national express

Press release

26 February 2015

Full Year Results for the year ended 31 December 2014

National Express Group PLC ("National Express" or the "Group"), a leading international public transport group, operates bus and coach services in the UK, continental Europe, North Africa, North America and the Middle East, together with rail services in the UK.

Overview

National Express delivered a strong performance in 2014. Both statutory and normalised profit before tax were higher than last year, with a strong second half performance more than off-setting the one-off headwinds and currency translation effects that particularly impacted in the first half of the year. The Group has again delivered a very strong cash performance and reduced net debt by over £80 million during the course of the year. We have also renewed key concessions and made significant progress in new markets.

Highlights include:

Strong financial performance, especially free cash flow

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

Growth in revenue and passenger numbers in every division

- Continuing strong performance in UK Coach with passenger revenue up 4% and an operating margin over 10%
- Profit grew in North America on a constant currency basis, with a strong second half of the year off-setting the significant weather impact in the first half. In the last five years the North American School Bus business has more than doubled its profitability
- UK Bus continued to reap the benefits of its strong local partnerships with a 0.6% increase in commercial passengers and 2.8% increase in revenue
- As well as successfully launching the new c2c franchise, UK Rail grew both revenue (6%) and passenger numbers (2%)
- ALSA's revenue management has continued to deliver an improved performance against the on-going rail competition – we have delivered passenger growth of 4% with revenue only 2% lower on the routes where we have introduced revenue management. Morocco continued its strong performance with a 22% increase in revenue with all three operations growing.

New contracts won, new markets opened and key concessions retained

- We have won our third and fourth German rail contracts, with our success in the Nuremberg S-Bahn.
- Our success in retaining the Essex Thameside (c2c) rail franchise secures our presence in UK rail through to 2029
- Through our successes in Germany and c2c we have now secured more than £6 billion of future revenue in rail
- We have recently successfully started the first phase of our 10-year contract for bus services in Bahrain, our first entry into the growing Middle Eastern market
- We have successfully retained and grown major contracts across the Group during 2014, including our largest US transit contract and largest Spanish concession to come up for renewal to date
- We have a new business pipeline of opportunities worth over £8 billion in annualised revenue.

Comment

Dean Finch, National Express Group Chief Executive, said:
"National Express has made significant progress over the past year. Every division is carrying more passengers and has grown revenue. We have successfully retained key existing contracts, recently won another two rail contracts in Germany and this month started operating our Bahrain bus contract. I am particularly pleased with our very strong cash performance, which has again exceeded our target.

“This strong performance means we are in an excellent position to continue to exploit new opportunities. Our North American business has more than doubled profitability in the last five years and provides us with a strong platform for further growth in the coming years. Coupled with the opportunity for further growth in German Rail and the Middle East, I am optimistic about the future prospects of the business.”

Outlook

During 2015 we expect our UK rail, bus and coach businesses to build on their good progress during 2014 and to continue to perform well with strong cash generation. In Spain the main contract renewal process starts this year but any impact from new terms for our larger concessions is unlikely to be felt until 2017. Whilst we expect some margin pressure on renewal as is normal, we believe ALSA can mitigate this risk through a combination of significant revenue and cost management actions, as well as securing new growth opportunities. We are determined to retain a significant market share in Spain and as market leaders have demonstrated our ability to compete effectively. We also expect the Group to continue to successfully exploit a number of important opportunities in the Middle East, North Africa and in Germany. We are currently working on an active pipeline worth £8 billion of annualised revenues.

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

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

Financial summary

Year ended 31 December		2014 £m	2013 £m
Revenue	Non-rail	1,715.8	1,748.3
	Rail	151.6	143.0
	Group	1,867.4	1,891.3
Normalised operating profit	Core non-rail	185.1	185.5
	German coach	(1.7)	(2.4)
	Rail	9.7	9.8
	Group	193.1	192.9
Share of results from associates		0.3	0.6
Net finance costs		(48.0)	(49.8)
Normalised profit before taxation		145.4	143.7
IFRS profit before tax for the year		66.5	64.4
Operating margin		10.3%	10.2%
Normalised basic EPS (pence)	Non-rail	21.2	20.1
	Rail	1.5	1.4
	Group	22.7	21.5
Net debt		664.3	746.1
Total proposed dividend per share (pence)		10.3	10.0

Enquiries

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Definitions

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

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

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

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

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

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

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

'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 Finance Director's review.

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

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

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

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

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

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

Group Chief Executive's Review

Overview of 2014

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

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

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

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

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

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

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

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

Third, we have generated growth in new markets. During the year we won a 10-year contract to operate buses in Bahrain. We believe this positions us well locally in Bahrain where there is scope for further growth, and also within the growing Middle Eastern market. We withdrew from the German coach market during the year due to its unrealistic pricing structure making it impossible to sustain a profitable, quality service. We were also disappointed to have come second in both the Crossrail and ScotRail competitions, with the ScotRail result particularly disappointing as we were within 0.24% of the winning bid.

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

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

Highlights

Highlights of 2014 included:

- In constant currency terms the Group delivered a 2% increase in revenue and 7% increase in normalised profit before tax. This is a significant achievement, overcoming the headwinds in the first half of the year. Earnings per share increased to 22.7 pence (2013: 21.5p). Group ROCE increased to 12.4% and free cash flow of £190 million again exceeded our target. An increase in the proposed full year dividend to 10.3 pence per share is funded within our robust policy of two times non-rail earnings cover.

- UK Coach has grown revenue by 4%. UK Coach's profits have grown by 36% in two years, with operating margin increasing over the same period by over 25% to reach 10.2%. We believe there are good opportunities for further growth as a focus on journey time improvements is combined with a continued emphasis on the customer, including the increasing use of targeted marketing. These initiatives continue to make our offer ever more attractive to customers and drive improved returns.

- UK Bus has had another strong year, with revenue growth of 2.8% and West Midlands commercial patronage increasing 0.8%. Our industry-leading Transforming Bus Travel partnership won two awards during 2014 and provides a stability that allows us to deliver significant investment in improving services. 2014's Passenger Focus results saw our services secure the fastest growth in customer satisfaction of any urban operator. This progress is something we are looking to build on in 2015 with initiatives such as the extension of our smart-ticketing system to trams and Pay As You Go. This will be underpinned by record investment in new vehicles and continued close working with local authorities to improve journey times and reliability.

- In Rail, we successfully retained the c2c franchise during 2014, guaranteeing our future in UK rail until 2029. c2c has maintained its industry-leading performance for a third consecutive year and delivered 6% revenue growth and 2% passenger growth in year. A slight decline in 2014's profit and margin is explained by the more onerous contract terms during the franchise extension in place to September last year. We are encouraged by the passenger response so far to the new franchise's focus on customer service. Investment in WiFi and new advance purchase off-peak tickets are already proving popular. With new flexible ticketing and pioneering automatic delay-repay compensation being introduced in due course, we are confident this enhanced customer service offer will continue to be popular.

- North America delivered a strong second half performance to overcome the $6.1 million impact of the extreme weather in the first half and ended the year with both revenue and profit growth in constant currency. In the last five years North America School Bus has more than doubled its profitability to £59.5 million (2009: £25.3m). We made good progress on improving the quality of the portfolio by exiting poorly performing contracts and targeting those with better returns. This was complemented by a significant bolt-on acquisition in Philadelphia and our largest ever conversion contract in Memphis. US Transit also secured its largest contract (MBTA) for a further eight years. Our return on assets increased again to 23.8%. Better pricing discipline in the market, combined with our on-going focus on efficient capital deployment means we are optimistic about our prospects in North America. As set out below, we believe we have significant opportunity for further growth in North America.

- Spain delivered an increase in revenue in local currency but a decline in operating profit to €94.1 million (2013: €96.0m) because of the impact of on-going rail competition and a significant strike in April. The implementation of revenue management and an improved service offer on the affected rail competed routes led to an improved performance in the second half with passenger growth at 4% and revenue only 2% lower on the affected routes. Strong growth in Morocco continued, including the benefit of a full year of the Tangier operation. ALSA also successfully retained its Bizkaia contract, the largest to come up for renewal so far. As the number of concession renewals increases in the coming years, we believe the benefits of our focus on cost efficiency and revenue management mean we are well placed to achieve our aim of maintaining market share.

Strategy

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

Delivering operational excellence

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

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

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

Another crucial aspect of quality is the delivery of punctual, high performing services. At any one time in peak hours, we have over 23,000 vehicles on the road or rail. We are proud that c2c has now been the UK's most punctual operator for three years running as well as holding the annual and 4-week records. Our UK Coach business has recently signed a ground-breaking agreement with the Highways Agency to help improve our punctuality and reliability.

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

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

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

This is why I am particularly pleased with our retention of major contracts in 2014: the 15 year c2c rail franchise; 10 year Bizkaia contract in Bilbao; and, the 5 year MBTA para-transit contract in Boston.

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

Superior cash and returns

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

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

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

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

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

Creating new business opportunities

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

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

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

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

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

We have also made significant progress during 2014 in growing in other markets. Our success in securing a 10-year contract in Bahrain opens both that country and the wider Middle East to further growth. Our recent award of the Nuremberg S-Bahn network is a clear demonstration of the opportunity for further growth in the exciting German rail market. We will begin operating services on our North Rhine Westphalia contracts in December this year and have an active bidding pipeline. We are currently shortlisted for three German contracts and there are up to 30 new tenders coming up in the next two years. We are also monitoring rail liberalisation in Spain.

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

Board changes

Firstly, I am delighted to welcome Matthew Ashley as Group Finance Director, whose appointment was announced on January 29th 2015. Matt was previously acting Group Finance Director, a role he assumed in October 2014. He joined National Express in early 2010 as Group Financial Controller and I am grateful to him for all his help and support.

On the Board, Sir Andrew Foster has already indicated that he intends to step down as a non-executive director after more than ten years with the Group and will not seek re-election at the forthcoming Annual General Meeting in May. Jackie Hunt is also stepping down as a non-executive director after three years with the Group and will also not seek re-election at the AGM. I am very pleased that Lee Sander has agreed to become Senior Independent Director, to replace Jackie. Andrew's successor will be announced in due course. On behalf of the Board I would like to thank both Andrew and Jackie for all their insight and hard work and I look forward to continuing to work with Lee.

Outlook

During 2015 we expect our UK rail, bus and coach businesses to build on their good progress during 2014 and to continue to perform well with strong cash generation. In Spain the main contract renewal process starts this year but any impact from new terms for our larger concessions is unlikely to be felt until 2017. Whilst we expect some margin pressure on renewal as is normal, we believe ALSA can mitigate this risk through a combination of significant revenue and cost management actions, as well as securing new growth opportunities. We are determined to retain a significant market share in Spain and as market leaders have demonstrated our ability to compete effectively. We also expect the Group to continue to successfully exploit a number of important opportunities in the Middle East, North Africa and in Germany. We are currently working on an active pipeline worth £8 billion of annualised revenues.

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

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

Dean Finch

Group Chief Executive

26 February 2015

Group Finance Director's Review

Presentation of results

We present our financial results on two bases. Normalised results show the performance of the business before exceptional items, loss on disposal of a business in 2013 and intangible amortisation, since the Board believes this gives the reader a clearer understanding of existing business performance. IFRS results include these items to give the statutory results.

Revenue

Group revenue for the year grew 2.3% to £1,867.4 million on a constant currency basis; down 1.3% on a reported basis (2013 £1,891.3m), reflecting the strengthening of Sterling against the Euro and US dollar.

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

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

Normalised profit

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

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

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

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

Operating Profit

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

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

Summary income statement

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

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

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

Exceptional items

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

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

Exceptional items

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

Business development

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

During 2014, the Group invested £19.8 million bidding for 3 UK rail franchises and 4 regional rail opportunities in Germany. As previously announced, the Group won the Essex Thameside (c2c) franchise, securing our presence in the UK rail market through to 2029, with the franchise expected to generate up to £200 million of operating profit over the 15 year term of the contract. More recently we have also secured our third and fourth contract wins in German rail, with our success in the Nuremberg S-Bahn contract. These 12 year contracts are expected to contribute €1.4bn of revenue and will begin operation in December 2018.

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

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

Strategic Rationalisation

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

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

Restructuring

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

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

1, An employee buy-out from part of the principal defined benefit pension scheme combating the increased costs caused by changes in legislation.

2, A one-off reduction in headcount across all 3 businesses and the centre reducing managerial and administrative headcount by 20.

3, A write-down and disposal of assets that were deemed surplus to the ongoing needs of the business.

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

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

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

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

Exceptional fuel credits

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

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

IFRS results

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

IFRS profit

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

Cash management

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

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

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

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

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

Free cash flow

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

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

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

Net funds flow

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

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

Treasury management

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

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

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

The Group has a strong funding platform that underpins the delivery of its strategy. Core funding is provided from non-bank sources, to provide improved certainty and maturity of funding. At the end of 2014, this represented £742.8 million of funding, primarily from two Sterling denominated bonds comprised of a £350 million bond maturing in 2017 and a £225 million bond maturing in 2020, together with a private placement of €78 million maturing in 2021 and £110 million of finance leases.

Additional committed bank funding of £416 million, to meet seasonal working capital needs and to provide sufficient funding headroom, is provided under the Group's unsecured Revolving Credit Facility ('RCF') – which was successfully renewed and extended to November 2019, at a reduced margin of 0.6% over Libor. At 31 December 2014 the Group had £499.7 million in cash and undrawn facilities available.

The Group hedges its exposure to interest rate movements to maintain a balance between fixed and floating interest rates on borrowings. To achieve the desired fixed to floating ratio the Group has entered into a series of interest rate swaps that have the effect of converting fixed rates into floating rate debt. The net effect of these transactions was that, at 31 December 2014, the proportion of Group net debt at floating rates was 28% (2013: 33%).

The Group's exposure to foreign exchange is limited to translation of its earnings and assets, as its overseas activities are naturally hedged by earning revenue and incurring costs in local currencies. In order to hedge its exposure to currency fluctuations with regards to its financial ratios, the Group held, at 31 December 2014, Euro debt of €240 million and US dollar debt of $267 million. These correspond to 1.8 times Euro-generated EBITDA and 1.8 times US dollar-generated EBITDA in 2014.

Pensions

The Group's principal defined benefit pension schemes are all in the UK. At 31 December 2014 these schemes had a combined deficit under IAS19 of £11.9 million, an improvement from the deficit position of £30.1 million at 31 December 2013, primarily due to improved asset returns during the year. The National Express Group Staff Pension Plan ('UK Coach plan') is now closed to all future accrual. A funding plan aimed at bringing the plan to self-sufficiency was agreed with the trustees in 2010; National Express contributes £4.2 million per annum to this scheme. In 2011 UK Bus agreed a £5.5 million annual deficit repayment plan with the trustees of the West Midlands Passenger Transport Authority Pension Fund ('WM plan'). The WM plan remains open to accrual for existing active members only. This scheme was further de-risked during 2012 by securing future payments for existing pensioners in a £272 million insurance buy-in to the scheme. The Group expects to contribute around £10 million per annum in total deficit contributions to its defined benefit schemes until 2017.

The IAS19 valuations at 31 December 2014 were as follows:

- UK Bus (under the WM plan and the Tayside Transport Superannuation Fund): £50.6 million deficit (2013: £40.8m deficit);
- UK Coach plan: £30.6 million surplus (2013: £12.6 million surplus)
- UK Rail/other: £8.1 million surplus (2013: £1.9m deficit). The Group's rail business participates in the Railways Pension Scheme. This exposure transfers to an incoming operator in the event of a franchise termination.

Fuel Costs

The Group consumes approximately 245 million litres of diesel and gasoline each year for which it is at risk (i.e. there is no direct fuel escalator in the contract or concession price). This relates to the non-rail divisions and represented a total cost (including delivery and taxes) to the Group in 2014 of £167 million (10% of related revenue), at an average fuel component cost of 49 pence per litre. The Group has adopted a forward fuel buying policy in order to secure a degree of certainty in its planning. This policy is to hedge fully a minimum of 15 months addressable consumption against movements in price of the underlying commodity, together with at least 50% of the next nine months' consumption in the contract businesses. Currently, the Group is 100% fixed for 2015 at an average price of 47 pence/litre (excluding delivery and tax), 96% fixed for 2016 at an average price of 43p and 81% fixed for 2017 at 43p. The drop in the price of crude oil in Q4 of 2014 resulted in an adverse movement in the value of these hedges to a liability of £71 million, which will be offset by the lower price paid for fuel in 2015-2017. From an accounting perspective, we have recognised £2.5 million of ineffectiveness as an exceptional cost, representing 3.5% of the £71 million fair value movement.

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

Principal risks and uncertainties

The Group's other principal risks and uncertainties remain in line with those that will be detailed in the 2014 Annual Report and Accounts and are summarised here:

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

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

Matthew Ashley

Group Finance Director

26 February 2015

Spain

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

Overview of 2014

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

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

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

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

Operational excellence

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

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

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

4% in the second half, with revenue only 2% lower, on routes where we have introduced revenue management.

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

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

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

Cash and returns

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

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

Creating new opportunities

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

Our focus is to ensure we are well placed for the upcoming concession renewal process. The main contract renewal process starts this year with any impact from new terms for our larger concessions unlikely to be felt until 2017. We are determined to maintain our significant market share. Our bidding team is industry-leading and has already demonstrated its effectiveness in retaining and growing our significant Bizkaia contract. In addition, we have negotiated a 5 year extension until 2024 to the Madrid Consortium contracts, securing €350 million of additional revenues. We expect some pressure on margins from the concession renewals, which is why we already have cost efficiency and revenue management programmes in place. We will also look to again leverage the Group expertise and experience in customised e-marketing; building on UK Coach’s leadership similar programmes will be rolled out across the businesses.

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

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

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

North America

Year ended 31 December	**2014 m**	2013 m
Revenue	**£620.2**	£645.0
Operating profit	**£59.5**	£62.6
Revenue	**US$1,021.8**	US$1,009.4
Operating profit	**US$98.0**	US$97.9
Operating margin	**9.6%**	9.7%

Overview of 2014

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

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

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

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

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

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

Operational excellence

Our North America operation already delivers best in class margin, following the successful completion of our margin improvement programme between 2010 and 2012. Traditionally, the school bus industry is a capital-intensive, low cash generation business. Over the past two years, our focus has been to increase the return on capital across our portfolio of 500 contracts and generate a strong cash flow. By focusing on contracts which generate adequate capital returns, we have more defensible, relationship-based contracts where our service quality is valued by the customer. Where we are not able to obtain financial returns above our minimum criteria, we have exited the contract – in the 2014/15 school year bid season we relinquished 11 contracts, leading to a reduction, net of bid wins, of more than 550 buses operated. We have continued to cascade buses where they meet the appropriate age criteria, thereby increasing fleet utilisation.

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

Cash and returns

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

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

Creating new opportunities

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

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

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

UK Bus

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

Overview of 2014

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

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

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

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

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

Operational excellence

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

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

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

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

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

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

Cash and returns

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

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

Creating new opportunities

UK Bus is a stable, strong return on capital business, with opportunity for organic revenue growth and margin improvement within its existing footprint. Through investment in fleet, technology and structural cost reduction, we are seeking to improve passenger volume growth and profitability.

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

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

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

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

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

UK Coach

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

Overview of 2014

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

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

	Growth %
Passenger yield	(-)
Passenger volume	4
Change in Core Express revenue	4
Other revenues	6
Total revenue	4

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

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

Operational excellence

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

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

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

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

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

Punctuality of services improved during the year and National Express was rated number 1 in the UK Customer Service Index within the ground transportation sector. Safety also improved with lower levels of vehicle incidents and employee injuries during 2014. The business has been awarded a 5 Star rating by the British Safety Council and also gained certification to BS OHSA18001 for safety management standards.

In 2014, UK Coach was awarded a 4-star rating by the European Foundation for Quality Management in recognition of our high operational and service delivery standards, demonstrating our commitment to constantly drive operational excellence throughout our network. UK Coach is determined to emulate the achievement of our UK Rail operator, c2c, and secure a 5-star rating at our next assessment.

Cash and returns

The UK Coach business model has a particularly strong return on capital and cash generation, outsourcing the majority of fleet provision and services to its partner operators in a capital-light model. In 2014, we delivered another strong performance, generating operating cash of £37 million with operating cash conversion of 133% of profit. Capital expenditure remains primarily focused on technology and retail systems aimed at delivering improved CRM capabilities together with enhanced mobile and online booking options for customers.

Creating new opportunities

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

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

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

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

Rail

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

Overview of 2014

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

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

Operational excellence

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

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

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

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

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

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

Cash and returns

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

Creating new opportunities

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

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

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

Group Income Statement
For the year ended 31 December 2014

	Note	**Total before intangible amortisation and exceptional items 2014 £m**	**Intangible amortisation and exceptional items 2014 £m**	**Total 2014 £m**	Total before intangible amortisation and exceptional items 2013 £m	Intangible amortisation and exceptional items 2013 £m	Total 2013 £m
Continuing operations							
Revenue	3	**1,867.4**	**–**	**1,867.4**	1,891.3	–	1,891.3
Operating costs before intangible amortisation and exceptional items		**(1,674.3)**	**–**	**(1,674.3)**	(1,698.4)	–	(1,698.4)
Intangible amortisation		**–**	**(28.6)**	**(28.6)**	–	(49.3)	(49.3)
Exceptional items	3	**–**	**(50.3)**	**(50.3)**	–	(25.7)	(25.7)
Total operating costs		**(1,674.3)**	**(78.9)**	**(1,753.2)**	(1,698.4)	(75.0)	(1,773.4)
Group operating profit	3	**193.1**	**(78.9)**	**114.2**	192.9	(75.0)	117.9
Loss on disposal of business		**–**	**–**	**–**	–	(4.3)	(4.3)
Share of results of associates		**0.3**	**–**	**0.3**	0.6	–	0.6
Finance income	4	**6.5**	**–**	**6.5**	6.8	–	6.8
Finance costs	4	**(54.5)**	**–**	**(54.5)**	(56.6)	–	(56.6)
Profit before tax		**145.4**	**(78.9)**	**66.5**	143.7	(79.3)	64.4
Tax charge	5	**(27.7)**	**21.8**	**(5.9)**	(32.5)	26.4	(6.1)
Profit for the year		**117.7**	**(57.1)**	**60.6**	111.2	(52.9)	58.3
Profit attributable to equity shareholders		**116.2**	**(57.1)**	**59.1**	109.7	(52.9)	56.8
Profit attributable to non-controlling interests		**1.5**	**–**	**1.5**	1.5	–	1.5
		117.7	**(57.1)**	**60.6**	111.2	(52.9)	58.3
Earnings per share:							
– basic earnings per share	7			**11.6p**			11.1p
– diluted earnings per share	7			**11.5p**			11.1p
Normalised earnings per share:							
– basic earnings per share	7	**22.7p**			21.5p		
– diluted earnings per share	7	**22.7p**			21.4p		

Group Statement of Comprehensive Income
For the year ended 31 December 2014

	2014 £m	2013 £m
Profit for the year	**60.6**	58.3
Items that will not be reclassified subsequently to profit or loss:		
Actuarial gains/(losses) on defined benefit pension plans	**10.1**	(19.0)
Deferred tax on actuarial gains/(losses)	**(2.3)**	3.7
	7.8	(15.3)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on retranslation of foreign operations (net of hedging)	**(25.0)**	1.0
Exchange differences on retranslation of non-controlling interests	**(0.8)**	0.2
(Loss)/gain on cash flow hedges	**(80.3)**	2.5
Less: reclassification adjustments for gains or losses included in profit	**12.3**	(3.5)
Tax on exchange differences	**0.1**	2.0
Deferred tax on cash flow hedges	**13.6**	0.3
	(80.1)	2.5
Total comprehensive (expenditure)/income for the year	**(11.7)**	45.5
Total comprehensive (expenditure)/income attributable to:		
Equity shareholders	**(12.4)**	43.8
Non-controlling interests	**0.7**	1.7
	(11.7)	45.5

Group Balance Sheet
At 31 December 2014

	2014 £m	2013 £m
Non-current assets		
Intangible assets	**1,177.4**	1,223.5
Property, plant and equipment	**729.9**	751.4
Available for sale investments	**6.8**	7.4
Derivative financial instruments	**26.5**	18.5
Deferred tax assets	**29.9**	16.7
Investments accounted for using the equity method	**5.4**	5.1
Trade and other receivables	**1.8**	4.6
Defined benefit pension asset	**40.6**	12.6
	2,018.3	2,039.8
Current assets		
Inventories	**21.8**	21.2
Trade and other receivables	**199.6**	169.9
Derivative financial instruments	**1.5**	3.1
Current tax assets	**1.3**	1.6
Cash and cash equivalents	**83.7**	40.9
	307.9	236.7
Total assets	**2,326.2**	2,276.5
Non-current liabilities		
Borrowings	**(741.8)**	(750.7)
Derivative financial instruments	**(36.1)**	(1.6)
Deferred tax liability	**(66.0)**	(75.1)
Other non-current liabilities	**(4.1)**	(6.5)
Defined benefit pension liability	**(52.5)**	(42.7)
Provisions	**(23.5)**	(21.4)
	(924.0)	(898.0)
Current liabilities		
Trade and other payables	**(415.7)**	(351.6)
Borrowings	**(55.9)**	(76.8)
Derivative financial instruments	**(35.8)**	(1.9)
Current tax liabilities	**(23.3)**	(22.9)
Provisions	**(35.3)**	(28.0)
	(566.0)	(481.2)
Total liabilities	**(1,490.0)**	(1,379.2)
Net assets	**836.2**	897.3
Shareholders' equity		
Called-up share capital	**25.6**	25.6
Share premium account	**532.7**	532.7
Capital redemption reserve	**0.2**	0.2
Own shares	**(1.5)**	(0.8)
Other reserves	**(32.8)**	46.5
Retained earnings	**299.3**	282.4
Total shareholders' equity	**823.5**	886.6
Non-controlling interests in equity	**12.7**	10.7
Total equity	**836.2**	897.3

Group Statement of Changes in Equity
For the year ended 31 December 2014

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Own shares £m	Other reserves £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
At 1 January 2014	**25.6**	**532.7**	**0.2**	**(0.8)**	**46.5**	**282.4**	**886.6**	**10.7**	**897.3**
Shares purchased	**–**	**–**	**–**	**(3.2)**	**–**	**–**	**(3.2)**	**–**	**(3.2)**
Own shares released to satisfy employee share schemes	**–**	**–**	**–**	**2.5**	**–**	**(2.5)**	**–**	**–**	**–**
Total comprehensive income and expenditure	**–**	**–**	**–**	**–**	**(79.3)**	**66.9**	**(12.4)**	**0.7**	**(11.7)**
Share-based payments	**–**	**–**	**–**	**–**	**–**	**3.1**	**3.1**	**–**	**3.1**
Tax on share-based payments	**–**	**–**	**–**	**–**	**–**	**1.0**	**1.0**	**–**	**1.0**
Dividends	**–**	**–**	**–**	**–**	**–**	**(51.6)**	**(51.6)**	**–**	**(51.6)**
Dividends paid to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(0.2)**	**(0.2)**
Contribution from non-controlling interest	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1.5**	**1.5**
At 31 December 2014	**25.6**	**532.7**	**0.2**	**(1.5)**	**(32.8)**	**299.3**	**823.5**	**12.7**	**836.2**

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

Group Statement of Cash Flows
For the year ended 31 December 2014

	Note	2014 £m	2013 £m
Cash generated from operations	10	**245.2**	296.4
Tax paid		**(13.0)**	(16.3)
Net cash from operating activities		**232.2**	280.1
Cash flows from investing activities			
Payments to acquire businesses, net of cash acquired		**(5.2)**	(7.2)
Deferred consideration for businesses acquired and disposed		**(0.5)**	(3.7)
Proceeds from the disposal of business		**–**	1.4
Purchase of property, plant and equipment		**(55.7)**	(90.7)
Proceeds from disposal of property, plant and equipment		**13.9**	12.1
Payments to acquire intangible assets		**(7.5)**	(3.2)
Payments to acquire associates		**(0.2)**	–
Interest received		**5.9**	5.2
Net cash used in investing activities		**(49.3)**	(86.1)
Cash flows from financing activities			
Purchase of own shares		**(3.2)**	(2.8)
Interest paid		**(49.7)**	(51.0)
Finance lease principal payments		**(28.8)**	(21.3)
Net loans repaid		**(9.7)**	(99.4)
Receipts/(payments) for the maturity of foreign currency contracts		**2.4**	(1.1)
Dividends paid to non-controlling interests		**(0.2)**	(0.5)
Contribution from non-controlling interest		**1.5**	–
Dividends paid to shareholders of the Company		**(51.6)**	(50.3)
Net cash used in financing activities		**(139.3)**	(226.4)
Increase/(decrease) in cash and cash equivalents		**43.6**	(32.4)
Opening cash and cash equivalents		**40.9**	72.8
Increase/(decrease) in cash and cash equivalents		**43.6**	(32.4)
Foreign exchange		**(0.8)**	0.5
Closing cash and cash equivalents		**83.7**	40.9

Notes to the Consolidated Accounts
For the year ended 31 December 2014

1 Basis of preparation

The results are based on the Group financial statements, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") and the International Financial Reporting Interpretations Committee's interpretations as adopted by the European Union, and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

These results have been prepared on the going concern basis under the historical cost convention, except for the recognition of derivative financial instruments and available for sale investments, and using the accounting policies set out in the Group's 2014 statutory financial statements.

Normalised results are defined as the statutory results before intangible asset amortisation, loss on disposal of businesses, exceptional items and tax relief thereon.

2 Exchange rates

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

	2014 Closing rate	**2014 Average rate**	2013 Closing rate	2013 Average rate
US dollar	**1.56**	**1.65**	1.66	1.56
Canadian dollar	**1.81**	**1.82**	1.76	1.61
Euro	**1.29**	**1.24**	1.20	1.18

If the results for the year to 31 December 2013 had been retranslated at the average exchange rates for the year to 31 December 2014, North American Bus would have achieved normalised operating profit of £58.9m on revenue of £607m, compared to normalised operating profit of £62.6m on revenue of £645m as reported, and Spanish Coach and Bus would have achieved a normalised operating profit of £77.4m on revenue of £536m, compared to normalised operating profit of £81.5m on revenue of £565m as reported.

3 Segmental analysis

The operating businesses are organised and managed separately according to the nature of the public transport services they provide and the geographical market they operate in.

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

	External revenue 2014 £m	**Inter-segment sales 2014 £m**	**Segment revenue 2014 £m**	External revenue 2013 £m	Inter-segment sales 2013 £m	Segment revenue 2013 £m
UK Bus	**280.8**	**0.2**	**281.0**	273.3	0.1	273.4
UK Coach	**274.6**	**0.6**	**275.2**	263.3	0.2	263.5
North American Bus	**620.2**	**–**	**620.2**	645.0	–	645.0
Spanish Coach and Bus	**538.1**	**–**	**538.1**	564.6	–	564.6
Core non-rail businesses	**1,713.7**	**0.8**	**1,714.5**	1,746.2	0.3	1,746.5
German Coach	**2.1**	**–**	**2.1**	2.1	–	2.1
Non-rail businesses	**1,715.8**	**0.8**	**1,716.6**	1,748.3	0.3	1,748.6
Rail	**151.6**	**–**	**151.6**	143.0	–	143.0
Inter-segment sales elimination	**–**	**(0.8)**	**(0.8)**	–	(0.3)	(0.3)
Total revenue	**1,867.4**	**–**	**1,867.4**	1,891.3	–	1,891.3

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

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

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

3 Segmental analysis continued

Operating profit is analysed by reportable segment as follows:

	Normalised operating profit 2014 £m	**Intangible amortisation and exceptional items 2014 £m**	**Segment result 2014 £m**	Normalised operating profit 2013 £m	Intangible amortisation and exceptional items 2013 £m	Segment result 2013 £m
UK Bus	**34.0**	**(7.0)**	**27.0**	31.2	(1.4)	29.8
UK Coach	**28.0**	**(3.5)**	**24.5**	24.5	(1.9)	22.6
North American Bus	**59.5**	**(27.5)**	**32.0**	62.6	(18.1)	44.5
Spanish Coach and Bus	**75.8**	**(7.2)**	**68.6**	81.5	(37.2)	44.3
Central functions	**(12.2)**	**(11.2)**	**(23.4)**	(14.3)	(6.4)	(20.7)
Core non-rail businesses	**185.1**	**(56.4)**	**128.7**	185.5	(65.0)	120.5
German Coach	**(1.7)**	**(2.1)**	**(3.8)**	(2.4)	(0.7)	(3.1)
Non-rail businesses	**183.4**	**(58.5)**	**124.9**	183.1	(65.7)	117.4
Rail	**9.7**	**(20.4)**	**(10.7)**	9.8	(9.3)	0.5
Operating profit from continuing operations	**193.1**	**(78.9)**	**114.2**	192.9	(75.0)	117.9
Loss on disposal of business			**–**			(4.3)
Share of results of associates			**0.3**			0.6
Net finance costs			**(48.0)**			(49.8)
Profit before tax			**66.5**			64.4
Tax charge			**(5.9)**			(6.1)
Profit for the year			**60.6**			58.3

Intangible asset amortisation is analysed by reportable segment as follows:

	2014 £m	2013 £m
UK Coach	**0.5**	0.3
North American Bus	**11.3**	13.5
Spanish Coach and Bus	**16.3**	35.4
German Coach	**0.4**	–
Central functions	**0.1**	0.1
Total	**28.6**	49.3

Exceptional costs/(income) are analysed by reportable segment as follows:

	2014 £m	2013 £m
UK Bus	**7.0**	1.4
UK Coach	**3.0**	1.6
Rail	**20.4**	9.3
North American Bus	**16.2**	4.6
Spanish Coach and Bus	**(9.1)**	1.8
German Coach	**1.7**	0.7
Central functions	**11.1**	6.3
Total	**50.3**	25.7

3 Segmental analysis continued

Exceptional costs/(income) are further analysed by type as follows:

	2014 £m	2013 £m
UK rail bids	**17.0**	7.4
Other rail bids	**2.8**	1.9
Other business development	**5.7**	6.4
	25.5	15.7
Restructuring	**25.8**	5.4
Strategic rationalisation	**18.3**	–
Exceptional fuel credits	**(19.3)**	–
North America acquisition and integration	**–**	4.6
	50.3	25.7

In the year to 31 December 2014, exceptional costs of £17.0m (2013: £7.4m) were incurred in relation to UK rail bids. This includes the costs of bidding for the Essex Thameside, Crossrail and ScotRail rail franchises. In addition, £2.8m (2013: £1.9m) was incurred in bidding for regional rail opportunities in Germany. During the year, the Group secured the 15 year Essex Thameside UK rail franchise, and was recently announced as preferred bidder for two contracts to operate the Nuremberg S-Bahn commuter rail service.

£5.7m (2013: £6.4m) of business development costs have been incurred across the Group as part of a major investment to create other new contract and passenger business pipelines in new markets. This included costs incurred to win a 10 year contract to operate bus services in the Kingdom of Bahrain.

Exceptional restructuring costs of £25.8m (2013: £5.4m) have been incurred across the Group, including costs to rationalise structural overheads in UK Bus, Spain, North America and Central Functions, and onerous contract costs incurred on exit of the German Coach operation.

To improve returns on capital and exit poor performing contracts, the Spanish and North American operations undertook a major exercise in the year to rationalise onerous contracts and to provide against future losses. The cost of this strategic rationalisation exercise was £18.3m (2013: £nil).

Exceptional fuel credits predominantly relate to Spanish fuel duty credits; partly offset by ineffectiveness of £2.5m on the Group's fuel hedges following the exceptional volatility in market prices during the year. In 2014 The Court of Justice of the EU ruled that Spain's tax on the retail sales of hydrocarbons ('fuel duty tax') was contrary to the EU's legal framework regarding taxation and that, accordingly, all fuel duty tax collected from the inception of the tax in 2005 to the cessation of the tax in January 2013 should be repaid. As at year end, the Group's Spanish business had received £6.3m of fuel duty refunds. A further £15.5m has been assessed as virtually certain and therefore recognised as a receivable at year end, bringing the total amount recognised in the year to £21.8m.

Exceptional costs of £nil (2013: £4.6m) were incurred in relation to the acquisition and integration of school bus and transit businesses in North America.

4 Net finance costs

	2014 £m	2013 £m
Bond and bank interest payable	**(47.5)**	(50.2)
Finance lease interest payable	**(4.2)**	(4.4)
Other interest payable	**(0.5)**	(0.2)
Unwind of provision discounting	**(1.2)**	(1.3)
Net interest cost on defined benefit pension obligations	**(1.1)**	(0.5)
Finance costs	**(54.5)**	(56.6)
Other financial income	**6.5**	6.8
Net finance costs	**(48.0)**	(49.8)
Of which, from financial instruments:		
Cash and cash equivalents	**(2.3)**	(2.7)
Financial liabilities measured at amortised cost	**(46.7)**	(48.7)
Derivatives used for hedging	**5.8**	5.9
Loan fee amortisation	**(2.1)**	(2.4)

5 Taxation

Analysis of taxation charge in the year

	2014 £m	2013 £m
Current taxation:		
UK corporation tax	**(0.6)**	3.9
Overseas taxation	**14.3**	14.4
Current income tax charge	**13.7**	18.3
Adjustments with respect to prior years – UK and overseas	**0.9**	–
Total current income tax charge	**14.6**	18.3
Deferred taxation:		
Origination and reversal of temporary differences – continuing operations	**(11.3)**	(11.8)
Adjustments with respect to prior years – UK and overseas	**2.6**	(0.4)
Deferred tax credit	**(8.7)**	(12.2)
Total tax charge	**5.9**	6.1

The tax charge is disclosed as follows:		
Tax charge on profit before intangible asset amortisation and exceptional items	**27.7**	32.5
Tax credit on intangible asset amortisation and exceptional items	**(21.8)**	(26.4)
	5.9	6.1

Tax credit on intangible asset amortisation and exceptional items is analysed as follows:		
Tax credit on intangible asset amortisation	**(10.9)**	(17.4)
Tax credit on exceptional items	**(10.9)**	(6.8)
Tax credit on loss on disposal of business	**–**	(2.2)
	(21.8)	(26.4)

6 Dividends paid and proposed

	2014 £m	2013 £m
Declared and paid during the year		
Ordinary final dividend for 2013 paid of 6.75p per share (2012: 6.60p)	**34.5**	33.7
Ordinary interim dividend for 2014 of 3.35p per share (2013: 3.25p)	**17.1**	16.6
	51.6	50.3
Proposed for approval (not recognised as a liability at 31 December)		
Ordinary final dividend for 2014 of 6.95p per share (2013: 6.75p per share)	**35.5**	34.5

7 Earnings per share

	2014	2013
Basic earnings per share	**11.6p**	11.1p
Normalised basic earnings per share	**22.7p**	21.5p
Diluted earnings per share	**11.5p**	11.1p
Normalised diluted earnings per share	**22.7p**	21.4p

Basic earnings per share is calculated by dividing the earnings attributable to equity shareholders of £59.1m (2013: £56.8m) by the weighted average number of ordinary shares in issue during the year, excluding those held by employee share ownership trusts and those held as treasury shares which are both treated as cancelled.

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

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

	2014	2013
Basic weighted average shares	**511,125,312**	511,114,989
Adjustment for dilutive potential ordinary shares	**970,374**	1,425,106
Diluted weighted average shares	**512,095,686**	512,540,095

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

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

	2014			2013		
	£m	**Basic EPS p**	**Diluted EPS p**	£m	Basic EPS p	Diluted EPS p
Profit attributable to equity shareholders	**59.1**	**11.6**	**11.5**	56.8	11.1	11.1
Intangible amortisation	**28.6**	**5.6**	**5.6**	49.3	9.7	9.6
Exceptional items	**50.3**	**9.8**	**9.8**	25.7	5.0	5.0
Loss on disposal of business	**–**	**–**	**–**	4.3	0.8	0.8
Tax relief on the above items	**(21.8)**	**(4.3)**	**(4.2)**	(26.4)	(5.1)	(5.1)
Normalised profit from continuing operations and attributable to equity shareholders	**116.2**	**22.7**	**22.7**	109.7	21.5	21.4

8 Pensions and other post-employment benefits

Summary of pension benefits and assumptions

The UK Bus and UK Coach divisions operate both funded defined benefit schemes and a defined contribution scheme. The majority of employees of the Rail companies are members of the appropriate shared-cost section of the Railways Pension Scheme (RPS), a funded defined benefit scheme. The assets of all schemes are held separately from those of the Group. Contributions to the schemes are determined by independent professionally qualified actuaries.

Subsidiaries in North America contribute to a number of defined contribution plans. The Group also provides certain additional unfunded post-employment benefits to employees in North America and Spain.

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

The UK Coach plan is now closed to all future accrual. A funding plan aimed at bringing the plan to self-sufficiency over a six-year period was agreed in 2010; National Express contributes £4.2m annually to this scheme. In 2011 UK Bus agreed a £5.5m annual deficit repayment plan with the trustees of the West Midlands Passenger Transport Authority Pension Fund to fund a £71m scheme funding deficit over 12 years. The plan remains open to accrual for existing members only.

The total pension cost charged to operating profit in the year was £9.9m (2013: £9.9m), of which £3.7m (2013: £3.2m) relates to the defined contribution schemes.

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

	2014 £m	2013 £m
UK Bus	**(50.6)**	(40.8)
UK Coach	**30.6**	12.6
Rail	**10.0**	(0.4)
Other	**(1.9)**	(1.5)
Total	**(11.9)**	(30.1)

9 Net debt

	At 1 January 2014 £m	**Cash flow £m**	**Exchange differences £m**	**Other movements £m**	**At 31 December 2014 £m**
Cash	**37.7**	**(0.6)**	**(0.8)**	**–**	**36.3**
Overnight deposits	**–**	**6.9**	**–**	**–**	**6.9**
Other short term deposits	**3.2**	**37.3**	**–**	**–**	**40.5**
Cash and cash equivalents	**40.9**	**43.6**	**(0.8)**	**–**	**83.7**
Other debt receivables	**1.0**	**(0.2)**	**–**	**–**	**0.8**
Borrowings:					
Bank and other loans	**(19.3)**	**9.6**	**5.2**	**(0.7)**	**(5.2)**
Bonds	**(579.5)**	**–**	**–**	**(5.8)**	**(585.3)**
Fair value of hedging derivatives	**9.2**	**–**	**–**	**9.4**	**18.6**
Finance lease obligations	**(132.9)**	**28.8**	**(5.2)**	**(1.2)**	**(110.5)**
Other debt payable	**(65.5)**	**0.1**	**4.2**	**(5.2)**	**(66.4)**
Total borrowings	**(788.0)**	**38.5**	**4.2**	**(3.5)**	**(748.8)**
Net debt*	**(746.1)**	**81.9**	**3.4**	**(3.5)**	**(664.3)**

* Excludes accrued interest on long term borrowings.

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

Borrowings include non-current interest-bearing borrowings of £741.8m (2013: £750.7m).

Other non-cash movements in net debt represent finance lease additions of £1.2m (2013: £0.8m) and a £2.3m reduction in loan and bond arrangement fees (2013: £2.6m). The £9.4m increase to the fair value of the hedging derivative is offset by equal and opposite movements in the fair value of the

9 Net debt continued

related hedged borrowings. This comprises a £4.2m fair value movement in bonds and a £5.2m fair value movement in other debt payable.

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

* Excludes accrued interest on long term borrowings

10 Cash flow statement

Reconciliation of Group profit before tax to cash generated from operations:

Total operations	**2014 £m**	2013 £m
Profit before tax	**66.5**	64.4
Net finance costs	**48.0**	49.8
Share of post-tax results under the equity method	**(0.3)**	(0.6)
Depreciation of property, plant and equipment	**104.9**	107.3
Intangible asset amortisation	**28.6**	49.3
Amortisation of fixed asset grants	**(0.8)**	(1.1)
Profit on disposal of property, plant and equipment	**(1.7)**	(1.1)
Loss on disposal of business	**–**	4.3
Share-based payments	**3.1**	3.1
Increase in inventories	**(0.6)**	(2.2)
(Increase)/decrease in receivables	**(26.9)**	21.9
Increase in payables	**26.8**	13.9
Decrease in provisions	**(2.4)**	(12.6)
Cash generated from operations	**245.2**	296.4

11 Financial information

The financial information set out above does not constitute the Group's statutory financial statements for the years ended 31 December 2014 or 2013, but is derived from those financial statements. Statutory financial statements for 2013 have been delivered to the Registrar of Companies and those for 2014 will be delivered following the company's annual general meeting. The auditors have reported on those financial statements; their reports were unqualified, did not draw attention to any matters by way of emphasis without qualifying their report and did not contain statements under s498(2) or (3) Companies Act 2006.

The Annual Report will be posted to shareholders on 27 March 2015 and will also be available from the Company Secretary at National Express House, Birmingham Coach Station, Mill Lane, Digbeth, Birmingham, B5 6DD. Copies are also available via www.nationalexpressgroup.com.