transition. The last financial statements under a previous GAAP (UK GAAP) were for the year ended 31 December 2014 and the date of transition to FRS 101 was therefore 1 January 2014.

Reconciliation of equity	1 January 2014 £m	31 December 2014 £m
Equity reported under previous UK GAAP	958.1	989.8
Defined benefit pension asset	12.6	30.6
Deferred tax on the defined benefit pension asset	(2.6)	(6.1)
Equity reported under FRS 101	**968.1**	**1,014.3**

Registrars' details

All matters relating to the administration of shareholdings in National Express Group PLC, such as the loss of a share certificate, dividend payments or a change of address, should be directed to our Registrars, Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA; shareholder helpline number 0371 384 2152 or +44 121 415 7047 from overseas or Textel (for the hard of hearing) on 0371 384 2255. If you are registered for online shareholder communications you can contact the Registrars via www.shareview.co.uk.

Shareholder electronic communications

National Express encourages shareholders to use our online communications service. By registering for electronic communications, this provides a faster way to receive information and helps us to reduce print, paper and postage costs.

Log on to www.shareview.co.uk if you would like to:

- register your email so that you are able to access future shareholder information, including the Annual Report and Accounts electronically;
- check the balance of your shareholding;
- set up a dividend mandate online;
- change your registered postal address or your dividend mandate details; or
- submit your vote online prior to a general meeting.

To sign up for the first time you should click on 'Register' and follow the simple instructions – you will need your shareholder reference number from your share certificate or dividend voucher or any other correspondence sent to you by Equiniti Limited.

If you have any queries, contact our Registrars, Equiniti Limited, on the shareholder helpline number 0371 384 2152 or +44 121 415 7047 from overseas or Textel (for the hard of hearing) on 0371 384 2255.

Dividends paid direct to your bank account

Having dividends paid direct to your bank account has the following advantages:

- avoids the risk of cheques being lost and incurring a replacement fee;
- saves you time in presenting the cheque for payment; and
- the dividend is credited to your account on the payment date.

Consolidated Tax Vouchers

The Company now issues a Consolidated Tax Voucher ('CTV') once a year to all shareholders save for corporate and institutional shareholders. A CTV is included with the 2015 AGM mailing and will contain the tax and payment information for dividends paid during the tax year 2014/15.

To set up a new dividend mandate please log on to shareview.co.uk or contact our Registrars, Equiniti Limited, on the shareholder helpline number 0371 384 2152 or +44 121 415 7047 from overseas or Textel (for the hard of hearing) on 0371 384 2255.

Share dealing service

A telephone and internet share dealing service, which provides a simple way to buy and sell shares, is available through our Registrars, Equiniti. For further information log on to shareview.co.uk/dealing or telephone 0345 603 7037 or +44 121 415 7560 from overseas.

Company website

The Company website at www.nationalexpressgroup.com has information about the Group, including press releases, share price data and copies of the half year results and Annual Report and Accounts as well as corporate responsibility reporting. The Company no longer publishes the half year results in hard copy. These will now only be available via the website.

ShareGift

ShareGift is an independent charity share donation scheme administered by the Orr Mackintosh Foundation (registered charity number 1052686). Those shareholders who hold only a small number of shares, the value of which makes it uneconomic to sell them, can donate the shares to ShareGift who will sell them and donate the proceeds to a wide range of charities. Further information about ShareGift can be obtained from its website at sharegift.org and a ShareGift transfer form can be downloaded from www.nationalexpressgroup.com.

Unclaimed Assets Register

The Company participates in the Unclaimed Assets Register ('UAR') which provides a search facility for shareholdings and other financial assets that may have been forgotten. For further information contact UAR by email at uarenquiries@uk.experian.com, Tel: 0844 481 8180 or visit www.uar.co.uk.

Unsolicited mail

We are legally obliged to make our register of members available, subject to a proper purpose test, to the public. As a consequence of this some shareholders might receive unsolicited mail. Shareholders wishing to limit the amount of such mail should write to the Mailing Preference Service, FREEPOST 29 LON20771, London W1E 0ZT. Shareholders can also register online at www.mpsonline.org.uk or request an application form by calling from within the UK: 0845 703 4599 or emailing to mps@dma.org.uk.

Warning about share fraud

Share fraud includes scams where investors are called out of the blue and offered shares that often turn out to be worthless or non-existent, or an inflated price for shares they own. These calls come from fraudsters operating in 'boiler rooms' that are mostly based abroad.

While high profits are promised, those who buy or sell shares in this way usually lose their money.

The Financial Conduct Authority ('FCA') and Prudential Regulatory Authority ('PRA'), which replaced the Financial Services Authority on 1 April 2013, have found most share fraud victims are experienced investors who lose an average of £20,000, with around £200 million lost in the UK each year.

How to avoid share fraud

If you are offered unsolicited investment advice, discounted shares, a premium price for shares you own, or free company or research reports, you should take these steps before handing over any money:

1. Get the name of the person and organisation contacting you.
2. Check the FCA Register at www.fca.org.uk/register to ensure they are authorised.
3. Use the details on the FCA Register to contact the firm.
4. Call the FCA Consumer Helpline on 0800 111 6768 (freephone) or +44 20 7066 1000 from overseas if there are no contact details on the Register or you are told they are out of date.
5. Search the FCA's list of unauthorised firms and individuals to avoid doing business with.
6. REMEMBER: if it sounds too good to be true, it probably is!

If you use an unauthorised firm to buy or sell shares or other investments, you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme (FSCS) if things go wrong.

Report a scam

If you are approached by fraudsters, please tell the FCA using the share fraud reporting form at www.fca.org.uk/scams, where you can find out more about investment scams, or call the FCA Consumer Helpline on 0800 111 6768.

If you have already paid money to share fraudsters you should contact ActionFraud on 0300 123 2040.

Dividends and financial calendar

Final dividend ex-dividend date	28 April 2016
Final dividend record date	29 April 2016
Annual General Meeting	11 May 2016
Final dividend payment date	20 May 2016
Half Year Results announced	28 July 2016
Interim dividend ex-dividend date	1 September 2016
Interim dividend record date	2 September 2016
Interim dividend payment date	23 September 2016

Glossary

AGM	Annual General Meeting
Bps	Basis points
BSOG	Bus Service Operators Grant
CDP	Carbon Disclosure Project
Code	The UK Corporate Governance Code published by the Financial Reporting Council in September 2014
The Company	National Express Group PLC
CPI	Consumer Price Index
CRM	Customer Relationship Management
CTV	Consolidated Tax Voucher
DfT	Department for Transport
DTRs	Disclosure and Transparency Rules
EBIT	Earnings Before Interest and Tax
EBITDA	Earnings Before Interest and Tax plus Depreciation and Amortisation. It is calculated by taking normalised operating profit and adding back depreciation, fixed asset grant amortisation, normalised profit on disposal of non-current assets and share-based payments
EFQM	European Foundation for Quality Management
EPS	Earnings per share – the profit for the year attributable to shareholders, divided by the weighted average number of shares in issue, excluding those held by the Employee Benefit Trust which are treated as cancelled
EU	European Union
EURIBOR	Euro Interbank Offered Rate
FWI	Fatalities and Weighted Injuries index
GDP	Gross Domestic Product – used to determine the economic performance of a whole country or region
Gearing ratio	is calculated as net debt, divided by EBITDA
GHG	Greenhouse Gas
The Group	The Company and its subsidiaries
HMRC	Her Majesty's Revenue and Customs
IAS	International Accounting Standards
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
KPI	Key Performance Indicator
LIBOR	London Interbank Offered Rate
LTIP	Long-Term Incentive Plan
MAA	Moving Annual Average
Net capital expenditure	The increase in net debt arising on the purchase of property, plant and equipment and intangible assets less proceeds from disposals of property, plant and equipment. It excludes capital expenditure arising from UK rail franchise entry and exits and discontinued operations, which are included in these headings. Growth capital expenditure is calculated as investment in fleet for new contracts and concessions, after deducting fleet released from contracts and concessions lost and fleet re-used in new contracts and concessions
Net debt	is defined as cash and cash equivalents (cash overnight deposits, other short-term deposits) and other debt receivables, offset by borrowings (loan notes, bank loans and finance lease obligations) and other debt payable (excluding accrued interest)
Net interest expense	is finance costs less finance income

Normalised earnings per share	Earnings per share, excluding intangible asset amortisation, exceptional items and tax relief thereon
Normalised operating profit	Statutory operating profit excluding intangible asset amortisation and exceptional items. The Board believes that the normalised profit gives a better indication of the underlying performance of the Group
Normalised result	The statutory result excluding intangible asset amortisation, exceptional items and tax relief thereon
Operating cash flow	is intended to be the cash flow equivalent of normalised operating profit
Operating margin	is normalised profit divided by revenue, expressed as a percentage
ORR	Office of Rail and Road
PPM	Public Performance Measure – used by the rail industry to measure punctuality
RCF	Revolving credit facility
Return on assets (ROA)	Normalised operating profit divided by tangible assets
Return on capital employed (ROCE)	Normalised operating profit divided by tangible and intangible assets
RME	Rhine-Münster Express
RMS	Revenue Management System
RPI	Retail Prices Index
RPS	Railways Pension Scheme
RRX	Rhine-Ruhr Express
SPAD	Signal Passed at Danger
TOC	Train Operating Company
TSR	Total Shareholder Return – the growth in value of a shareholding over a specified period assuming that dividends are re-invested to purchase additional shares
TUPE	Transfer of Undertakings (Protection of Employment)
ULSD	Ultra low sulphur diesel
Underlying revenue	compares the current year with the prior year on a consistent basis, after adjusting for the impact of currency

	2015 £m	2014 (restated)* £m	2013 (restated)* £m	2012 (restated)* £m	2011 £m
Group normalised					
Revenue	**1,919.8**	1,867.4	1,891.3	1,831.2	2,238.0
Normalised operating profit	**193.5**	167.6	177.2	191.3	225.2
Return on capital (pre tax)	**11.7%**	10.7%	10.8%	11.1%	14.1%
Basic earnings per share	**23.4p**	18.9p	19.2p	22.3p	26.9p
IFRS					
Revenue	**1,919.8**	1,867.4	1,891.3	1,831.2	2,238.0
Operating profit	**167.8**	114.2	117.9	117.6	174.4
Profit before tax	**124.4**	66.5	64.4	69.8	129.4
Basic earnings per share	**20.9p**	11.6p	11.1p	11.8p	19.9p
Dividends per share – declared	**11.33p**	10.30p	10.00p	9.75p	9.50p
Net (debt)/funds					
Cash at bank and in hand	**60.4**	83.7	40.9	72.8	92.5
Other debt receivable	**0.8**	0.8	1.0	1.0	0.7
Bonds	**(583.5)**	(585.3)	(579.5)	(590.0)	(583.4)
Bank and other loans	**(45.3)**	(5.2)	(19.3)	(114.6)	(7.9)
Fair value of bond hedging derivatives	**14.3**	18.6	9.2	23.4	16.4
Finance lease obligations	**(127.6)**	(110.5)	(132.9)	(154.7)	(151.3)
Other debt payable	**(64.6)**	(66.4)	(65.5)	(66.1)	(0.7)
Net debt	**(745.5)**	(664.3)	(746.1)	(828.2)	(633.7)
Gearing ratio	**2.45x**	2.25x	2.5x	2.5x	1.9x

* restated for the reclassification of business development costs from exceptionals as disclosed in note 2 to the consolidated accounts.

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Cautionary statement

This Annual Report and Accounts is intended to focus on matters which are relevant to the interests of shareholders of the Company. The purpose of this Annual Report and Accounts is to assist shareholders in assessing the strategies adopted and performance delivered by the Company and the potential for those strategies to succeed. It should not be relied on by any other party or for any other purpose.

Forward looking statements are made in good faith, based on a number of assumptions concerning future events and information available to Directors at the time of their approval of this report. These forward looking statements should be treated with caution due to the inherent uncertainties underlying any such forward looking information. The user of this Annual Report and Accounts should not rely unduly on these forward looking statements, which are not a guarantee of performance and which are subject to a number of uncertainties and other facts, many of which are outside the Company's control and could cause actual events to differ materially from those in these statements. No guarantee can be given of future results, levels of activity, performance or achievements.

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