national express

Press release

24 February 2011

National Express Group PLC

Full Year Results for the year ended 31 December 2010

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

Ahead of schedule in delivering Business Recovery

2010 was a year of successful transformation. We are ahead of plan in our Business Recovery, delivering significantly improved margins and returning to underlying revenue growth. With this sound financial footing, we have restored the dividend and we are driving forward performance, delivering value for all shareholders.

- Normalised margin rose from 5.9% in 2009 to 9.6% in 2010
- Normalised operating profit increased over £44m to £204.2m (2009: £159.8m)
- Normalised profit before tax rose 38% to £160.5m (2009: £116.2m)
- Franchise extensions secured for National Express East Anglia and c2c; potential for future value creation in Rail
- UK Bus returned to industry average margin with operating profit up 36%
- Over $30m annualised cost savings delivered in North America; operating profit up 44%
- Despite challenging economic backdrop, Spain performed strongly with margin and profit growth
- Dividend restored with a proposed final dividend payment of 6 pence per share

Financial summary

	Normalised result		
Full year ended 31 December, £m	**2010**	**2009**	
Revenue	2,125.9	2,711.1	(22)%
Group operating profit	204.2	159.8	28%
Share of results from associates	0.3	(0.1)	n/a
Net finance costs	(44.0)	(43.5)	(1)%
Profit before taxation	160.5	116.2	38%
Operating margin	9.6%	5.9%	63%
Net debt	610.4	657.9	7%
Basic earnings per share (pence)*	23.6	30.5	(23)%
Return on capital employed (pre-tax)	13.2%	10.7%	23%
Statutory profit/(loss) for the period	62.3	(52.7)	n/a

** decline in EPS due to impact of equity rights issue in November 2009*

Dean Finch, National Express Group Chief Executive, said:

“This is a renewed company. Our much improved financial performance provides a platform to drive further growth, continue targeted investment and restore a dividend. With a clear focus on our strategy we are confident in the year ahead.”

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National Express Group PLC

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There will be a presentation for investors and analysts at 0900 on 24 February 2011 at Bank of America Merrill Lynch, 2 King Edward Street, London EC1A 1HQ. A webcast will be available at www.nationalexpressgroup.com

Definitions

Margin: the ratio of normalised operating profit to revenue for continuing businesses.

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

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

Return on capital employed is normalised operating profit divided by the sum of net assets and net debt.

CHAIRMAN'S STATEMENT

I am pleased to report that 2010 has been successful on many fronts for National Express. Following a turbulent 2009, we are rebuilding a high quality business, focused on its core operations and established on a sound financial footing.

In my statement to shareholders 12 months ago I stated that our new CEO and his management team would be "implementing and refining our strategy - improving margins, driving cash and delivering selective, value-creating growth". I am delighted to state that in 2010 that is exactly what has been achieved. With shareholder support, we put in place an appropriate capital structure, almost halving debt since December 2008. During 2010 we have steadily restored margins, stabilised and begun to grow revenue, and started to make targeted investment in future growth. These initiatives have generated a strong recovery in Group profitability; we finished 2010 with profits nearly 15 per cent higher than the market's expectations at the start of the year, delivering an improvement in normalised Group profit before tax over 2009 of over £44 million.

Much of the credit for this should go to the management team that is now in place. Since joining the Group in February 2010, Dean Finch has brought clarity and operational focus throughout the Group. Our five divisions have strong leadership, including three appointments of recognised industry leaders during the year and one internal promotion. Together, the Executive has reinvigorated businesses that are now positioned to leverage their strong positions across their markets and to look at targeted opportunities to achieve growth.

Led by Jez Maiden, our Group Finance Director, we have restructured the balance sheet, with two bond issues that have extended the debt maturity profile out to between 2014 and 2020, allowing management to focus on operational execution. In delivering this improvement in performance, the Executive and I have been ably supported by a strong and stable Board. I would like to thank my Board colleagues for their advice and direction as we have restored performance and pride across the Group.

I would particularly like to thank Ray O'Toole, Chief Operating Officer, who decided to retire during the year. He has made a tremendous contribution to the Group over the years, first joining the Board in 1999, and steering our operations through a difficult 2009. I wish him well for the future.

In 2009 the Board made the difficult decision to suspend the dividend to shareholders. Recognising the return to stability of National Express and the improvement in earnings and cash generation, the Board is proposing its restoration, with a final dividend for 2010 of 6 pence per share, payable on the 13th May 2011 to shareholders on the register on the 26th April 2011. The Board believes the dividend should be set at a level where it is at least two times covered by annual earnings and fully funded from free cash flow. It should also be sustainable and progressive going forward. We have established the initial dividend at a level which is supported by the non-rail business of the Group. As we continue to improve profitability in other businesses and rehabilitate our position in the UK rail industry, we expect to grow the future dividend accordingly.

By the end of 2011, we expect to be delivering at least to industry average margins across all our businesses, with industry-leading performance in several areas. Whilst we remain focused on the completion of this business recovery phase, we have begun the next step of our strategy, delivering selective expansion through organic growth, winning new contracts and, in due course, securing targeted bolt-on acquisitions. This next phase will continue to reflect the principles we have established in our recovery – we will deliver operational excellence; we will focus on cash generation; and we will only invest where there are clear returns for shareholders.

Finally, on behalf of the Board, I would like to thank our employees for their hard work and dedication during the year. Their performance and delivery is evident in the results that we report to you here. I would also thank our shareholders for the support that they have shown in the last 15 months and the faith that they have placed in us to achieve our recovery programme. I am confident that National Express Group is now in a strong position to complete its recovery. I look forward to moving on to the next stage of our development.

John Devaney
Chairman
24 February 2011

OPERATING REVIEW

GROUP CHIEF EXECUTIVE'S REPORT

Looking at National Express today, I see a business that is being transformed from the one that I joined at the beginning of 2010. Twelve months ago, we set out a two year Business Recovery programme to restore business margins. We said that we would achieve cost reductions, restore the business to a sound foundation and drive forward our performance to deliver value for our shareholders.

I am pleased with the progress we have made so far. We have:

- delivered margin improvement by embedding cost management and operational excellence across the Group;
- established a sound financial foundation;
- continued to focus on cash generation; and
- started to make selected investment to drive future value creation.

We are ahead of our plan – and in 2011 we will complete our Business Recovery programme. But our plans do not stop there. Beyond improving our business to industry standards, we have a strategy to deliver industry leading performance, organic growth and, in time, new market opportunities. We are leveraging our unique geographic footprint across all modes of public transport, together with our Group-wide synergies. Despite the economic challenges that we face, we are creating a stronger business to deliver future value to shareholders.

2010 – Delivering margin improvement
Our focus in 2010 has been to restore margin performance. Through cost control, fare yield management and a focus on delivering operational excellence across the business, Group normalised margin rose from 5.9% in 2009 to 9.6% in 2010. Normalised operating profit increased over £44 million to £204.2 million (2009: £159.8m), while normalised profit before tax rose 38% to £160.5 million (2009: £116.2m). Excluding rail operations, normalised profit before tax reached a record level in 2010. We are rebuilding a high quality business, uniquely focused on public passenger transport expertise in international markets.

Cost management and operational excellence
The immediate priority in delivering an improved margin has been controlling cost. Our North American operations have led the way, delivering over $30 million of annualised cost savings, by simplifying the business, driving operational excellence through local service delivery, and instilling a clear cost management culture. This has been about focusing our school bus business back onto basics – delivering excellent customer service, safely, at the right cost. A new highly experienced North American management team has steadied the ship, ensuring that the Business Recovery programme has remained on target and achieving a 44% improvement in normalised operating profit to $57.1 million (2009: $39.6m). It also secured 22 new contracts in a successful bidding season, whilst retaining over 90% of its own contract portfolio, delivering cost efficiencies to budget-constrained school board customers.

Spain was already performing strongly as we entered 2010. Against a challenging domestic economic backdrop, Alsa has achieved strong margin growth and a normalised operating profit exceeding €100 million (2009: €85.7m), testament to its flexible and robust business model and the stable regulatory environment. Cost efficiency has driven this improved performance, with lower fuel costs supplemented by running 2% fewer kilometres. Spain also returned to revenue growth - urban income grew by 9%, with resilient city council revenue boosted by a new contract in Agadir, Morocco. Intercity revenues grew in the fourth quarter of 2010 for the first time since the third quarter of 2008.

Improving yield management
Driving margin through improved yield management has turned UK Bus from one of the worst performing operations in the industry to one of the best performing within the space of 12 months. Normalised operating profit increased 48% to £28.3 million (2009 £19.1m excluding the disposed Travel London business). By rebalancing fares between cash tickets and travelcards, we have improved the revenue mix and managed the bus network more effectively. We are now investing in new fleet. Cost reduction was also a key aspect of improved performance in 2010 – we reduced the number of depots, restructured pay grades and improved engineering efficiency. Our UK Bus business is an excellent asset with a strong footprint. It has catchment areas with high population density and opportunities to better meet future passenger needs. With the management team now strengthened, I am sure we will be able to achieve further progress.

After strong profit growth in 2009, UK Coach consolidated its position in 2010. Underlying revenue grew by 3% year-on-year, but additional investment saw the margin decrease, from 14.1% to 12.8%, as we invested in marketing, new facilities and in tactical promotional campaigns. Our strong brand and unique business model present opportunities to deliver revenue and profit growth over the medium term. Innovation is key to achieving this. In 2010 we rolled out telematic traffic management and driver safety systems that will improve the passenger experience, and during 2011 new systems and customer service applications will further support financial performance. A new senior management team is driving this change.

Opportunities in Rail
Our goal in Rail has been to move beyond the difficulties of 2009 and ensure that National Express is positioned to participate in profitable future rail operations where risks are both appropriate and manageable. We are delighted that we have secured extensions to both of our current rail franchises; we expect to operate National Express East Anglia until February 2012 and c2c until May 2013. We continue to deliver superior customer service and performance – c2c remains one of the most punctual franchises in Britain - whilst we are leading the industry's investment to reduce commuter overcrowding, in partnership with the Department for Transport (DfT).

Targeting industry leading margins
Our business improvement plans are well underway. We continue to focus on delivering margin improvement through reduced cost. North America is now achieving an 8% operating margin and we aim to achieve double digit industry-leading margins by the end of 2011. This will be a challenge, but the highly competitive, budget constrained market offers both issues and opportunities. We will deliver the remaining $10 million of our Business Recovery programme through the application of GPS technology and centralised procurement. Our UK Bus business is already delivering an industry average margin but we will continue to optimise the network and drive revenue growth to take us towards industry leading performance. We will deliver our remaining business improvement goals in 2011, to achieve strong returns across all our operations.

Creating a higher quality business for the future
In addition to delivering much improved margins, 2010 was also the year in which we resolved a number of historic legacy issues and created a platform for a higher quality business in the future. We also completed the rebuilding of our capital structure – to the extent that the Group is seen increasingly as one of the best financed in the sector. Two bond issues in January 2010 and June 2010 raised £575 million at attractive rates, alongside a £500 million refinancing of our bank facility in July. Consequently, the Group now has long term committed funding in place until between 2014 and 2020. In addition, the Group has ample facility and covenant headroom.

We have been successful in resolving a number of areas where there has been potential for volatility in profit or in cash generation. We have negotiated a settlement of all outstanding UK corporate tax issues with HMRC, under which the Group will settle £17 million in outstanding liabilities over the next four years, compared with a potential liability of approximately £50 million. This excellent outcome has resulted in a one-off benefit of over 6 pence per share to non-normalised basic earnings per share (EPS) in 2010. We have also now closed the Group/UK Coach pension scheme in the UK and agreed a deficit funding plan which should see the scheme be self-sufficient in six years. We have reached agreement with the DfT under which both parties have dropped all claims relating to the East Coast franchise exit. We have significantly reduced the Group's future exposure to self-insured incident costs and we have negotiated an exit settlement from National Express' long-held shareholding in Inter-Capital and Regional Rail Limited, which had exposed the Group to heavy losses for many years. Together, these settlements have given us certainty over future cash commitments. In addition, in resolving these legacy issues, the Group is committed to minimising future exceptional operating costs.

These actions should reduce overall future volatility and ensure that EPS growth is more directly linked to operational success and that free cash generation is more stable. This has supported our proposed restoration of the dividend, with a final payment for 2010 of 6 pence per share fully supported by our non-rail earnings and free cash flow. Importantly, a foundation has been established from which we can develop and grow the business.

A framework for development

With a stronger management team in place and a clear focus on delivering consistent operational excellence, we are now achieving significantly improved business performance, with better margins and returns. During 2011, we will move to the next phase of our strategy, further enhancing shareholder value creation.

We are focused on three key areas of improvement:

- **Structure –** we have flattened our organisation structure and shortened the decision-making process, whilst embedding clear, quantitative key performance metrics. For example, the three UK businesses now report directly to me as Group Chief Executive, removing two previous management layers;

- **Investment in key development areas –** we have invested in new talent through 20 core appointments. The five divisional heads bring over 130 years of mass public transport experience between them. With our talent development framework, we are building the capability to manage existing and developing operations. We have specific teams now focused on driving down global procurement costs and identifying new strategic opportunities for the future;

- **Culture –** we are creating one common culture, with a shared vision and values, and we have improved our performance-based incentive framework.

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

We have adopted a common set of values across National Express to deliver our vision:

- **Safety** - more than anything else, we value the safety of our customers and our employees. Nothing we do is worth getting hurt for and we will not do anything which risks causing harm. We have launched a major internal programme, 'Driving Out Harm', which is designed specifically to educate and instil a safety-first culture at all levels and across all parts of the Group. Employee remuneration is now partly determined by safety performance;

- **Customers** - we place customers at the heart of our business. Nobody will try harder for our customers than we do, particularly when things go wrong. We are working to improve our customer service; for example, we are strengthening our contact centre in Birmingham to provide 24/7 advice to our UK Coach customers if they are stranded or concerned about their travel plans;

- **Employees** - we behave towards all our employees with the respect and dignity we expect from others. We will strive to enable all our people to reach their full potential and to give their best as individuals and in teams. Our employees are core in enabling National Express to consistently deliver high performing services of which we can be proud. Our new innovation programme, 'Make A Difference', has brought groups of employees from all levels of the business together to drive improvement. For example, our UK Bus 'Routes2Excellence' scheme has combined the views of customers, drivers and staff to produce an innovative route learning scheme for drivers;

- **Communities** – we are proud to operate in many international communities. Our policies and practices will advance the social, environmental and economic conditions of those communities. I am delighted that our flagship coach station in Birmingham was the first public transport station to be awarded the BREEAM award for environmental performance.

A diversified international portfolio
We have a diversified portfolio of bus, coach and rail businesses operating in international markets. Some of the key strengths of this portfolio include:

- **Market leadership** – in most of our markets we have strong or exclusive positions and compete primarily with other forms of transport, such as the car or plane. We are market leader in West Midlands bus and have a 60% share of the UK scheduled coach market with our National Express brand;

- **Market knowledge** – we have a deep understanding of and expertise in managing regulated concessions, which provide price protection, service exclusivity and stability. In Spain, our long-term concessions provide an "order book" of 7.2 years;

- **Relationships** – we have extensive experience in managing long-term contractual relationships. In North America school bus, our contracted order book is 4.1 years;

- **Quality international assets** – National Express uniquely benefits from a balanced exposure to the UK, Spain and North America, in bus, coach and rail. This portfolio provides a balance – economic growth, political environment and regulation can all vary. For example, recent uncertainty over UK government funding in UK Bus has been offset by benefits in our Spanish and North America businesses. These high quality assets offer access to many mass transport opportunities, as many countries move to liberalise their markets;

- **Cash generation** – our businesses balance cash generation with capital investment. Whilst North America school bus is capital intensive, for example, UK rail uses limited capital. We are able to reinvest surplus cash in areas that generate higher returns.

Strategy
Our strategy will develop the unique attributes of this business portfolio in three stages:

1 Margin growth - we will continue what we have started - margin growth in the existing business through an unceasing focus on revenue and cost management:

- **Revenue management –** we will continue to optimise yield management (for example, in UK Bus and Coach), create new services and ways to access the market, and focus on building customer retention;

- **Cost management –** we will eliminate unnecessary operating costs, optimise our route networks, drive better procurement, remove unnecessary management layers and utilise technology to improve efficiency;

2 Organic growth – we will target volume growth in our existing markets, by offering better products and services which our customers want to buy and by winning new bid opportunities across our bus, coach and rail markets. We have returned to underlying growth in Spain, where there are also a number of new bid opportunities. We believe we can grow the UK Coach business and we will seek to participate in profitable future UK rail operations under the new longer term franchising regime;

3 Bolt-on acquisitions – over time we will target opportunities to acquire operators which fit with our existing businesses in the same modes and geographies, and which quickly add scale and synergies to the existing operations. We will apply strict return criteria to ensure that any acquisition adds shareholder value. For example, in December 2010, we completed a $13.3 million bolt-on school bus acquisition in New Jersey, USA, which offers strong geographic fit to our existing adjacent operations.

In the longer term, we will look at selected opportunities to grow in both existing and new geographies and take advantage of liberalisation and continued privatisation of mass public transport markets. Our experience in different regulatory regimes could allow increasing value creation as Continental European and other markets are opened up to competition. We have set up a small Commercial Development team with significant international public transport experience to explore such opportunities. We will undertake any such expansion in a measured way and only where we bring clear competence and expertise to leverage the opportunity, adopting a disciplined approach to capital allocation and a clear 'Return on Capital' model to ensure shareholder returns are delivered.

In delivering our strategy, we will focus on achieving superior long term returns on investments in excess of our cost of capital. The Group's pre-tax return on capital employed ('ROCE') increased in 2010 to 13.2% (2009: 10.7%) and we are targeting to improve this to 15%.

Our strategy will be built around offering excellent value for money prices, frequent services and pleasing our customers. To our bus, coach and rail customers, excellent prices must be a cornerstone of our strategy and therefore our cost base must be lean. Through our unique market position and by ensuring that nobody tries harder for our customers, I believe we have excellent opportunities to drive value creation and deliver strong returns for our shareholders.

Outlook
Following our strong performance in 2010, we have continued to see good margin progression and revenue growth into 2011. Our cost improvement plans are proceeding, with particular focus on North America and UK Bus, and investment in improved customer services in UK Coach is now underway. Spain continues to deliver a strong performance, with limited adverse impact from the domestic economy, and improving volumes in inter-city travel. UK Rail is performing as expected and we will strive to renew the East Anglia franchise when it is tendered later this year.

2011 will bring a number of challenges, with tough economic and fiscal conditions prevailing in most markets. Increased fuel duty and reduced concessionary income in the UK is expected to impact us by a net £10 million per annum from late 2011 onwards. We are developing plans to offset this adverse effect. We are hedged for fuel usage through 2011 and beyond. With the foundation firmly in place and a clear focus on delivering our strategy, we expect to continue to perform well during the year ahead, whilst building for future growth.

Monitoring our business

The Group is managed using a set of key performance indicators (KPIs) that monitor delivery of performance improvement and ensure that capital is allocated in a disciplined way to support our longer term objectives. The KPIs are set out in the table below.

Financial

Underlying Revenue Growth (%)	
Spain	0%
N. America	1%
UK Bus	0%
UK Coach	3%
NXEA	2%
c2c	7%

	2010	2009	2008
Normalised profit before tax (£m)	160.5	116.2	202.4
Operating cash generation (£m)	221.7	281.3	152.3
Normalised basic earnings per share (p)	23.6	30.5	48.9
Debt gearing ratio	2.1x	2.5x	3.5x
Return on capital employed	13.2%	10.7%	14.4%
Return on equity	8.7%	6.2%	18.0%

Non-financial

Mileage ('000)	2010	2009
Spain	164,259	167,514
UK Bus	71,502	74,796
UK Coach	80,876	79,413

Passenger numbers ('000)	2010	2009
Spain	188,883	183,676
UK Bus	294,231	306,223
UK Coach	21,672	21,234
UK Rail	146,298	140,269

Routes operated in N. America	2010	2009
	14,289	13,558

Lost time employee injuries (per 1,000 full-time equivalent employees)	2010	2009
Spain	49.8	56.6
N. America	22.9	31.1
UK Bus	36.5	35.9
UK Coach	43.0	30.9
UK Rail	16.7	18.8

Preventable vehicle accidents (per million miles)	2010	2009
Spain	17.8	19.2
N. America	11.2	11.1
UK Bus	23.0	25.7
UK Coach	7.7	9.5

Signals passed at danger (per million train miles)	2010	2009
NXEA	0.48	0.94
c2c	0.24	0.48

2010 saw positive progress in all but two of our financial KPIs. Underlying revenue growth returned in most businesses, despite reducing mileage operated in several businesses, and should improve as the Group targets organic growth from improving economic conditions. Strong growth in normalised profit before tax reflected the delivery of margin improvement. Normalised basic EPS declined, however, due to the partial impact on 2009 EPS of the rights issue.

Cash generation is a key objective for the Group. Operating cash generation remained strong and represents 109% profit conversion, building on 2009, when low investment and one-off working capital reductions drove a very strong cash performance. As a result of better profitability and cash generation, the Group's debt gearing ratio continues to improve, achieving 2.1 times debt in 2010.

Our non-financial KPIs provide key passenger, network and safety measures. The total mileage operated continued to reduce whilst passenger numbers across most divisions increased, improving our operating efficiency and environmental impact. Similarly, we grew the number of routes we operate in North America, improving revenue.

Our employee lost time injury rate improved or was broadly unchanged across our different businesses and, in rail operations, the number of signals passed at danger declined. The number of preventable vehicle accidents also improved. Further improvement in our safety record is a priority and is the focus for our new 'Driving Out Harm' programme.

Further information on our financial KPIs is set out in the Financial Review.

Dean Finch
Group Chief Executive
24 February 2011

DIVISIONAL REVIEWS

Spain

Revenue for Spain was £525.5 million (2009: £546.8m) and normalised operating profit was £86.2 million (2009: £76.5m). In local currency, revenue was €612.7 million (2009: €612.9m) and normalised operating profit was €100.5 million (2009: €85.7m).

Overall performance
The Alsa business proved during 2010 that it is robust, flexible and sustainable, defying tough economic conditions in Spain to produce a good increase in margin, on flat underlying revenue. Revenue trends were much better in comparison to the sharp falls of 2009, set against a backdrop of slight GDP decline and high unemployment in Spain, the latter remaining at around 20% in 2010.

Revenue in local currency was broadly flat at €612.7 million (2009: €612.9 m; in Sterling terms, 2010: £525.5m, 2009: £546.8m). Revenue in Urban bus grew strongly, whilst the Inter-city coach business declined for much of the year but saw a positive trend in the final quarter. On current performance, we expect a slow but steady improvement in revenue.

Normalised operating profit was €100.5 million, a 17% increase from €85.7 million in 2009 (in Sterling terms, 2010: £86.2m, 2009: £76.5m). Improved operational efficiencies from reduced mileage operated drove the margin increase, together with reduced fuel prices.

Driving revenue
In Inter-city coach, underlying revenue decreased by 3%, with yield down by 1% and annual passenger volumes 2% lower. Revenue trends improved progressively throughout the year, exiting 2010 in growth. The competitive position also improved for Alsa during 2010; since mid year the national railway operator has had to comply with new EU regulation on subsidies of public services. Some of Alsa's long distance and regional services have seen an improvement in volume as a result. Revenue remained depressed in Asturias and the Mediterranean area, whilst there has been some recovery in passenger traffic in much of the rest of Spain.

Urban underlying revenue growth of 9% reflected both patronage and yield growth. Strong growth was seen in suburban Madrid services. Our new €16 million per annum revenue contract to operate urban buses in Agadir, Morocco started up successfully in September 2010. By mid 2011, the current fleet of 80 buses will have expanded to 160 buses. Overall, urban contracts have seen little or no impact from the public austerity measures in Spain, with most cities retaining solid contracted revenues and only marginal softness in tendered and weekend services.

Revenue in ancillary areas, such as motorway service stations, remained depressed, whilst fuel distribution volumes increased as the recession eased.

Managing costs
The overall improvement in margin was driven by continued excellent ongoing cost control. Lower hedged fuel prices benefitted the year by €12 million, supplemented by improving network efficiency in the long distance coach business. Investment in maintenance improvement reduced costs by over €1 million. Strong credit control also saw a reduction in doubtful receivables, with council debt management a key focus.

A good safety performance saw an 8% reduction in the overall accident rate in 2010 and helped reduce insurance and vehicle maintenance costs. With a focus during the year on improving driver training, monitoring and review, there was a 50% reduction in the accident rate of drivers identified to have a higher risk profile.

Developing opportunities
In addition to the major Agadir contract, Morocco remained a key driver of growth, with Alsa adding a tourist transport concession in Marrakech to the existing urban operation. The international coach business carried an extra 20,000 passengers as the Icelandic volcano shut down much of Europe's air travel; this has also provided a longer term benefit to the image of coach travel in Spain and to Alsa, in particular.

Alsa launched an upgraded website during the year and now generates 25% of revenue through this channel, despite lower domestic penetration of the internet. Alsa has also pioneered the use of social media sites to generate customer interest, while its loyalty programme brought 160,000 new customers to the BusPlus card. With over 400,000 members of the scheme, customers benefit from booking priority and flexible travel, and it allows Alsa to increase the sophistication and targeting of its sales and marketing investment. Meanwhile, the executive Supra class coach service continues to be extended, with successful launches in Andalucia and on the Madrid to Barcelona route.

Alsa continues to lead in technological development and environmental management of its services, with 100% of the fleet now operating on a diesel/biodiesel mix, and hybrid vehicles being introduced into urban transport services alongside some LPG vehicles.

We expect the economy in Spain to remain challenging in 2011 but, in the absence of further negative impacts to GDP and unemployment, Alsa should benefit from some organic revenue growth and new tender opportunities. With very few contracts and concessions due for renewal during 2011, Alsa will continue to drive cost efficiency, utilise Group procurement scale and manage services to match closely customer needs.

We believe that the regulated concession model where private operating companies are involved, and in which Alsa is the leading player, will be attractive to other European markets as liberalisation develops, and we expect to be able to leverage Alsa's expertise in selected international tenders and bolt-on opportunities.

North America

Revenue for North America was £459.9 million (2009: £444.5m) and normalised operating profit was £36.9 million (2009: £25.3m). In local currency, revenue was US$712.1 million (2009: $695.0m) and normalised operating profit was $57.1 million (2009: $39.6m).

Overall Performance
Our North American operations made significant progress in 2010 in delivering the Business Recovery programme. Retaining only the beneficial parts of the previous transformation project, the business refocused on delivering consistent customer service to its school board customers from a lean, efficient cost base. Under new management, most parts of the business have had to be overhauled and this is still work in progress. However, over $30 million of annualised cost have been removed since 2009 and a number of new contracts have been secured with customers. The North American business is well on the road to recovery and is targeting best in class industry performance. This market, with its longer term contracts and associated low revenue risk, remains attractive for future organic and bolt-on growth.

Revenue of US$712.1 million was 2% up on prior year (2009: $695.0m; in Sterling terms, 2010: £459.8m, 2009: £444.5m). However, this reflected a 3% decline in the first half of the year, due to bid losses for the 2009/10 academic year, followed by strong growth in the second half with good success in securing new contracts.

Normalised operating profit increased to $57.1 million, an increase of 44% on 2009 (2009: $39.6m; in Sterling terms, 2010: £36.9m, 2009: £25.3m). Operating margin improved to 8.0% (2009: 5.7%); we are targeting to reach double digit, industry leading levels by the end of 2011.

Driving revenue
The 2010/11 bid season was highly successful – with a gross increase of 11% in new routes leading to an increase of over 700 routes on a net basis, 5% of total revenue. With strong local relationships and access to necessary capital investment, National Express secured 19 new contracts from competitors at a similar margin profile to the existing book of business.

In addition, three contracts were secured as conversions from in-house school board operations. This outsourcing is a positive trend, representing real market growth and reflects the budgetary pressures on school boards and the improvements in service and efficiency that we can offer. This area will be a key target for future growth, although a natural conservatism amongst public sector bodies is likely to make this a longer term process. We also saw slowing of recent declines in organic volumes from existing contract customers, with no significant change in school populations or like-for-like route mileage.

Managing costs
Over $25 million of actual in-year savings were delivered in 2010 as part of the targeted $40 million Business Recovery cost saving programme. Double running costs, brought about by duplicating field-based and corporate activities, were eliminated, by returning responsibility for customer delivery to local teams. Two of the three corporate offices were closed in April and management of the business consolidated in Chicago. The replacement of a matrix management structure by a flatter, directly managed organisation led to substantial overhead cost savings and a more responsive decision-making approach. The exceptional cost of securing these savings and of writing off unproductive investment in prior years is now complete.

Building on better control introduced in 2009, driver wages improved by a further 0.5% of revenue in 2010. Fuel costs benefitted by $13 million in 2010 from lower priced hedges. This was partly offset by higher insurance costs, due to increased premia and provisioning to reflect the rising legal costs of claims.

Most new contracts in the school bus business require the provision of new buses. As a result, capital investment, primarily in fleet, increased to $126.3 million in 2010 (2009: $38.3m). However, the Business Recovery project delivered a thorough overhaul of fleet management systems which will see the improved cascading of buses around the country to maximise returns in this capital intensive business. In addition, almost 2,000 existing buses were removed from the fleet, reducing the proportion of ‘spare’ vehicles from over 20% to 11% and driving improved efficiency in fleet maintenance, vehicle licensing and storage costs.

Developing opportunities
Safety is paramount in the school bus industry and 2010 saw new management target improvements in accidents, injuries and child safety. Lost Time Injury rate decreased by 29%. This continued focus will ensure a better service is delivered to customers, insurance and legal costs are reduced and fewer employees are at risk of injury.

We are targeting to complete our two year margin improvement plan in North America by the end of 2011. Delivering the remaining $10 million of annualised cost savings will be key. Improving fleet management will remain a priority in 2011 with the progressive roll out of GPS systems. This will be combined with an improved procurement process, targeting fleet investment and parts savings.

We are maintaining a high rate of contract retention to reduce churn, with margin discipline maintained. Nevertheless, the challenging market conditions, with their pressure on school board transport budgets, provide opportunity and we will continue to seek conversion of existing in-sourced school board contracts.

We have completed our first bolt-on acquisition for some time, acquiring a privately owned 200 bus operation in New Jersey which has a strong geographic fit with our existing operations, and we will continue to explore such opportunities. With a strengthened management team substantially in place, we are confident that this business has both revenue and margin growth opportunity for the future.

UK Bus

Revenue for UK Bus was £257.8 million (2009: £293.9m) and normalised operating profit was £28.3 million (2009: £20.8m)

Overall performance
The UK Bus business delivered a strong performance in 2010, returning to an industry average margin after a period of weak profitability. Cost control improved markedly and better fare and network management was combined with a commitment to invest in new fleet across the core operation.

Revenue in UK Bus was £257.8 million (2009: £293.9m). Excluding revenue from the Travel London operation, which was sold in June 2009, underlying revenue was broadly flat year-on-year. This was a good performance given a 4% decline in network mileage to improve operating efficiency. Prices rose by 4% as the fare basket was realigned in June 2010.

Normalised operating profit, after stripping out the lower margin Travel London results from 2009, increased by 48% to £28.3 million (2009: £20.8m including £1.7m from Travel London). Operating margin was 11.0% (2009: 7.1%) and is now consistent with the industry average, having reached this target significantly ahead of schedule.

Driving revenue
Fare adjustments during the summer of 2010 delivered a rebalancing of the fare basket. This ensured appropriate incremental journey pricing, whilst driving more efficient network usage. Whilst cash single fares remained unchanged, the pricing of travelcards, which account for 50% of revenues, was increased to better match journey demand with supply.

Passenger volumes remained subdued, down 4% during the year, reflecting lower levels of economic activity in both the West Midlands and Dundee regions. More targeted marketing, together with additional measures to encourage travel, should improve growth in the bus business, whilst enhancing margins further. Working with Centro, the local integrated transport executive, we are investing in 600 buses over the next five years, which will drive capacity and, we expect, patronage on the core network. We are also investing in hybrid buses as part of our commitment to greener vehicles and to promote greater use of more environmentally friendly public transport over the car.

2010 also saw delivery of new benefits for cash constrained customers. The website was overhauled to provide easier access to route and timetable information, along with a mobile version for customers on the move. It is now easier for customers to purchase tickets on-line, which is proving very popular, and this facility has been extended to include Dundee travelcards. Live information updates helped passengers during the worst of December's weather, with nearly 60,000 visits received on a single day.

Managing costs
During 2010, the business made strong progress in addressing the issues that led to earlier margin decline. The network was reassessed to match capacity to demand, with services and frequencies adjusted to add capacity to the high demand corridors. As a consequence, average revenue per journey increased and fuel efficiency improved, adding to a £3 million fuel benefit. Following a review of depot footprint, one facility was closed, reducing costs by over £2 million per annum, and driver wages were restructured, to help address some of the highest costs in the industry which had resulted from a previous three-year pay agreement. In addition, a new two year wage agreement has been reached in the West Midlands which will see pay rise by 2% per annum from October 2010.

The Midland Metro tram service made a profit during the year for only the second time since its inception and achieved outstanding service - over 99% reliability and 98.5% punctuality.

Developing opportunities
In October 2010, in its Comprehensive Spending Review ("CSR"), the UK Government announced a reduction of 20% in the Bus Service Operators Grant ("BSOG") from April 2012, together with a review of the concessionary reimbursement scheme and a cut in local funding for transport. We estimate the adverse impact from BSOG to be approximately £4 million for 2012 and £5 million in a full year. We have made our submissions to the Competition Commission review of the UK Bus industry and await its report, due later in 2011.

We continue to roll out a package of revenue enhancing and cost reduction improvements under the leadership of our new UK Bus Managing Director. We are supporting our fleet investment programme with a campaign to address anti-social behaviour, provide more real-time information to passengers and start to utilise benefits from our new smart card system that was introduced during 2010. Our on-board Traffilog system will be used to reduce fuel costs and engender safer driving behaviours. A 'Lean' engineering pilot will be extended across all depots and is targeted to reduce engineering costs, increase fleet availability by reducing time off the road and decrease the total size of the fleet.

Whilst the economic outlook and unemployment in our regions remain challenging, the quality of our UK bus business is high and the urban density of our customer base offers an attractive platform for improving service and driving stronger performance. We do not anticipate a material impact from recent government cuts. We have targeted delivery of margin improvements towards industry-leading levels in the medium term through investment in new buses and new technology, as well as by securing procurement and engineering savings

UK Coach

Revenue for UK Coach was £250.3 million (2009: £242.9m) and normalised operating profit was £32.0 million (2009: £34.3m)

Overall performance
After a record profit in 2009, the UK Coach business consolidated its position this year. Although greater investment in marketing, new facilities and services reduced operating margin by just over one percentage point, the business continues to lead its market and has, under new management, completed a review to identify future opportunities to build this exciting network and brand.

Overall revenue grew 3% in 2010 to £250.3 million (2009: £242.9m), with underlying revenue in the Express coach business also up 3%. Despite the highly competitive pricing environment, as many rail companies continue to heavily discount fares, yields in Express coaches improved by 1% and underlying volume increased by 2%. The division also saw good growth in The Kings Ferry commuter-hire operation and from Eurolines.

Normalised operating profit decreased slightly during the year, from £34.3 million in 2009 to £32.0 million in 2010. The operating margin was 12.8% (2009: 14.1%). This reflected an increase in scheduled operating costs, including fuel costs for third party operators. However, the key drivers were an increase in marketing expenditure, investment in new facilities (including the state-of-the-art Birmingham Coach Station, which opened in December 2009) and tactical campaigns to defend aggressive competition and successfully retain our leading market share.

Driving revenue
The National Express scheduled business enjoyed a strong recovery in airport traffic during 2010, offsetting some cross-country weakness. Customer access continued to improve in 2010 - the website, which now accounts for over 50% of passenger revenue booking, was relaunched in September. Customers tell us that coach station facilities are important to them; in addition to Birmingham, new stations were opened at Milton Keynes, Swansea, Derby and Blackpool, all significantly improving passenger experience. In addition, station facilities at Manchester, Leeds and Liverpool were all refurbished.

The Hotel Hoppa service and The Kings Ferry also saw growth, the latter including high profile executive contracts for football clubs and politicians. Eurolines had a strong 2010; following the Icelandic volcano eruption in April, 28,000 people were repatriated to the UK from continental Europe during the affected period. The value offered and ease of use demonstrated by Eurolines during this period have helped it gain many new customers and this business will provide a platform to support the Group's planned expansion as continental European countries liberalise their domestic markets.

The Coach division benefitted from a number of contract-based projects during the year. At Gatwick Airport, National Express provided the inter-terminal monorail replacement service through most of 2010. Our co-ordination of pilgrim transport for the papal visit to Birmingham, as well as the ongoing partnership with a number of music festivals, contributed to overall performance. Offsetting this, the impact of Network Rail's reduced engineering programme during the year was seen in lower activity in our Rail Replacement business.

Managing cost
The division's flexible cost base structure continued to benefit cost management. With around 80% of services run by third party operators under long-term contract, capacity was successfully flexed to meet changing customer requirements, and under-performing operators were replaced without interruption to service. The bus-based, real-time information system called Traffilog has been extended to Coach and is already improving fuel efficiency, providing improved route planning and helping to assess driving standards. The fitting of automatic alcohol testing to all express coaches provides a further safety feature.

Developing opportunities
The Coach division has been substantially overhauled in 2010, with a new management team recruited from the transport and consumer goods sectors. The Express coach business has been reorganised around its key segments – Airports, Long Distance, Multi-hopper and Short Distance. This will ensure a sharper focus, create new journey opportunities and improve revenue management. The division will continue to extend its application of new systems, with a new booking platform being developed in conjunction with the Alsa sister business in Spain and better yield management support under development.

Innovation is a major area of focus. On-board coach tracking was trialled during 2010 and will be fitted to all coaches by March 2011. This is already providing operational benefits to re-route coaches caught in traffic congestion and is providing customer benefits on the key Stansted-London route, where it is used to ensure customers always find a coach on stand for this 'turn up and travel' service. During 2011, new applications will deliver more real time information to customers through information screens, internet and mobile channels.

Our Airports business has renewed its five year contract with BAA to operate Heathrow Central Bus Station, leading to additional investment and services at this key network hub. We expect other airport contract and rail replacement business to remain at current levels. The UK government's CSR also abolished the funding of the half price over-60s concessionary coach travel scheme from October 2011. This was worth £14 million to National Express in 2010. Through mitigating actions we consider approximately £5 million of this to be at risk.

Through the improved targeting available via better customer segmentation, we expect to make steady progress in the development of new services, allowing us to increase customer retention and frequency of travel. We expect to achieve significant gains from our programmes in the medium term and further develop the strength of the National Express coach brand. Dramatically higher rail pricing in future years, together with the retendering of major rail franchises and the commensurate impact likely on the profitability of rail competitors, should provide further opportunities for the coach division to leverage its unique network and value-orientated customer proposition.

UK Rail

Revenue for the UK Rail division was £637.5 million (2009: £1,190.5m) and normalised operating profit was £33.8 million (2009: £12.0m).

Overall performance
After the difficulties of 2009, 2010 saw a steady rehabilitation of the Group in the UK Rail industry. With a strong operational performance across its two rail franchises, both have now been extended by the DfT – c2c will run until November 2012 or May 2013 (at the DfT's option) and National Express East Anglia ('NXEA') will operate until February 2012. The Group will actively bid to secure the new c2c franchise when tendered, to build on the record-breaking punctuality delivered in 2010, together with the proposed 18 month extension to late 2013 of NXEA. National Express is now positioned to participate in profitable future rail operations where risks are both appropriate and manageable.

Revenue in 2010 was £637.5 million (2009: £1,190.5m), significantly down on the prior year reflecting the hand back of the loss-making East Coast franchise in November 2009. Underlying revenue grew by 3%, driven by strong growth in passenger numbers in the second half of the year. Severe weather at the beginning and end of the year had limited impact; both services recovered operational performance quickly through the dedicated efforts of the entire workforce. NXEA remains in 80% revenue support from the DfT.

Normalised operating profit improved strongly to £33.8 million (2009: £12.0m). Continued cost control combined with improving revenue to drive operating margin 4.3 percentage points higher, to 5.3%.

Driving revenue
As regulated prices reduced slightly in January 2010, underlying passenger volumes have increased by 4%. An improving Central London employment market helped c2c in particular and the extension of the Oyster card to suburban rail improved revenue. c2c also successfully grew its leisure patronage and its consistently outstanding reliability, achieving punctuality in August of 98.8%, boosted revenues. The franchise also recorded its best ever customer satisfaction results, reaching 91% in both the Spring and Autumn Passenger Focus surveys. Meanwhile, NXEA also improved punctuality, reaching 90% during the year.

Managing costs
Both franchises have managed cost successfully during 2010. Improved procurement reduced utility costs by £2 million and successful rationalisation of staffing agencies delivered wage cost savings.

Improved safety leads to lower costs. NXEA successfully drove down 'signals passed at danger' ('SPADs') by nearly 50% in the year, whilst reducing employee, passenger and contractor accident rates. This was overshadowed by a serious accident at a level crossing in East Anglia, when an unauthorised crossing by a road tanker resulted in a collision with a train, with a number of injuries but, thankfully, no fatalities. The road tanker driver was subsequently convicted of endangering rail safety. We are working actively with Network Rail to ensure that level crossing risks are fully assessed and compliance with procedures enforced with all users. Safety performance at c2c was also strong, with only one SPAD and all employee, passenger and contractor safety targets exceeded.

Developing opportunities
NXEA began the roll-out of its £185 million capacity investment programme, funded in conjunction with the DfT. In December 2010, new services were introduced to the timetable, with a total of over 4,000 extra seats added on Liverpool Street commuter services at peak times. The overall programme includes faster trains, on-board Wi-fi from Norwich to London and, from March 2011, new rolling stock will be introduced to the network. Station and maintenance improvement work has also been carried out across East Anglia and c2c, with two new carriage washers, car park extensions and station upgrades.

The Group is in the process of bidding for the DfT's announced tender of the Greater Anglia franchise (the successor to NXEA's operation), which will run from February 2012 for a period of approximately 18 months. A decision on this franchise is expected in late 2011. The retendering process for c2c will not start until 2012 and the Group expects to bid. At this time, the Group has no plans to take part in either the West Coast Main Line or East Coast Main Line bidding processes. The Group believes it can drive both improved customer service and shareholder returns in UK Rail, subject to the balance of risk and reward available in the DfT's proposed longer franchises.

FINANCIAL REVIEW

Revenue

Group revenue for the year was £2,125.9 million (2009: £2,711.1m), with the reduction reflecting the handing back of the East Coast rail franchise in November 2009 and the sale of the Travel London bus business, which together accounted for £603.4 million of 2009 revenue. Underlying revenue increased 1%, whilst foreign exchange movements accounted for a 3.9% negative impact in Spain and a 2.7% positive effect in North America. Growth reflected yield management in UK Bus, and passenger volume increases in UK Coach and Rail, whilst new contracts benefitted Spain and North America.

Normalised profit

Normalised operating profit for the year increased by 28% to £204.2 million (2009: £159.8m). This was driven by a strong focus on delivery of cost reduction and margin improvement plans, particularly in UK Bus and North America. With two profitable franchises in UK Rail, and Spain also increasing profitability in 2010, the Group made significant progress in delivering its Business Recovery plans. Normalised margin increased from 5.9% in 2009 to 9.6% in 2010.

The key year-on-year benefits to profitability were as follows:

- Driving revenue through organic growth, yield and new bid wins, adding a net £20 million to profitability;
- Managing costs down; our core programmes in UK Bus and North America, together with 2009 full annualised savings, delivering £39 million of benefit;
- Better hedged fuel costs, delivering £24 million of price benefit, supported by the introduction of fuel efficiency technology across the Group;
- Net loss avoided on exited businesses, adding £13 million of profit.

This was partially offset by:

- Increased corporate costs, reflecting investment in procurement, business development and talent development to drive future performance, which added £3 million;
- Increased rail franchise premia, adding £11 million;
- Increased insurance costs of £6 million;
- Adverse impact of foreign currency on profit translation of £3m
- General cost inflation, estimated at £38 million.

Normalised net finance costs for the year were £44.0 million (2009: £43.5m), reflecting a continued reduction in average debt offset by a higher average interest rate, due to refinancing shorter term floating debt with longer term fixed rate bonds.

The resulting normalised profit before tax for the year was £160.5 million (2009: £116.2m), a 38% increase in the year. With a normalised tax charge for 2010 of £39.2 million (2009: £23.0m), the Group's normalised effective tax rate ('ETR') was 24.4% (2009: 19.8%). The normalised profit for the year was £121.3 million (2009: £93.2m). Normalised basic EPS were 23.6 pence (2009: 30.5p), the reduction reflecting the part year impact of the rights issue on 2009.

Exceptional items and intangible amortisation

Exceptional costs in continuing Group operations reduced significantly from 2009 to £16.6 million after tax (2009: £74.2m).

Pre-tax, operating exceptional costs were driven by implementation of the successful Business Recovery programmes. The table below summarises exceptional costs by division:

Charge/(credit), £m	**Pre-tax**	**Tax**	**Post-tax**
Spain	1.9	(0.6)	1.3
N America	25.7	(9.6)	16.1
UK Bus	6.7	(1.4)	5.3
UK Coach	(0.1)	0.0	(0.1)
UK Rail	18.3	(7.0)	11.3
Central functions	8.7	(26.0)	(17.3)
Group continuing operations	61.2	(44.6)	16.6

In North America, exceptional costs of £25.7 million before tax were incurred in relation to asset write-offs from the previous transformation project, together with rationalisation costs and fleet write-downs as part of the margin improvement programme. Exceptional costs required to complete the cost reduction programme have now been incurred.

Other divisional pre-tax operating exceptional spend was for rationalisation costs in Spain (£1.9 million); UK Bus margin improvement and analysis to support the Competition Commission's enquiry into the Bus industry (£6.7 million); rationalisation costs in UK Coach, offset by a one-off benefit from closure of its defined benefit pension plan (£0.1 million credit); and one-off charges to adopt a flatter management structure and relocate the corporate office from London to the Birmingham headquarters (£8.7 million).

In UK Rail, the Group reached agreement with the DfT for both sides to withdraw all claims relating to the hand back of the East Coast rail franchise. A pre-tax charge of £18.3 million was taken in 2010 to write-off balances previously treated as recoverable in relation to the exited franchise. Net of tax relief of £7.0 million secured on rail exit costs, the net after tax exceptional charge for UK Rail in 2010 was £11.3 million.

The Group recorded a £32.1 million after-tax credit on settlement of its outstanding UK corporate tax liabilities (see 'Reducing legacy risks' below).

The Group is committed to minimising future operating exceptional costs, with all of the cost of implementing the Group's Business Recovery programme now recognised.

The Group incurred exceptional finance costs of £2.0 million in 2010 (2009: £19.9m) to write-off facility fees on the refinancing of the Group's principal banking facility in July 2010. The charge for intangible asset amortisation in 2010 was £57.1 million (2009: £60.4m), primarily relating to contracts, software and similar assets previously acquired in Spain.

The Group's principal capitalised goodwill is in Spain and North America. The Group carried out goodwill impairment tests in 2010 and no such impairment was identified. Maintained non-impairment of goodwill in North America is dependent on continuing to deliver the expected margin recovery.

The resultant net charge for intangible amortisation and exceptional items was £59.0 million, significantly better than the 2009 charge of £145.9 million. The overall Group profit for the year was £62.3 million (2009 loss: £52.7m). Diluted EPS was 12.0 pence (2009 loss: 17.6p).

Reducing legacy risks
In 2010, significant progress was made resolving legacy issues of long-standing risk within the Group and thereby providing greater certainty over future cash flows for these items and reducing future profit risk. In addition to the agreed East Coast hand back (set out under 'Exceptional items and intangible amortisation' above), key items were as follows:

- Corporate tax: the Group became one of several UK corporates to negotiate a resolution with the UK's HMRC on all outstanding UK tax issues, for which provision had previously been made of approximately £50 million in the Group's accounts. This agreement will see the Group settle £17 million over the next four years and should significantly reduce risk in the Group's dealings with HMRC. The resultant exceptional credit of £32.1 million gave rise to a one-off benefit of over 6 pence per share in statutory EPS in 2010;
- Eurostar: the Group negotiated the termination of the onerous contract between Inter-Capital and Regional Rail Limited ('ICRRL'), in which National Express has a 40% shareholding, and LCR, the Eurostar operator. Historically, the Group has been liable for its share of significant losses generated by LCR and had previously made provision in the accounts for these losses. The Group has now reached agreement with LCR to pay approximately £9 million in each of 2011 and 2012 to terminate this arrangement;
- Pensions: agreement has been reached to close the National Express Group Staff Pension Plan to all members from 31 January 2011, removing the Company's future salary funding risk relating primarily to UK coach and corporate scheme members. In addition, a deficit funding plan of up to £4.2 million per annum for six and a quarter years was agreed by the Company to bring the fund to 'self-sufficiency' (where it should not be dependent on the Company for future funding contributions), in order to eliminate an expected scheme deficit of over £20 million (expected to be confirmed on an actuarial funding basis as at 5 April 2010). Discussions are ongoing to secure a deficit funding plan for the principal UK bus pension plan which remains open to existing members; this plan will replace the current annual deficit recovery payment of £3.4 million.

Detail of other risks faced by the Group are set out in more detail in the Annual Report and Accounts.

Fuel risk management
The Group has a forward fuel buying policy in place with the objective to secure a degree of certainty in its planning. Based on the hedgable consumption (which was 233 million litres in 2010), a proportion of this is fixed for the following three years. The Group currently has 100% fixed for 2011 at an average price of 40p per litre, 75% fixed for 2012 at 41p per litre and 15% fixed for 2013 at 42p per litre. The Group aims to recover fuel cost increases through a combination of concession and contract price adjustments, together with fuel efficiencies.

Cash management
In 2009, the Group established a primary focus on driving cash generation from its businesses. Through long-term cash generation, the Group seeks to generate strong shareholder returns, to fund dividends and reinvestment in profitable growth.

Operating cash flow (which the Group uses as the cash equivalent of normalised operating profit) was £221.7 million (2009: £281.3m). Although behind prior year, which benefitted from one-off improvements to working capital management and lower capital investment, this represented 109% conversion of normalised operating profit, as set out in the table below:

	2010 £m	2009 £m
Normalised operating profit	204.2	159.8
Depreciation	99.8	108.0
Grant amortisation, profit on disposal and share-based payments	0.2	1.5
EBITDA	**304.2**	**269.3**
Net maintenance capital expenditure	(87.7)	(51.9)
Working capital movement	14.3	72.0
Pension contributions above normal charge	(9.1)	(8.1)
Operating cash flow	**221.7**	**281.3**

The prior year's improvement in working capital was sustained, with a further reduction achieved, despite a partial repayment of deferred social security in Spain. Both Spain and North America achieved good success in cash collection from local authorities, a clear focus in light of the challenging economic backdrop for public funding. Maintenance capital investment, primarily replacing ageing fleet and systems, increased in 2010 to 88% of depreciation. We expect to maintain this level in future years at close to 100% of depreciation with the average age of the Group's vehicle fleet reduced in 2010 to 6.1 years (2009: 7.3 years).

The Group's free cash flow in 2010 was £79.3 million (2009: £125.5m). Significant cash flows continued for past rail operations and exceptional items. Interest remained relatively constant, whilst the Group returned to tax payment, albeit that cash tax remains well below the Group's effective tax rate ("ETR").

	2010 £m	2009 £m
Operating cash flow	**221.7**	**281.3**
Discontinued operations	(3.5)	5.5
UK rail franchise exit	(22.0)	(32.3)
Exceptional cash flow	(52.6)	(74.3)
Payments to associates	(8.6)	(8.0)
Net interest	(47.1)	(48.8)
Dividends paid to minorities	-	(0.5)
Taxation	(8.6)	2.6
Free cash flow	**79.3**	**125.5**

Free cash flow measures the cash available to fund future investment, in growth capital and acquisition, and to return to shareholders by way of dividend and share buyback. In 2010, the Group returned to investing in new capital expenditure opportunities. New contracts in North America school bus and in Spain, with the Agadir contract, saw growth investment of £33.9 million (2009: £nil). In addition, a bolt-on acquisition was completed in North America on 31 December 2010, although payment was deferred into 2011.

	2010 £m	2009 £m
Free cash flow	**79.3**	**125.5**
Net growth capital expenditure	(33.9)	-
Financial investments and shares	(1.7)	(0.7)
Rights issue	(3.9)	357.9
Acquisitions and disposals	(2.6)	30.1
Dividends	-	(15.2)
Net funds flow	**37.2**	**497.6**

With no material disposals, equity issuance or dividend payable in 2010, net funds flow was £37.2 million (2009: £497.6m).

Return on capital employed
New investment is targeted to drive the Group's ROCE, a core KPI adopted to measure the delivery of shareholder returns by National Express. Based on the Group's estimated after-tax weighted average cost of capital of 8%, a hurdle of 12% pre-tax has been set for each business and growth project (projects are also evaluated on a discounted cash flow basis). The Group is targeting to deliver 15% pre-tax ROCE in the medium term. In 2010, National Express improved its ROCE to 13.2% (2009: 10.7%). The Group uses Return on Equity as a secondary KPI to measure the effect more directly on shareholder value. In 2010 post-tax ROE was 8.7% (2009: 6.2%), which is now also above the weighted average cost of capital.

Treasury management
During 2010, the Group completed the rebuilding of its financial platform. It secured the refinancing of all of its debt at attractive terms and extended its debt maturity profile substantially. In January 2010 the Group's residual €270 million 2011 Euro facility was refinanced with a heavily oversubscribed 7-year 6.25% £350 million unrated Sterling bond, which was subsequently awarded an investment grade rating by Moody's and Fitch in March 2010. In June and July the Group refinanced its residual £800 million 2011 bank facility, firstly with the issue of a 10-year 6.625% £225 million Sterling bond and then with a £500 million unsecured revolving credit facility ("RCF") committed until August 2014 by the Group's relationship banks. The RCF is attractively priced, currently at LIBOR plus 1.45%, and will primarily be used for seasonal working capital, growth and headroom purposes.

With these arrangements now in place, the Group has no requirement to refinance its debt before 2014. At 31 December 2010, the Group had available cash and undrawn committed financing facilities of £517.8 million (2009: £409.0m). Net debt during the year decreased to £610.4 million (2009: £657.9m) through continued focus on cash generation. As a result, the Group's headroom against its principal banking covenants continued to improve, as follows:

- debt gearing ratio (adjusted net debt to EBITDA): 2.1x (2009: 2.5x; covenant not to exceed 3.5x);
- interest cover ratio (EBITDA to net interest): 6.9x (2009: 6.5x; covenant not to be less than 3.5x).

As the Group's debt is now entirely denominated in Sterling, foreign currency forward and swap contracts were utilised to create synthetic debt positions to hedge the exposure of our Spanish and North American earnings and assets. At 31 December 2010, the value of this synthetic debt was €275 million and US$165 million respectively. The forward contracts had a maturity date of 20 January 2011 and have been rolled forward since the balance sheet date. No gain or loss was attached to the value of these instruments in the financial statements. Further details of the Group's treasury management policies are set out in the Accounts.

Pensions
The Group's principal defined benefit pension schemes are all in the UK. At 31 December 2010, these schemes reflected a substantial improvement in the combined deficit under IAS19 of £10.4 million (2009: £54.9m). The decrease in the deficit balances during the year was principally through appreciation in investment asset values during the period, together with the benefit of deficit recovery plans.

Under IAS19, in UK Bus (under the West Midlands Passenger Transport Authority Pension Fund and the Tayside Transport Superannuation Fund), the deficit at 31 December 2010 was £5.3 million (2009: £46.4m deficit). There was no IAS19 deficit in UK Coach (under the National Express Group Staff Pension Plan), compared to the 2009 deficit of £5.2 million. The Group's UK Rail business participates in the Railways Pension Scheme; the deficit exposure in the UK Rail division was £3.7 million (2009: £1.9m deficit) and would transfer to the incoming operator in the event of franchise termination. All deficits tend to be greater when measured on a scheme actuarial basis and are funded through the deficit payment plans.

Cautionary statement
This Business Review is intended to focus on matters which are relevant to the interests of shareholders of the Company. The purpose of this review is to assist shareholders in assessing the strategies adopted and performance delivered by the Company and the potential for those strategies to succeed. It should not be relied on by any other party or for any other purpose.

Forward looking statements are made in good faith, based on a number of assumptions concerning future events and information available to Directors at the time of their approval of this report. These forward looking statements should be treated with caution due to the inherent uncertainties underlying any such forward looking information. The user of these accounts should not rely unduly on these forward looking statements, which are not a guarantee of performance and which are subject to a number of uncertainties and other facts, many of which are outside the Company's control and could cause actual events to differ materially from those in these statements. No guarantee can be given of future results, levels of activity, performance or achievements.

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

Operating cash flow is intended to be the cash flow equivalent to normalised operating profit. Operating cash flow is normalised operating profit plus depreciation, movements in working capital and proceeds from disposals of property, plant and equipment, less finance lease additions, purchase of property plant and equipment and purchase of intangible assets.

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

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

Net interest expense is finance costs less finance income.

Net capital expenditure is the increase in net debt arising on the purchase of property, plant and equipment and intangible assets less proceeds from disposals of property, plant and equipment. It excludes capital expenditure arising from UK rail franchise entry and exits and discontinued operations, which are included in these headings. Growth capital expenditure is calculated as investment in fleet for new contracts and concessions, after deducting fleet released from contracts and concessions lost and fleet re-used in new contracts and concessions.

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

Return on capital employed is normalised operating profit divided by the sum of net assets and net debt.

Return on Equity is normalised profit after tax less the post-tax amortisation of intangible assets divided by Shareholders Equity.

Group Income Statement
For the year ended 31 December 2010

	Total before intangible amortisation and exceptional items 2010 £m	Intangible amortisation and exceptional items 2010 £m	Total 2010 £m	Total before intangible amortisation and exceptional items 2009 £m	Intangible amortisation and exceptional items 2009 £m	Total 2009 £m
Continuing operations						
Revenue	**2,125.9**	**–**	**2,125.9**	2,711.1	–	2,711.1
Operating costs before intangible amortisation and exceptional items	**(1,921.7)**	**–**	**(1,921.7)**	(2,551.3)	–	(2,551.3)
Intangible amortisation	**–**	**(57.1)**	**(57.1)**	–	(60.4)	(60.4)
Exceptional items	**–**	**(61.2)**	**(61.2)**	–	(100.0)	(100.0)
Total operating costs	**(1,921.7)**	**(118.3)**	**(2,040.0)**	(2,551.3)	(160.4)	(2,711.7)
Group operating profit/(loss)	**204.2**	**(118.3)**	**85.9**	159.8	(160.4)	(0.6)
Loss on disposal of non-current assets	**–**	**–**	**–**	–	(7.4)	(7.4)
Profit/(loss) from operations	**204.2**	**(118.3)**	**85.9**	159.8	(167.8)	(8.0)
Share of post tax results from associates and joint ventures accounted for using the equity method	**0.3**	**–**	**0.3**	(0.1)	(12.0)	(12.1)
Finance income	**4.8**	**–**	**4.8**	9.6	–	9.6
Finance costs	**(48.8)**	**(2.0)**	**(50.8)**	(53.1)	(19.9)	(73.0)
Profit/(loss) before tax	**160.5**	**(120.3)**	**40.2**	116.2	(199.7)	(83.5)
Tax (charge)/credit	**(39.2)**	**61.7**	**22.5**	(23.0)	45.6	22.6
Profit/(loss) after tax for the year from continuing operations	**121.3**	**(58.6)**	**62.7**	93.2	(154.1)	(60.9)
(Loss)/profit for the year from discontinued operations	**–**	**(0.4)**	**(0.4)**	–	8.2	8.2
Profit/(loss) for the year	**121.3**	**(59.0)**	**62.3**	93.2	(145.9)	(52.7)
Profit/(loss) attributable to equity shareholders	**120.4**	**(59.0)**	**61.4**	92.4	(145.9)	(53.5)
Profit attributable to non-controlling interests	**0.9**	**–**	**0.9**	0.8	–	0.8
	121.3	**(59.0)**	**62.3**	93.2	(145.9)	(52.7)
Earnings per share:						
– basic earnings per share			**12.0p**			(17.6p)
– diluted earnings per share			**12.0p**			(17.6p)
Normalised earnings per share:						
– basic earnings per share	**23.6p**			30.5p		
– diluted earnings per share	**23.5p**			30.4p		
Earnings per share from continuing operations:						
– basic earnings per share			**12.1p**			(20.3p)
– diluted earnings per share			**12.1p**			(20.3p)

Group Statement of Comprehensive Income

For the year ended 31 December 2010

	2010 £m	2009 £m
Profit/(loss) for the year	**62.3**	(52.7)
Other comprehensive income:		
Exchange differences on retranslation of foreign operations (net of hedging)	**(1.8)**	(78.7)
Exchange differences on retranslation of non-controlling interests	**(0.2)**	(0.4)
Actuarial gains/(losses) on defined benefit pension plans	**34.3**	(18.1)
Gain on cash flow hedges taken to equity	**21.1**	0.2
Transfers to the income statement on cash flow hedges	**2.3**	82.0
Tax on exchange differences	**(6.0)**	1.9
Deferred tax on actuarial gains/(losses)	**(9.8)**	5.4
Deferred tax on cash flow hedges	**(6.6)**	(23.0)
Other comprehensive income/(expense) for the year net of tax	**33.3**	(30.7)
Total comprehensive income/(expense) for the year	**95.6**	(83.4)
Total comprehensive income/(expense) attributable to:		
Equity shareholders	**94.9**	(83.8)
Non-controlling interests	**0.7**	0.4
	95.6	(83.4)

Group Balance Sheet

At 31 December 2010

		2010 £m	2009 £m
Non-current assets			
Intangible assets		**1,284.2**	1,349.9
Property, plant and equipment		**714.1**	672.6
Financial assets	– Available for sale	**7.8**	7.7
	– Derivative financial instruments	**7.2**	3.3
Investments accounted for using the equity method		**6.6**	6.7
Trade and other receivables		**6.0**	4.0
Deferred tax asset		**2.8**	35.2
		2,028.7	2,079.4
Current assets			
Inventories		**17.6**	16.4
Trade and other receivables		**226.8**	226.7
Financial assets – Derivative financial instruments		**18.3**	5.9
Current tax assets		**3.4**	3.7
Cash and cash equivalents		**128.8**	105.8
		394.9	358.5
Total assets		**2,423.6**	2,437.9
Non-current liabilities			
Financial liabilities	– Borrowings	**(674.4)**	(506.1)
	– Derivative financial instruments	**(5.1)**	(11.2)
Deferred tax liability		**(86.9)**	(99.0)
Other non-current liabilities		**(25.2)**	(21.6)
Non-current tax liabilities		**(12.3)**	–
Defined benefit pension liability		**(10.4)**	(54.9)
Provisions		**(35.7)**	(22.0)
		(850.0)	(714.8)
Current liabilities			
Trade and other payables		**(501.0)**	(467.0)
Financial liabilities	– Borrowings	**(64.4)**	(258.4)
	– Derivative financial instruments	**(12.4)**	(36.0)
Current tax liabilities		**(12.1)**	(56.8)
Provisions		**(43.9)**	(62.6)
		(633.8)	(880.8)
Total liabilities		**(1,483.8)**	(1,595.6)
Net assets		**939.8**	842.3
Shareholders' equity			
Called up share capital		**25.6**	25.6
Share premium account		**532.7**	533.2
Capital redemption reserve		**0.2**	0.2
Own shares		**(14.1)**	(14.6)
Other reserves		**125.1**	116.1
Retained earnings		**263.7**	175.8
Total shareholders' equity		**933.2**	836.3
Non-controlling interest in equity		**6.6**	6.0
Total equity		**939.8**	842.3

Group Statement of Changes in Equity

At 31 December 2010

	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 2010	**25.6**	**533.2**	**0.2**	**(14.6)**	**116.1**	**175.8**	**836.3**	**6.0**	**842.3**
Costs of rights issue	**–**	**(0.5)**	**–**	**–**	**–**	**–**	**(0.5)**	**–**	**(0.5)**
Shares purchased	**–**	**–**	**–**	**(1.7)**	**–**	**–**	**(1.7)**	**–**	**(1.7)**
Own shares released to satisfy employee share schemes	**–**	**–**	**–**	**2.2**	**–**	**(2.2)**	**–**	**–**	**–**
Total comprehensive income	**–**	**–**	**–**	**–**	**9.0**	**85.9**	**94.9**	**0.7**	**95.6**
Share-based payments	**–**	**–**	**–**	**–**	**–**	**3.9**	**3.9**	**–**	**3.9**
Tax on share-based payments	**–**	**–**	**–**	**–**	**–**	**0.3**	**0.3**	**–**	**0.3**
Dividends paid to non-controlling interest	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(0.1)**	**(0.1)**
At 31 December 2010	**25.6**	**532.7**	**0.2**	**(14.1)**	**125.1**	**263.7**	**933.2**	**6.6**	**939.8**

	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 2009	7.7	195.7	0.2	(15.2)	133.7	257.2	579.3	6.1	585.4
Shares issued	17.9	336.7	–	–	–	–	354.6	–	354.6
Shares purchased	–	–	–	(1.8)	–	–	(1.8)	–	(1.8)
Shares sold	–	–	–	1.3	–	(1.0)	0.3	–	0.3
Reclaim of VAT on historical share issue costs	–	0.8	–	–	–	–	0.8	–	0.8
Own shares released to satisfy employee share schemes	–	–	–	1.1	–	(1.1)	–	–	–
Total comprehensive income	–	–	–	–	(17.6)	(66.2)	(83.8)	0.4	(83.4)
Share-based payments	–	–	–	–	–	1.9	1.9	–	1.9
Tax on share-based payments	–	–	–	–	–	0.2	0.2	–	0.2
Dividends	–	–	–	–	–	(15.2)	(15.2)	–	(15.2)
Dividends paid to non-controlling interest	–	–	–	–	–	–	–	(0.5)	(0.5)
At 31 December 2009	25.6	533.2	0.2	(14.6)	116.1	175.8	836.3	6.0	842.3

Group Statement of Cash Flows

For the year ended 31 December 2010

	2010 £m	2009 £m
Cash generated from operations	**222.1**	218.0
Tax (paid)/received	**(8.6)**	2.6
Net cash from operating activities	**213.5**	220.6
Cash flows from investing activities		
Payments to acquire businesses, net of cash acquired	**0.1**	–
Deferred consideration for businesses acquired and disposed	**(2.4)**	0.7
Purchase of property, plant and equipment	**(49.9)**	(81.2)
Proceeds from disposal of property, plant and equipment	**7.4**	35.1
Payments to acquire intangible assets	**(2.0)**	(5.8)
Payments to acquire available for sale investments	**(0.3)**	–
Receipts from disposal of available for sale investments	**–**	1.0
Receipts from disposal of businesses, net of cash disposed	**–**	28.4
Receipts in respect of discontinued operations	**0.3**	5.5
Dividends received from associates	**0.2**	0.6
Interest received	**1.1**	9.6
Net cash used in investing activities	**(45.5)**	(6.1)
Cash flows from financing activities		
Proceeds from issue of ordinary shares	**–**	357.9
Payments incurred on the issue of ordinary shares	**(3.8)**	–
Proceeds from sale of treasury shares	**–**	0.3
Purchase of treasury shares	**(1.7)**	(1.8)
Reclaim of VAT on historical share issue costs	**–**	0.8
Interest paid	**(43.8)**	(52.8)
Finance lease principal payments	**(18.7)**	(50.4)
Net loans repaid	**(74.0)**	(434.4)
Payments for the maturity of foreign currency contracts	**(2.0)**	(15.1)
Dividends paid to non-controlling interests	**–**	(0.5)
Dividends paid to shareholders of the Company	**–**	(15.2)
Net cash used in financing activities	**(144.0)**	(211.2)
Increase in cash and cash equivalents	**24.0**	3.3
Opening cash and cash equivalents	**105.8**	105.9
Increase in cash and cash equivalents	**24.0**	3.3
Foreign exchange	**(1.0)**	(3.4)
Closing cash and cash equivalents	**128.8**	105.8

Notes to the Consolidated Accounts

For the year ended 31 December 2010

1 Basis of preparation

The results 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 using the accounting policies set out in the Group's 2009 statutory accounts.

Normalised results are defined as the statutory results before the following as appropriate: profit or loss on the sale of businesses, exceptional profit or loss on the sale of non-current assets, intangible asset amortisation, exceptional items and tax relief on qualifying exceptional items.

2 Exchange rates

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

	2010 Closing rate	**2010 Average rate**	2009 Closing rate	2009 Average rate
US dollar	**1.56**	**1.55**	1.62	1.56
Canadian dollar	**1.56**	**1.61**	1.70	1.78
Euro	**1.17**	**1.17**	1.13	1.12

If the results for the year to 31 December 2009 had been retranslated at the average exchange rates for the year to 31 December 2010, North American Bus would have achieved normalised operating profit of £25.1m on revenue of £456.6m, compared to normalised operating profit of £25.3m on revenue of £444.5m as reported, and European Bus & Coach would have achieved a normalised operating profit of £73.5m on revenue of £525.7m, compared to normalised operating profit of £76.5m on revenue of £546.8m 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. Commentary on the segments is included in the Operating Review.

Analysis by class and geography of business

	External revenue 2010 £m	**Inter-segment sales 2010 £m**	**Segment revenue 2010 £m**	External revenue 2009 £m	Inter-segment sales 2009 £m	Segment revenue 2009 £m
UK Bus	**257.3**	**0.5**	**257.8**	293.4	0.5	293.9
UK Coach	**245.7**	**4.6**	**250.3**	235.9	7.0	242.9
UK Rail	**637.5**	**–**	**637.5**	1,190.5	–	1,190.5
Inter-segment sales elimination	**–**	**(5.1)**	**(5.1)**	–	(7.5)	(7.5)
UK operations	**1,140.5**	**–**	**1,140.5**	1,719.8	–	1,719.8
North American Bus	**459.8**	**–**	**459.8**	444.5	–	444.5
European Coach & Bus	**525.6**	**–**	**525.6**	546.8	–	546.8
Total revenue	**2,125.9**	**–**	**2,125.9**	2,711.1	–	2,711.1

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

3 Segmental analysis continued

	Continuing			Discontinued	Continuing			Discontinued
	Normalised operating profit 2010 £m	**Intangible amortisation and exceptional items 2010 £m**	**Segment result 2010 £m**	**Segment result 2010 £m**	Normalised operating profit 2009 £m	Intangible amortisation and exceptional items 2009 £m	Segment result 2009 £m	Segment result 2009 £m
UK Bus	**28.3**	**(6.7)**	**21.6**		20.8	(1.7)	19.1	
UK Coach	**32.0**	**(0.1)**	**31.9**		34.3	(2.9)	31.4	
UK Rail	**33.8**	**(20.7)**	**13.1**		12.0	(72.2)	(60.2)	
UK operations	**94.1**	**(27.5)**	**66.6**		67.1	(76.8)	(9.7)	
North American Bus	**36.9**	**(34.3)**	**2.6**		25.3	(18.6)	6.7	
European Coach & Bus	**86.2**	**(47.8)**	**38.4**		76.5	(57.8)	18.7	
Central functions	**(13.0)**	**(8.7)**	**(21.7)**		(9.1)	(7.2)	(16.3)	
Result from continuing operations	**204.2**	**(118.3)**	**85.9**		159.8	(160.4)	(0.6)	
Result from discontinued operations			**–**	**(0.5)**			–	7.3
Total result			**85.9**	**(0.5)**			(0.6)	7.3
Loss on disposal of non-current assets			**–**	**–**			(7.4)	–
Profit/(loss) from operations			**85.9**	**(0.5)**			(8.0)	7.3
Share of post tax results from associates and joint ventures			**0.3**	**–**			(12.1)	–
Net finance costs			**(46.0)**	**–**			(63.4)	–
Profit/(loss) before tax			**40.2**	**(0.5)**			(83.5)	7.3
Tax credit			**22.5**	**0.1**			22.6	0.9
Profit/loss) for the year			**62.7**	**(0.4)**			(60.9)	8.2

3 Segmental analysis continued

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

	Intangible asset amortisation 2010 £m	Operating exceptional items 2010 £m	Total 2010 £m
UK Bus	–	6.7	6.7
UK Coach	0.2	(0.1)	0.1
UK Rail	2.4	18.3	20.7
North American Bus	8.6	25.7	34.3
European Coach & Bus	45.9	1.9	47.8
Central functions	–	8.7	8.7
Total continued operations	57.1	61.2	118.3
Discontinued operations	–	0.5	0.5
Total	57.1	61.7	118.8

In the year to 31 December 2010, exceptional costs of £18.3m were incurred in UK Rail. This comprised additional costs following a full and final settlement with the Department for Transport in relation to the National Express East Coast franchise exit and costs associated with related contracts.

Exceptional restructuring and redundancy costs of £25.7m were incurred in North American Bus in delivering the Business Recovery programme.

Restructuring costs of £15.3m were incurred in the UK following changes in management in UK Coach and Central functions, the relocation of the head office from London to Birmingham and other operational and corporate projects. In addition, rationalisation costs of £1.9m were incurred in European Coach and Bus.

4 Net finance costs

	Normalised 2010 £m	Exceptional 2010 £m	Total 2010 £m	Normalised 2009 £m	Exceptional 2009 £m	Total 2009 £m
Bank interest payable	**(43.7)**	**(2.0)**	**(45.7)**	(45.2)	(19.9)	(65.1)
Finance lease interest payable	**(3.8)**	**–**	**(3.8)**	(4.7)	–	(4.7)
Other interest payable	**(0.2)**	**–**	**(0.2)**	(0.2)	–	(0.2)
Unwind of provision discounting	**(1.1)**	**–**	**(1.1)**	(3.0)	–	(3.0)
Finance costs	**(48.8)**	**(2.0)**	**(50.8)**	(53.1)	(19.9)	(73.0)
Finance income: Bank interest receivable	**4.8**	**–**	**4.8**	9.6	–	9.6
Net finance costs	**(44.0)**	**(2.0)**	**(46.0)**	(43.5)	(19.9)	(63.4)
Of which, from financial instruments:						
Cash and cash equivalents	**(0.4)**	**–**	**(0.4)**	9.6	–	9.6
Financial liabilities measured at amortised cost	**(38.8)**	**–**	**(38.8)**	(48.9)	–	(48.9)
Financial liabilities at fair value through profit or loss	**(0.2)**	**–**	**(0.2)**	(10.1)	(17.9)	(28.0)
Derivatives used for hedging	**0.5**	**–**	**0.5**	–	–	–
Loan fee amortisation	**(2.5)**	**(2.0)**	**(4.5)**	(3.6)	(2.0)	(5.6)

The 2010 exceptional charge of £2.0m relates to residual unamortised loan fees as a result of refinancing the Group's syndicated credit facility. On 12 July 2010 the Group's £800m multi-currency syndicated credit facility (maturity June 2011), was replaced with a new 4 year, £500m facility. The remaining unamortised fees relating to the £800m facility were taken to the income statement as an exceptional cost.

Of the 2009 exceptional charge of £19.9m, £17.9m related to interest rate swaps that ceased to qualify for hedge accounting as the interest payments under the underlying currency borrowings which the interest rate swaps were hedging were no longer expected. The remaining £2.0m exceptional charge related to residual unamortised loan fees as a result of the early repayment of the Euro loan facility in January 2010.

5 Taxation

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

	2010 £m	2009 £m
Current taxation:		
UK corporation tax	**4.4**	1.1
Overseas taxation	**3.6**	9.6
Current income tax charge	**8.0**	10.7
Adjustments with respect to prior years – UK and overseas	**(36.2)**	12.5
Total current income tax	**(28.2)**	23.2
Deferred taxation		
Origination and reversal of temporary differences – continuing operations	**(5.4)**	(37.0)
Adjustments with respect to prior years – UK and overseas	**11.0**	(9.7)
Deferred tax credit	**5.6**	(46.7)
Total tax credit	**(22.6)**	(23.5)
The tax credit in the income statement is disclosed as follows:		
Income tax credit on continuing operations	**(22.5)**	(22.6)
Income tax credit on discontinued operations	**(0.1)**	(0.9)
	(22.6)	(23.5)
The tax credit on continuing operations is disclosed as follows:		
Tax charge on profit before intangible asset amortisation and exceptional items	**39.2**	23.0
Tax credit on intangible asset amortisation and exceptional items	**(61.7)**	(45.6)
	(22.5)	(22.6)

Tax credit on intangible asset amortisation and exceptional items is analysed as follows:		
UK tax settlement	**(32.1)**	-
Tax credit on intangible asset amortisation	**(17.1)**	(19.8)
Tax credit on exceptional item	**(12.5)**	(25.8)
	(61.7)	(45.6)

6 Dividends paid and proposed

	2010 £m	2009 £m
Declared and paid during the year		
Ordinary final dividend for 2008 paid of 10.00p per share (2007: 26.40p per share)	**–**	15.2
Ordinary interim dividend for 2009 nil per share (2008: 12.72p per share)	**–**	–
	–	15.2
Proposed for approval (not recognised as a liability at 31 December)		
Ordinary final dividend for 2010 6.00p per share (2009: nil per share)	**30.6**	–

7 Earnings per share

	2010	2009
Basic earnings/(loss) per share – continuing operations	**12.1p**	(20.3p)
Basic (loss)/earnings per share – discontinued operations	**(0.1)p**	2.7p
Basic earnings/(loss) per share – total	**12.0p**	(17.6p)
Normalised basic earnings per share	**23.6p**	30.5p
Diluted earnings/(loss) per share – continuing operations	**12.1p**	(20.3p)
Diluted (loss)/earnings per share – discontinued operations	**(0.1)p**	2.7p
Diluted earnings/(loss) per share – total	**12.0p**	(17.6p)
Normalised diluted earnings per share	**23.5p**	30.4p

Basic earnings per share is calculated by dividing the earnings/(loss) attributable to equity shareholders of £61.4m (2009: £53.5m loss) 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:

	2010	2009
Basic weighted average shares	**509,398,911**	303,385,680
Adjustment for dilutive potential ordinary shares	**2,546,167**	732,384
Diluted weighted average shares	**511,945,078**	304,118,064

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:

	2010			2009		
	£m	**Basic EPS p**	**Diluted EPS p**	£m	Basic EPS p	Diluted EPS p
Profit/(loss) attributable to equity shareholders	**61.4**	**12.0**	**12.0**	(53.5)	(17.6)	(17.6)
Loss/(profit) from discontinued operations	**0.4**	**0.1**	**0.1**	(8.2)	(2.7)	(2.7)
Profit/loss) from continuing operations						
Attributable to equity shareholders	**61.8**	**12.1**	**12.1**	(61.7)	(20.3)	(20.3)
Intangible asset amortisation	**57.1**	**11.2**	**11.1**	60.4	19.9	19.9
Exceptional items	**61.2**	**12.0**	**12.0**	100.0	33.0	32.9
Loss on disposal of non-current assets	**–**	**–**	**–**	7.4	2.4	2.4
Share of associates and joint ventures	**–**		**–**	12.0	4.0	4.0
Exceptional finance costs	**2.0**	**0.4**	**0.4**	19.9	6.5	6.5
Tax relief on goodwill and exceptional items (including exceptional tax)	**(61.7)**	**(12.1)**	**(12.1)**	(45.6)	(15.0)	(15.0)
Normalised profit from continuing operations	**120.4**	**23.6**	**23.5**	92.4	30.5	30.4
Normalised loss from discontinued operations	**–**	**–**	**–**	–	–	–
Normalised profit attributable to equity shareholders	**120.4**	**23.6**	**23.5**	92.4	30.5	30.4

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

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

Following the Government's announced change in the statutory measure of inflation for pension schemes, from RPI to CPI, the appropriate assumptions have been updated in the actuarial valuations as at December 2010. The actuarial gain arising has been recognised in other comprehensive income.

The total pension cost for the year was £15.3m (2009: £24.2m), of which £3.2m (2009: £3.9m) relates to the defined contribution schemes.

The defined benefit pension liability included in the balance sheet is as follows:

	2010 **£m**	2009 £m
UK Bus	**(5.3)**	(46.4)
UK Coach	**–**	(5.2)
UK Rail	**(3.7)**	(1.9)
Other	**(1.4)**	(1.4)
Total	**(10.4)**	(54.9)

9 Net debt

Net debt at 31 December 2010 comprises cash and cash equivalents of £128.8m (2009: £105.8m), other debt receivables of £0.7m (2009: £0.8m), current interest-bearing loans and borrowings of £65.5m (2009: £258.4m) and non-current interest bearing loans and borrowings of £674.4m (2009: £506.1m).

	At 1 January 2010 £m	Cash flow £m	Acquisitions/ disposals £m	Exchange differences £m	Other movements £m	At 31 December 2010 £m
Cash	**58.3**	**23.9**	**0.1**	**(0.8)**	**–**	**81.5**
Overnight deposits	**12.0**	**25.0**	**–**	**(0.2)**	**–**	**36.8**
Other short term deposits	**35.5**	**(25.0)**	**–**	**–**	**–**	**10.5**
Cash and cash equivalents	**105.8**	**23.9**	**0.1**	**(1.0)**	**–**	**128.8**
Other debt receivables	**0.8**	**(0.1)**	**–**	**–**	**–**	**0.7**
Borrowings:						
Bank loans	**(687.7)**	**642.6**	**–**	**8.9**	**(3.6)**	**(39.8)**
Bonds	**–**	**(565.9)**	**–**	**–**	**0.3**	**(565.6)**
Fair value of bond hedging derivatives	**–**	**–**	**–**	**–**	**(1.1)**	**(1.1)**
Finance lease obligations	**(75.6)**	**18.7**	**–**	**2.4**	**(77.1)**	**(131.6)**
Other debt payable	**(1.2)**	**(0.6)**	**–**	**–**	**–**	**(1.8)**
Total borrowings	**(764.5)**	**94.8**	**–**	**11.3**	**(81.5)**	**(739.9)**
Net debt	**(657.9)**	**118.6**	**0.1**	**10.3**	**(81.5)**	**(610.4)**

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

The £76.0m cash outflow (2009: £449.5m) within bank loans, loan notes, other debt payable and other debt receivable comprises £2.0m (2009: £15.1m) of payments for the maturity of foreign currency swaps and £74.0m of net loans repaid (2009: £434.4m).

Borrowings comprise non-current interest bearing loans and borrowings of £674.4m (2009: £506.1m). Other non-cash movements in net debt represent finance lease additions of £77.1m (2009: £nil) and £4.4m (2009: £5.6m) amortisation of loan and bond arrangement fees.

10 Cash flow statement

The net cash inflows from operating activities include outflows of £52.6m (2009: £74.3m) from continuing operations which are related to exceptional costs.

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

Total Operations	2010 £m	2009 £m
Net cash inflow from operating activities		
Profit/(loss) before tax from continuing operations	**40.2**	(83.5)
(Loss)/profit before tax from discontinued operations	**(0.5)**	7.3
Net finance costs	**46.0**	63.4
Loss on disposal of non-current assets – continuing operations	**–**	7.4
Profit on disposal of non-current assets – discontinued operations	**–**	(7.3)
Share of post tax results under the equity method	**(0.3)**	12.1
Depreciation of property, plant and equipment	**99.8**	108.0
Amortisation of leasehold property prepayment	**–**	0.1
Intangible asset amortisation	**57.1**	60.4
Amortisation of fixed asset grants	**(1.7)**	(2.0)
Loss on disposal of property, plant and equipment	**6.6**	1.5
Share-based payments	**3.9**	1.9
(Increase)/decrease in inventories	**(1.2)**	6.3
(Increase)/decrease in receivables	**(33.0)**	116.3
Increase/(decrease) in payables	**20.9**	(58.7)
Decrease in provisions - continuing operations	**(12.4)**	(15.2)
Decrease in provisions - discontinued operations	**(3.3)**	–
Cash generated from operations	**222.1**	218.0

11 Financial information

The financial information set out above, which was approved by the Board on 24 February 2011, is derived from the full Group accounts for the year ended 31 December 2010 and does not constitute the full accounts within the meaning of section 434 of the Companies Act 2006. The Group accounts on which the auditors have given an unqualified report, which does not contain a statement under section 498 (2) or (3) of the Companies Act 2006 in respect of the accounts for 2010, will be delivered to the Registrar of Companies in due course.

The Annual Report will be posted to shareholders on 24 March 2011 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.