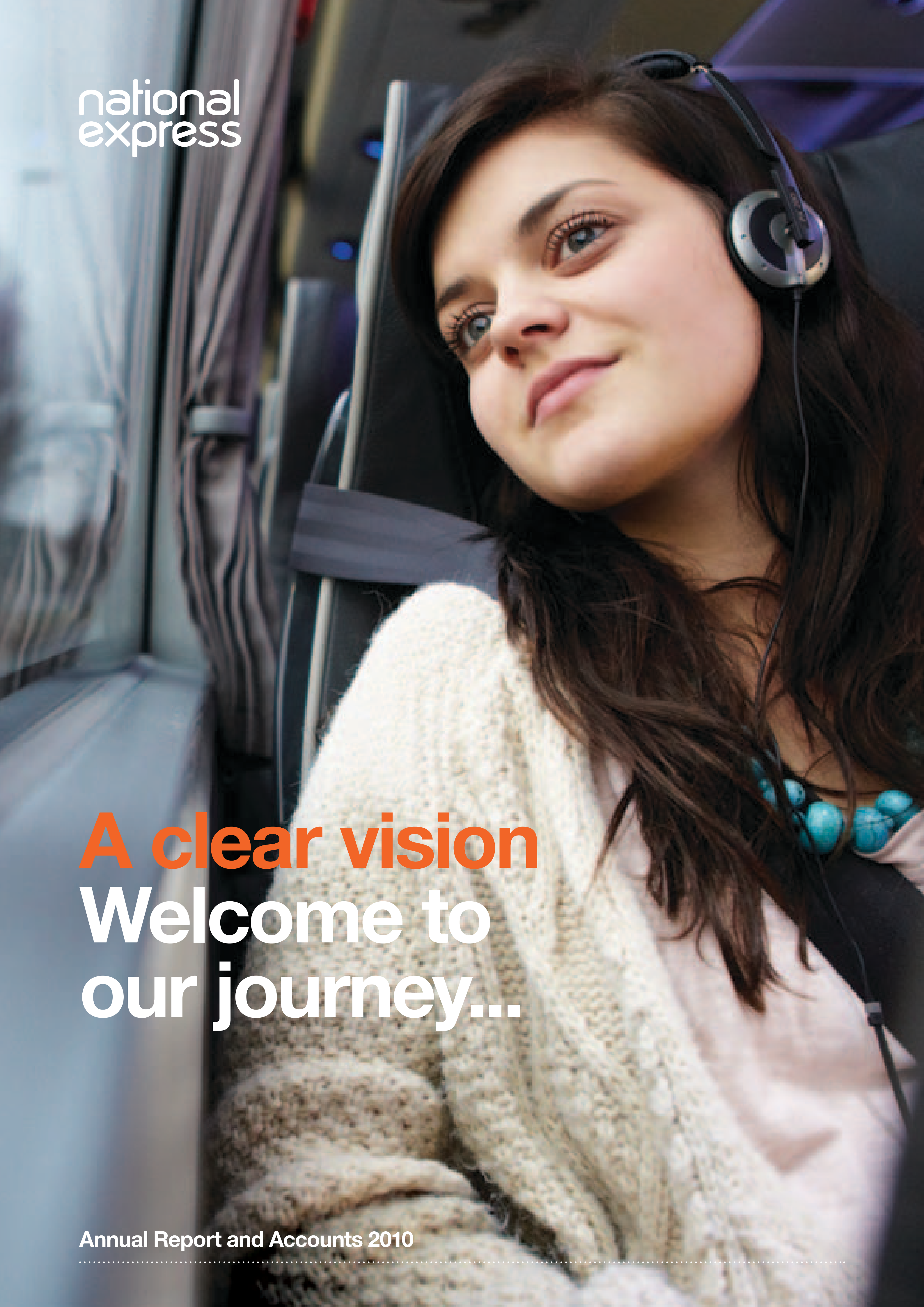
national express

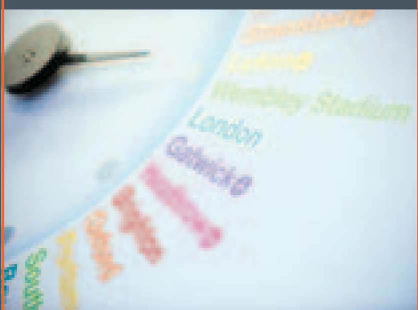


A clear vision
Welcome to our journey...

Annual Report and Accounts 2010

A global business
Group at a glance

Group



National Express
The Group operates in the UK, Spain, and North America and employs 38,000 people and operates over 21,000 vehicles.

Passengers make more than 700 million journeys on our services every year.

Revenue
£2,125.9m
Normalised operating profit
£204.2m
Employees
38,000
(inc. corporate functions)

Spain

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

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

Revenue
£525.6m
Normalised operating profit
£86.2m
Employees
6,800

North America

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

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

Centralised shared services delivered from the Illinois head office support local operational delivery.

Revenue
£459.8m
Normalised operating profit
£36.9m
Employees
20,600

Group revenue by market

Spain 25%
North America 22%
UK Bus 12%
UK Coach 11%
UK Rail 30%

Group normalised operating profit by market

Spain 40%
North America 17%
UK Bus 13%
UK Coach 15%
UK Rail 15%

UK Bus

National Express West Midlands
National Express Coventry
National Express Dundee
Midland Metro

National Express is the market leader in the UK's largest urban bus market outside of London. We operate more than 1,600 vehicles and cover over 70 million miles per year. We also run bus services in Coventry and Dundee and operate the Midland Metro light rail service between Birmingham and Wolverhampton.

UK Coach

National Express Coaches
Eurolines
The Kings Ferry

National Express Coaches is the largest operator of scheduled coach services in the UK. The business operates high frequency services linking over 1,000 destinations across the country, including major cities and airports.

We are the UK partner in the Eurolines network which serves over 500 destinations across Europe and North Africa.

UK Rail

c2c
National Express East Anglia

National Express operates two rail franchises in the UK, both operating in the East of England. c2c serves destinations between London and South Essex. National Express East Anglia serves routes out of London and across Norfolk, Suffolk, Essex and Cambridgeshire, including the Stansted Express airport service.

	UK Bus	UK Coach	UK Rail
Revenue	£257.8m	£250.3m	£637.5m
Normalised operating profit	£28.3m	£32.0m	£33.8m
Employees	5,400	1,500	3,600

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Who we are

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

Our vision

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

Normalised operating profit

£204.2m +28%

Normalised profit before tax

£160.5m +38%

Normalised margin

9.6% +63%

Return on capital employed

13.2% +23%

Highlights of the year

- 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)
- Normalised profit before tax rose 38% to £160.5 million (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 US$30 million annualised cost savings delivered in North America; operating profit up 44%
- Despite a challenging economic backdrop, Spain performed strongly with margin and profit growth
- Dividend restored with a proposed final dividend payment of 6 pence per share

A year of progress Chairman's letter

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 Group Chief Executive 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% 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 13 May 2011 to shareholders on the register on 26 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.

The Board is proposing a final dividend of 6 pence per share.

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

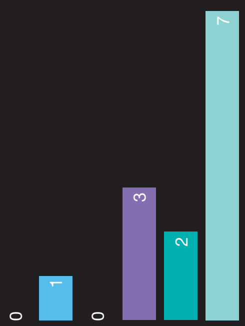
24 February 2011

Measuring success
Key performance indicators

Financial KPIs

Underlying revenue growth in 2010

%



Spain
North America
UK Bus
UK Coach
NXEA
c2c

Growth in underlying revenue from continuing operations. The Group seeks to deliver selective revenue growth in its businesses, where this adds value.

Return on capital employed

%

The Group is targeting to achieve a 15% pre-tax return on capital (the ratio of normalised operating profit to the assets used in the business).

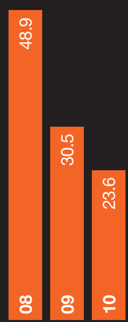
Normalised profit before tax

£m

A significant portion of the Group's funding is provided through debt and consequently the Group aims to maximise profit after debt financing cost. Normalised profit before tax is used to measure our performance.

Normalised basic earnings per share

pence



The main aim of the Group is to maximise long-term shareholder value. Earnings per share ("EPS") measures our progress in delivering profit to our shareholders.

Operating cash generation

£m

A key objective of the Group is to maximise cash flow in order to generate funds for investment and shareholder dividends. Operating cash generation is a measure of the success of converting operating profit into cash.

Debt gearing ratio

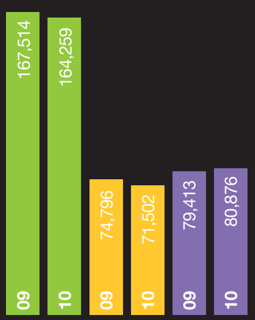
Debt gearing is a key indicator of a company's indebtedness driving towards a lower ratio. The debt gearing ratio of net debt to EBITDA is used to evaluate the capital structure of the Group, as well as ensure compliance with banking covenants.

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.

Non-financial KPIs

Mileage

000s

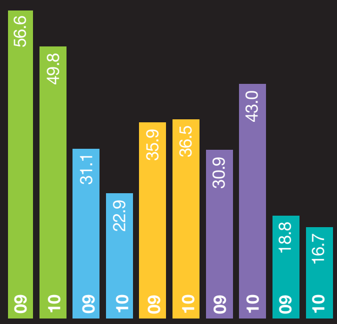


Spain
UK Bus
UK Coach

To maximise operational efficiency, the Group seeks to manage operated mileage in line with changes in passenger numbers.

Lost time employee injuries

per 1,000 full-time equivalent employees

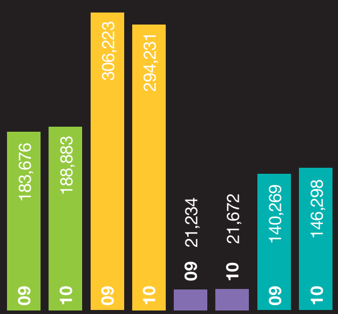


Spain
North America
UK Bus
UK Coach
UK Rail

Accidents to employees and contractors which result in time off work, other than on the day of the accident itself. We aim to eliminate injuries.

Passenger journeys

000s

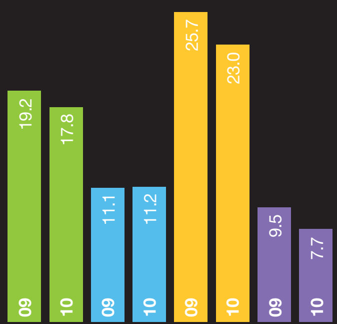


Spain
UK Bus
UK Coach
UK Rail

For our UK and Spanish businesses, patronage is a key constituent of revenue.

Preventable vehicle accidents

per million miles



Spain
North America
UK Bus
UK Coach

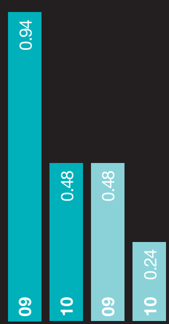
Motor vehicle collisions which are deemed by the Company to have been preventable by our driver. We seek to reduce this progressively.

Routes operated in North America

The number of routes operated is a key driver of revenue in the North American school bus business.

Signals passed at danger

per million train miles



NXEA
c2c

Signals passed at danger without the authority of the signaller in circumstances where the train received the appropriate cautionary signals and had sufficient time to stop at the signal at danger. Reducing this improves rail safety.

Moving forwards
Group Chief Executive's review

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.

Dean Finch
Group Chief Executive

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.

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 US$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 US$57.1 million (2009: US$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.

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.

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 US$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; and

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

Nobody will try harder for our customers than we do.

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.

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 increasingly aligned with 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;

People – 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; and

Community – 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 achieve the BREEAM standard 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; and

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; and
- **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 US$13.3 million bolt-on school bus acquisition in New Jersey, USA, which offers strong geographic fit to our existing adjacent operations.

Operating cash generation remained strong and represents 109% profit conversion.

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.

Excellent opportunities to drive value creation.

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 Intercity 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 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 on pages 2–3.

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 Performance and Financial Review.

Dean Finch
Group Chief Executive

24 February 2011

A clear vision
Driving success

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

Our diversified portfolio has key strengths:

Market leadership
in most of our markets we have strong or exclusive positions

Market knowledge
we have a deep understanding of and expertise in managing regulated concessions

Relationships
we have extensive experience in managing long-term contractual relationships

Quality international assets
we uniquely benefit from a balanced exposure to regions and modes of transport

Cash generation
our businesses balance cash generation with capital investment

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

Margin growth
through an unceasing focus on revenue and cost management

Organic growth
by offering better products and services and by winning new bid opportunities

Bolt-on acquisitions
by targeting opportunities to acquire operators which fit with our existing businesses

Take a look at how we are bringing this vision to life in the places where our journey takes us...

Spain

Revenue

£525.6m

Normalised operating profit

£86.2m

Revenue for Spain was £525.6 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).

Market overview

Overview of Spanish market

Market size

€3.5bn

Regulated bus market and Intercity coach revenues

Concessions

161

ALSA has 140 long distance and regional coach concessions, 20 urban bus contracts and one other concession

Market composition

- Leading position in a highly fragmented market in both Intercity coach and urban bus segments

Market trends

- After strong growth reflecting domestic economic expansion, 2009 and 2010 have seen a declining market, due to falling GDP and competition from air/rail
- Urban bus has remained resilient

Market features

- Regulated and highly segmented market, with three levels of regulator: central (long distance coach), regional (regional coach) and city (urban bus)
- Each concession is exclusive to the operator, who must be highly flexible to changing demand

Customers

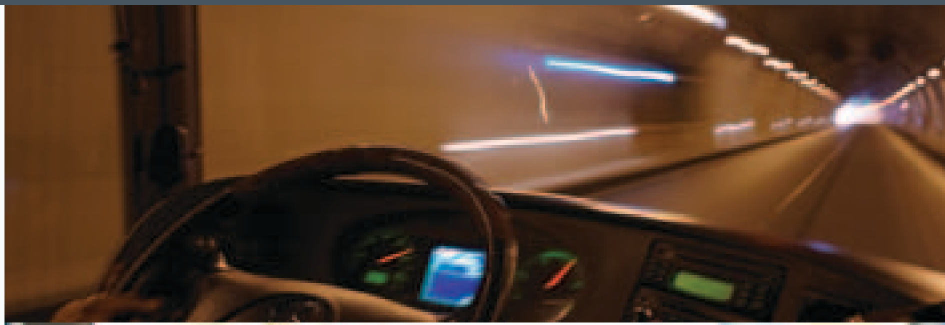
- Urban: all ages, work and study, multiple trips per week
- Intercity: mostly young people, few trips per year; for leisure, visiting family; on regional services also work and study

Competition

- Strong Intercity competition from low cost air and high speed rail
- Concessions are competitively tendered, typically every ten years

Labour

- Relatively rigid labour market despite austerity impact



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.

The ALSA business proved during 2010 that it is robust, flexible and sustainable, defying tough economic conditions in Spain.

Revenue in local currency was broadly flat at €612.7 million (2009: €612.9m; in Sterling terms, 2010: £525.6m, 2009: £546.8m). Revenue in Urban bus grew strongly, whilst the Intercity 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 Intercity 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 benefited 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.

Business model

ALSA is the largest private operator of buses and coaches in Spain, with a strong position in the Intercity coach market and in urban bus. Its markets are regulated and supported by long-term concession agreements that provide exclusive rights to operate routes. Concessions run for 10 to 15 years on average and favour high performing incumbents, resulting in low contract churn. ALSA's portfolio provides a balance between long distance coach operations, which receive no subsidy and take revenue risk in return for flexibility over the number of services operated and a regulated maximum fare; regional coach operations which may be subsidised by the autonomous regions; and urban bus operations under which city councils contract for heavily subsidised services, usually without revenue risk to the operator. This stable model benefits from significant political consensus, with public transport seen as essential public service in Spain. There has been flexibility on both sides of concessions, given recent difficult economic conditions, which reflects the close partnership and relationships between the operator and regulatory authorities. Exclusivity results in competition being mostly intermodal; ie with rail, low cost airlines and the car.

ALSA is the largest private operator of buses and coaches in Spain.

North America

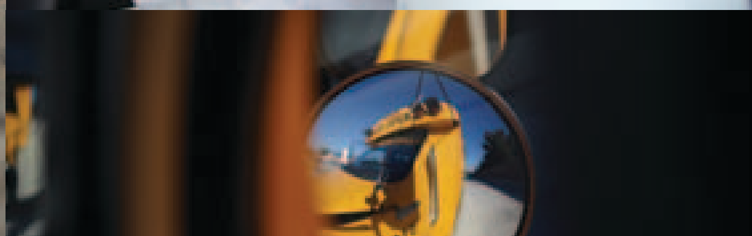
Revenue

£459.8m

Normalised operating profit

£36.9m

Revenue for North America was £459.8 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: US$695.0m) and normalised operating profit was US$57.1 million (2009: US$39.6m).



Market overview

Overview of North American market

Market size

531,000

- Total school bus market in North America represented by 531,000 routes
- 32% is outsourced; 68% remains in-house

National Express market share

14,289

- National Express operates 14,289 regular routes

Market composition

- Top 5 players operate approximately 90,000 routes
- 40 companies operate 200+ buses; rest of market split between around 4,000 players

Market trends

- Growth over past decade driven by CPI, conversion rate (to outsourced) and population growth

Market features

- Local relationships and service delivery important

Customers

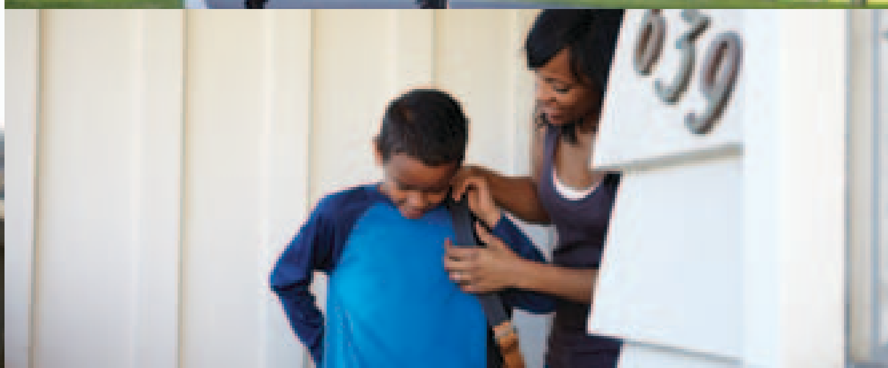
- Customers are local school boards, funded largely by property taxation
- Transport is a significant part of local education spending

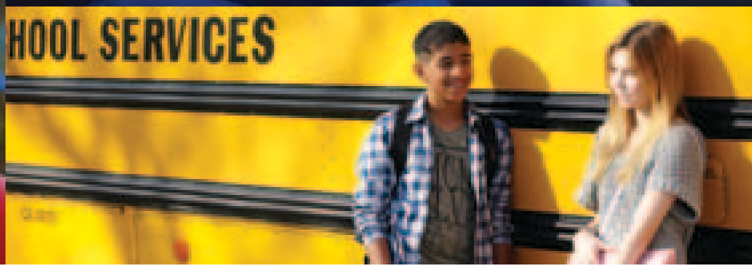
Competition

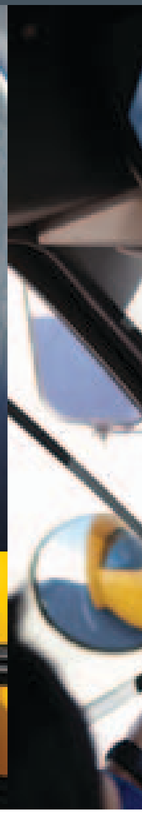
- Bigger players have access to capital, geographical reach and some scale advantages
- Potential for some market consolidation

Labour

- Traditionally part-time workforce
- 30% of National Express staff unionised







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 US$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: US$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 US$57.1 million, an increase of 44% on 2009 (2009: US$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.

Our North American operations made significant progress in 2010 in delivering the Business Recovery programme.

Driving revenue

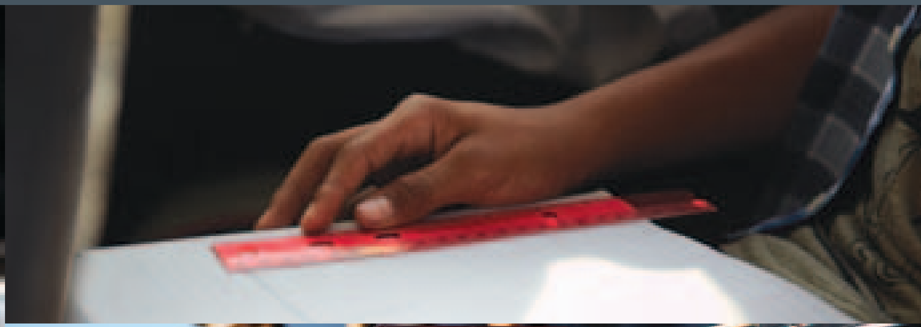
The 2010/11 bid season was highly successful – with a gross increase of 11% in new routes leading to an increase of over 700 routes on a net basis, 5% of total revenue. With strong local relationships and access to necessary capital investment, National Express secured 19 new contracts from competitors 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 US$25 million of actual in-year savings were delivered in 2010 as part of the targeted US$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 benefited by US$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 US$126.3 million in 2010 (2009: US$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 rates decreased by 26%. 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 US$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.

Business model

In North America, the Group's operations are carried out by our subsidiaries, Durham School Services and Stock Transportation. Together, they are the second largest private operator. The outsourced (private operator) market is only around one third of the total, with the remainder being in-sourced; that is, owned and run by the school boards themselves. The outsourced market is highly fragmented with an estimated 4,000 small operators around the country. Contracts typically run from three to five years and contract churn tends to be low. Additionally, once won, operators tend to face almost no revenue risk over the life of a contract. Scale is beneficial but not overarching – economies can be achieved through procurement, centralisation of administration and business development. Access to capital is key as most new contracts require investment in new buses and asset utilisation is lower, due to the part time usage of these specialised vehicles.

We are confident that this business has both revenue and margin growth opportunity for the future.

UK Bus

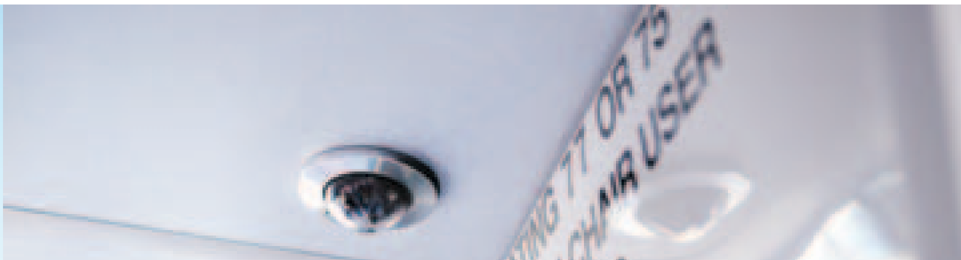
Revenue

£257.8m

Normalised operating profit

£28.3m

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



Market overview

Overview of UK Bus market

Market size

£4.8bn

- 97% is privatised

National Express market share

1,600

- 1,600 buses operated in the fleet
- Focused on the West Midlands market

Market composition

- Largest five operators represent around 70% of the UK market
- The remainder is made up of a large number of private operators

Market trends

- Short term economic pressures; longer term urban regeneration opportunities
- Stable patronage outside of London over past decade
- Potential for growth from bus being more environmentally friendly than the car

Market features

- Primarily deregulated market but with strong vehicle operation and scheduling regulatory oversight
- Low barriers to entry – flexibility of operations is key

Customers

- Over 90% of West Midlands network is commercial; remainder mostly public service tenders
- Around three quarters of revenue from passengers with remainder concessionary

Competition

- Active competition from international, national and local operators

Labour

- Good industrial relations through longstanding local agreements with trade unions

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.

The UK Bus business delivered a strong performance in 2010, returning to an industry average margin after a period of weak profitability.

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.

National Express West Midlands is the market leader in the largest single urban network in the deregulated market outside of London.

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.

Business model

National Express West Midlands is the market leader in the largest single urban network in the deregulated market outside of London. In this competitive environment, our business can use its scale benefits and infrastructure to operate a region-wide core network, delivering a reliable, affordable service for our customers. Whilst our regional market share is nearly 80%, there is particularly strong competition from a number of operators on high volume routes.

UK Coach

Revenue

£250.3m

Normalised operating profit

£32.0m

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

Market overview

Overview of UK Coach market

Market size

£300m

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

National Express market share

1,000

- Over 1,000 destinations served
- National Express is the UK scheduled coach market leader

Market composition

- National Express has the only nationwide network of services
- Other competitors tend to focus on regions or corridors

Market trends

- Revenue growth through the recession, reflecting value and convenience of coach
- Some price competition from rail and car

Market features

- Highly deregulated market
- Customer safety and disability access supported by regulation
- Operators able to compete rapidly on selected routes

Customers

- Customer satisfaction important in driving longer term loyalty
- Forthcoming rail fare increases should make coach increasingly attractive

Competition

- Selective competition from large bus operators and localised services

Labour

- Outsourced model, using third party operators for 80% of services
- Consistent service and behaviour standards across all operators

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

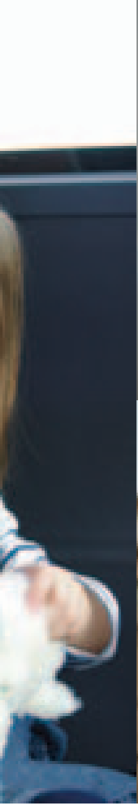
The National Express scheduled business enjoyed a strong recovery in airport traffic during 2010, offsetting some cross-country weakness. Customer access continued to improve in 2010 – the website, which now accounts for over 50% of passenger revenue booking, was relaunched in September. Customers tell 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.

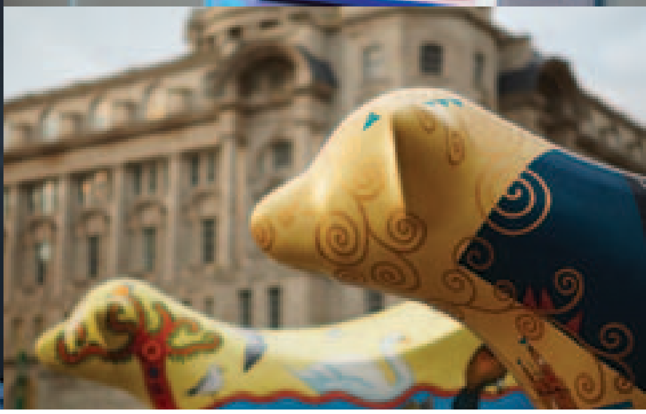
The Hotel Hoppa service and The Kings Ferry also saw growth, the latter including high profile executive contracts for football clubs and politicians. Eurolines had a strong 2010; following the Icelandic volcano eruption in April, 28,000 people were repatriated to the UK from continental Europe during 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 UK Coach division benefited 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 costs

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 contracts, 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 UK 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.

Business model
National Express is a national coach network, offering great value and accessible travel to all. It is the only scheduled national coach network in the UK and the largest in Europe, running 500 coaches a day serving over 1,000 domestic destinations. With 70% unprompted brand recognition, the National Express coach business benefits from its integrated network and scale, which is built on a flexible, outsourced business model, where third party providers supply 80% of the coaches. With competitors focused on point-to-point services with limited infrastructure, the Group aims to leverage the breadth and interconnectivity of the network to drive growth in the future.

National Express is the only scheduled national coach network in the UK and the largest in Europe, running 500 coaches a day serving over 1,000 domestic destinations.

UK Rail

Revenue

£637.5m

Normalised operating profit

£33.8m

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).

Market overview

Overview of UK Rail market

Market size

£6bn

of contested franchise revenues over next five years (based upon likely pipeline of franchises)

National Express market share

2 franchises

- National Express operates two UK rail franchises: NXEA and c2c
- This represents approximately 9% of UK franchise market

Market composition

- Top four players have around 70% of the market
- 19 UK franchises in total

Market trends

- Growth over past decade driven by passenger volumes
- Market highly dependent on job market and GDP
- Fares will increase by 10% in real terms over next three years

Market features

- Regulatory environment expected to change, with longer franchises and increased operator autonomy
- Highly regulated qualification and operational processes

Customers

- Customer numbers have risen despite increase in proportion of rail costs borne by the passenger

Competition

- Increased international bid interest in UK franchises
- Limited 'open access' operators

Labour

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

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 drove 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.

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.

Business model

National Express has a strong operational skills base in UK rail, the most deregulated rail system in Europe. The UK rail industry has long-term franchises awarded on an exclusive operation basis to private operators. Prices are predominantly regulated and costs are substantially fixed around track access, rolling stock and franchise payments to the DfT. The Group runs two franchises, now designated Greater Anglia and Essex Thameside by the DfT (operating under the National Express East Anglia and c2c brands), which run until 2012/13. c2c has consistently been amongst the top performers for punctuality and service in the industry and East Anglia has improved considerably over the Group's period of operation. Both franchises are profitable.

How we performed
Performance and 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 benefited 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:

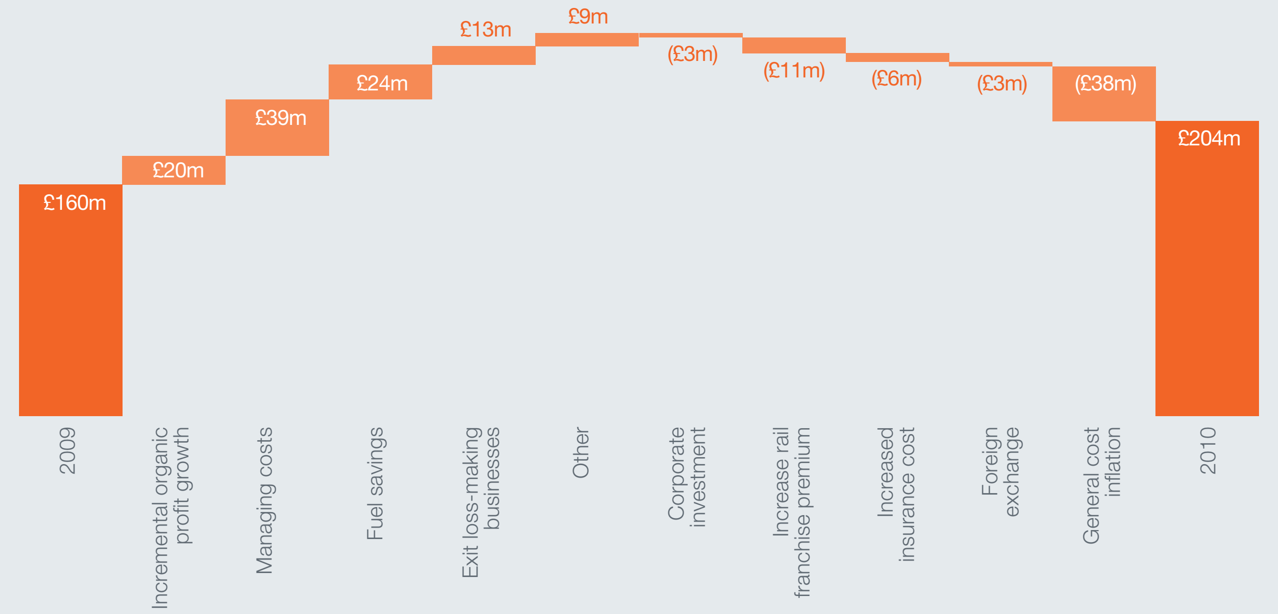
- Driving revenue through organic growth, yield and new bid wins, adding a net £20 million to profitability;
- Managing costs down; our core programmes in UK Bus and North America, together with 2009 full annualised savings, delivering £39 million of benefit;
- Better hedged fuel costs, delivering £24 million of price benefit, supported by the introduction of fuel efficiency technology across the Group; and
- 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 £3 million; and
- 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.

Improvement in normalised operating profit 2010



Normalised operating profit

£m

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.

Normalised profit before tax for the year was £160.5 million, a 38% increase in the year.

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)	Pre-tax £m	Tax £m	Post-tax £m
Spain	1.9	(0.6)	1.3
North 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).

In 2010, significant progress was made resolving legacy issues of long-standing risk within the Group.

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.

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 40 pence per litre, 75% fixed for 2012 at 41 pence per litre and 15% fixed for 2013 at 42 pence 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 benefited 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.

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 and 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 entry and 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.

During 2010, the Group completed the rebuilding of its financial platform.

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 seven-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 ten-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); and
- 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 IAS 19, 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.

Safeguarding future returns Principal risks and uncertainties

External risk	Potential impact	Mitigation actions
Economic conditions Whilst some of the Group's businesses have naturally defensive characteristics to the economic environment (eg school bus), other parts of the business may be adversely affected by economic conditions.	Revenues in many of the businesses, including UK Bus, UK Rail and Spain, are historically correlated to GDP and employment.	The Group seeks to mitigate this risk through proactive cost control, revenue management systems, careful economic modelling of new contracts and through sharing revenue risk with the awarding body (eg UK Rail and Spain urban).
Political and regulatory changes The Group's businesses are subject to numerous laws in the jurisdictions in which they operate, regulating the operation of concessions, safety procedures, equipment specifications, employment requirements, environmental procedures and other operating issues.	Changes in political and regulatory environments can have significant impact on regulated public transport businesses. In particular, there is a risk of significant additional cost being associated with complying with changes in the regulatory environment.	The risk is reduced by maintaining close relationships with key stakeholders and ensuring that the economic advantages of our business models are fully understood and considered.
Fuel costs All of our businesses are exposed to fuel costs – primarily diesel for buses and coaches, and gasoil or electricity for rail. Fuel prices are subject to significant volatility due to economic, political and climate circumstances.	Fuel costs constitute a significant proportion of the Group's costs and, consequently, to the extent that price increases cannot be passed on to customers, increases in fuel costs will significantly affect profitability.	The Group seeks to mitigate risks of increases in fuel costs by entering into fuel swaps and purchase contracts.
Contract risk Much of the Group's business is secured through winning contracts and concessions, particularly in its North American school bus business, in Spain and UK Rail.	An inherent risk in contract bidding is that bid assumptions might prove to be incorrect. If the Group's significant bid assumptions prove to be incorrect, this could have an adverse effect on results of the operations and the Group's financial condition.	The Group seeks to mitigate the risk through careful economic modelling of new contracts, and by sharing revenue risk with the awarding body; for example with the DfT in UK Rail.

Every business faces risks and uncertainties across a range of strategic, commercial, operational and financial areas. The Group's management recognises and prioritises those risks and puts in place measures to mitigate them, in order to improve safeguards over future returns for shareholders.

Outlined below are potential risks that could impact the Group's performance. These are monitored through the Group's risk management processes. Additional risks and uncertainties not identified below may also have an adverse affect.

Internal risk	Potential impact	Mitigation actions
Cost reduction programmes The Group continues to target the delivery of a number of cost saving programmes, including approximately US$40 million in North America.	The Group needs to deliver cost savings to offset inflation and improve margins, which would otherwise threaten the competitive position of the business.	A number of new management teams have been appointed with long experience in the industry and the right credentials to achieve the desired result. Improved management systems and processes are in place and additional resource from Group has been dedicated to North America. In 2010 £39 million of cost savings were delivered across the Group.
Rail The Group's two current rail franchises, Greater Anglia and Essex Thameside ("c2c"), expire in February 2012 and May 2013 respectively.	Rail revenues and profits represent a material financial contribution to Group results. In particular, the substantial outflow of cash at the time of expiry through the return of season ticket balances has an effect on shareholder returns and investment plans throughout the Group.	Operationally the two franchises are always looking to improve the quality of service provided. For example, c2c has continually set record-breaking levels of punctuality in Britain and National Express East Anglia continues to improve. The Group has regular and ongoing discussions with the DfT and considers that it is now substantially rehabilitated with regards to being able to bid for future franchises.
Insurance and Claims The Group's policy is to self-insure a number of potential claims within its business.	There is a risk that a successful claim or series of successful claims may result in substantial higher charges to profit and cash outflow than expected.	Throughout the business, a strong safety culture prevails, led by the Board Safety and Environmental Committee. Where claims arise, they are managed by experienced claims handlers and professional advice is obtained in order to evaluate and minimise costs to the Group. It has also reduced self-insurance values and increased external market coverage.
Financial The Group is dependent on maintaining certain financial ratios in order to comply with its banking covenants.	In the event of a breach of covenant, the Group's lending banks would be entitled to call an event default under the facilities and would be permitted to exercise certain rights including the right to cancel facilities, which would have a material impact on the Group's ability to continue trading.	The Group carried out a number of actions in 2009 and 2010 to improve the financial position of the Group, including successful rights and bond issues. The Group has robust controls and processes in place to monitor cash flows and forecasts to ensure adequate facility and covenant headroom is maintained. The Group has strong headroom in these at the end of 2010.

Being responsible
Corporate responsibility review

Corporate responsibility is about what you do and how you do it. It is an integral part of the way a company operates, and should not be seen as an add-on.

What National Express does is to provide essential public services. They are provided at low cost for consumers and at very low levels of carbon emission.

They are services that are key to the socio-economic well-being of communities: enabling people to get to work and to school, to the shops or to hospital. They are services that improve the quality of life for millions of people, ensuring that individuals or localities do not become isolated. This is particularly true at a time of rising unemployment.

National Express directly employs more than 38,000 people worldwide. In Spain and the UK we are major employers in the cities where we are based. In Birmingham, the home of our UK operation, we employ over 5,000 people or 1% of the city's workforce. Indirectly we support many thousands of other jobs in the supply chain. Our Intercity services are, for example, important in supporting the local tourist industry: in the UK we estimate that our national coach network supports some 3,600 jobs in the South West of England alone.

Public transport reduces congestion and environmental damage in our cities making them more attractive places to live. The CO_2 emissions per passenger kilometre in coach travel are around 80% less than those of the average new car.

So this is what we do: and the better we are at what we do, the more people use us – and the greater the benefits.

Vision and values

How we do it is linked to the core values of the Company. We have re-invigorated the business, defining a new framework of corporate values that will become central to the way National Express works.

Our vision is to earn the lifetime loyalty of our customers by consistently delivering excellent value, frequent, highly performing, mass public transport services. Four values: people, customers, community and, most importantly, safety, underpin this vision.

Safety

More than anything else, we value the safety of our customers, employees and the public generally. Nothing we do is worth getting hurt for and we will not do anything which causes harm.

To achieve this, we are embedding a renewed safety culture within the Company. This has been initially driven from the top, with all senior managers required to demonstrate leadership on safety. During 2010 a new Group-wide safety programme was developed, called Driving Out Harm. It is being led personally by our Group Chief Executive and, during the year, all 234 senior managers in the Group attended safety leadership courses.

During 2011, all middle managers and supervisors will take part in safety training designed to embed our new global safety standards in the culture of the business worldwide. Safety must be the personal responsibility of all staff.

We have introduced new safety Key Performance Indicators to measure, consistently, how we are doing. And the rules governing bonus payments have been changed. In future, bonus payments will be even more closely aligned to both profit and safety performance.

We expect substantial improvements in 2011 based on what has been put in place, and aim for our safety record to be the best in the transport sector.

People

Our 'People' value seeks to enable all of our staff to reach their full potential and to give of their best as individuals and in teams.

We are establishing people management principles which will act as global minimum standards in HR.

In 2010 we focused on talent management: creating individual development plans for senior managers; succession plans for each business unit; establishing a high potential scheme to identify leaders of the future; and emphasised the importance of continuous learning and development.

Award-winning coach station

Our new Birmingham coach station was the first such building to achieve the BREEAM standard.

BREEAM is the definitive method for assessing a building's environmental performance, and the organisation had to write a bespoke assessment to enable them to rate the property.

The coach station's red boundary screen also won an important art award specifically for its community engagement and its contribution to regeneration and sustainable growth.

What National Express does is to provide essential public services. They are provided at low cost for consumers and at very low levels of carbon emission.

Middle managers will be included in an extended talent management programme in 2011 as it is rolled out throughout the organisation.

And, as an international company, we are also keen to put in place an exchange scheme as a forum for learning across national boundaries.

Customers

We will place customers at the heart of our business. In short: nobody will try harder for our customers than we do.

We are establishing customer panels across each division, to ensure we hear regularly from customers.

Our services are key to the well-being of the individuals and communities we serve. In the UK and Spain around a quarter of households do not have access to a car. The lives of these people would be adversely impacted if our services did not exist.

We are committed to making our services ever more attractive, to ensure that more people use them and enjoy greater value for money. Our starting point is operational excellence: the better our services are, the stronger our business and the greater the benefits for our customers. Indeed, we believe the switch from private to public modes of transport, and to low carbon from high carbon modes such as car or air travel, benefits everyone.

We are also very interested in the role new technology, including social media, could play in improving our services.

Community

Our policies and practices will advance the social, environmental and economic conditions in the communities in which we operate.

Over the next 12 months we will proactively promote the social, economic and environmental benefits of what we do in the communities in which we operate. Public transport is well placed to meet the climate change challenge as it is a low cost solution to reducing carbon from transport. We are investing significantly in new fleet, including hybrid buses in the UK and Spain.

Around the world our businesses support those who most clearly benefit from what we offer – in cash and kind.

In the US, we have a long standing relationship with the Special Olympics – which includes providing buses for competitors. Our Spanish business makes substantial donations to road safety organisations. UK Coach provided a branded vehicle for the Little Princesses charity, while UK Rail is a long-term supporter of The Railway Children charity which helps runaway and street kids around the world, particularly those who live near railway stations.

Our UK Bus business is developing links with Transaid to help improve bus driver training in Tanzania, through a programme that can be delivered by local teams.

We continue to encourage our employees to get involved with fundraising or volunteering in their own communities, by awarding grants through our Employee Charity Panel.

Government policy

The UK Coalition Government's key priority is deficit reduction. While this meant the reduction in some public transport subsidies, the Comprehensive Spending Review also confirmed that the UK Government see transport as critical to economic growth.

We firmly believe that public transport supports key government priorities by reducing congestion, and enabling economic growth and productivity in local communities – in a low carbon way. For example, almost 150,000 new jobs are forecast to be created in the West Midlands between now and 2030. Many of them will be in sectors, such as business services, which favour a city centre location. Our vision of excellent value, highly performing services, consistently delivered will be crucial in connecting people to these jobs in a low carbon way that minimises congestion.

In 2011 we will seek to promote the benefits of our services more clearly and we will keep the communities we serve moving.

No1

Award winning

National Express was named the Best Company in the Transport Sector 2010 by the Spanish business daily El Economista.

National Express coach driver Mark Dean from Transdev Yellow Buses in Bournemouth won the 2010 UK Bus Driver of the Year award.

Governance
Chairman’s overview

We believe that high standards of conduct and good governance are essential. The following section of this report introduces the Board of Directors and its committees and explains our approach to corporate governance.

John Devaney
Chairman

Dear Shareholder

2010 was a year of significant positive change for our businesses. At the same time it was a year of significant change in the area of corporate governance, with the Financial Reporting Council's proposed changes to the Combined Code ("2008 Code") being brought into effect in May 2010 by the publication of the UK Corporate Governance Code (the "Code"). The Code applies to financial years beginning on or after 29 June 2010.

We, as a Board, welcome the new Code with its greater emphasis on the principles contained within it. We also welcome the UK Stewardship Code published in July 2010 which aims to enhance the quality of engagement between institutional investors and the companies in which they invest by setting out good practice on engagement.

I am pleased to report that, with the appointment of Dean Finch as our new Group Chief Executive in February 2010, the non executive members of the Board were able to revert to their more usual sole roles of Chairman, Senior Independent Director and Chairs of Board Committees such that the Company's compliance with the 2008 Code during 2010 significantly improved upon its compliance during 2009. With the exception of Jorge Cosmen's membership of our Nomination Committee, the Board seeks to be in full compliance with the terms of the 2008 Code and, from this year onwards, the new Code.

With the arrival of a new Group Chief Executive in February 2010, we delayed undertaking a full scale Board evaluation during 2010. We did however initiate an interim internal review in late 2010 which was led by our Group Human Resources Director. This review will be completed shortly and will be followed, in late 2011 or early 2012, by a further full evaluation which will be externally facilitated.

Whilst we have seen a number of changes amongst the Executive members of the Board in recent years, we have benefited from a good deal of stability within the Non-Executive Directors on the Board and I would like to thank my non executive colleagues for all of their help and assistance in what have, sometimes, been difficult times. During 2011 we will be revisiting the appropriate balance of skills, expertise, experience and knowledge required by the Company in order to ensure that the composition of the Board continues to meet those needs and to ensure that appropriate succession planning is in place for executive board positions.

In the report that follows we have decided to report against the 2008 Code. We will report against the new Code in future years.

John Devaney
Chairman
24 February 2011

An experienced team
Board of Directors

John Devaney, Chairman (64)

Appointment to Board

2 April 2009

Committee Membership(s)

Safety and Environment Committee, Nomination Committee (Chairman)

Experience

John Devaney has managed businesses across Europe, the UK, Canada, USA and Japan. His previous roles include Chairman of Kelsey Hayes (part of Varity Corporation), Eastern Group, Exel and Telent and Non-Executive Director of HSBC Bank Plc, Ocean Group and British Steel. He is currently Non-Executive Chairman of Cobham Plc and Chairman of National Air Traffic Services Ltd and Tersus Energy Plc.

Jez Maiden, Group Finance Director (49)

Appointment to Board

17 November 2008

Committee Membership(s)

None

Experience

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

Tim Score, Senior Independent Director (50)

Appointment to Board

21 February 2005

Committee Membership(s)

Safety and Environment Committee, Remuneration Committee, Audit Committee (Chairman)

Experience

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

Dean Finch, Group Chief Executive (44)

Appointment to Board

15 February 2010

Committee Membership(s)

None

Experience

Prior to joining National Express, Dean Finch was Group Chief Executive of Tube Lines from June 2009. Before that he worked for over 10 years in senior roles within FirstGroup plc. He joined FirstGroup in 1999 having qualified as a Chartered Accountant with KPMG, where he worked for 12 years specialising in Corporate Transaction Support Services, including working for the Office of Passenger Rail Franchising on the privatisation of train operating companies. At FirstGroup, he was Managing Director of the Rail Division from 2000-2004 and then was appointed to the main board as Group Commercial Director in 2004, before being made Group Finance Director. With the completion of the Laidlaw acquisition he became Chief Operating Officer in North America before returning to the UK as Group Chief Operating Officer.

Jorge Cosmen, Deputy Chairman (42)

Appointment to Board

1 December 2005

Committee Membership(s)

Safety and Environment Committee, Nomination Committee

Experience

Jorge Cosmen was appointed to the Board in December 2005 at the time of the ALSA transaction. He was appointed Deputy Chairman in October 2008. He was Corporate Manager for the ALSA Group from 1995, becoming Chairman in 1999. Between 1986 and 1995, he worked in sales, distribution and banking. He is a Business Administration graduate and has an International MBA from the Instituto de Empresa in Madrid.

Roger Devlin, Non-Executive Director (53)

Appointment to Board

1 October 2007

Committee Membership(s)

Safety and Environment Committee, Remuneration Committee (Chairman), Audit Committee

Experience

Roger Devlin spent 13 years as a Director of Hill Samuel where he was head of Mergers and Acquisitions and Chief Executive of their US investment banking operations. He then moved to Ladbrokes, later Hilton PLC, as Group Corporate Development Director. He now chairs three substantial private companies, Principal Hotels, Gamesys and Satellite Information Services. He is also Senior Independent Director of RPS Group Plc, Europe's leading environmental consultancy.

Miranda Curtis, Non-Executive Director (55)

Appointment to Board

1 June 2008

Committee Membership(s)

Safety and Environment Committee (Chairman), Remuneration Committee

Experience

Miranda Curtis is a Non-Executive Director of Liberty Global Inc (Denver, Colorado) having retired from her executive role as President of Liberty Global Japan and Jupiter Telecommunications (J:COM) in Tokyo after leading the sale of Liberty's Japanese interests in February 2010. She has also served on the boards of Liberty subsidiaries in Singapore, Ireland, France and Spain. She is a Trustee and member of the Board of Governors of the Institute for Government and a Director of Garsington Opera. Between 1998 and 2002 she was a Non-Executive Director of Telewest Communications plc and between 1998 and 2000 a Non-Executive Director of Flextech plc.

Sir Andrew Foster, Non-Executive Director (66)

Appointment to Board

1 August 2004

Committee Membership(s)

Safety and Environment Committee, Nomination Committee, Audit Committee

Experience

Sir Andrew has had an extensive career in the public sector, having served as Chief Executive of the Audit Commission for England and Wales between 1992 and 2003. Before this, he was Deputy Chief Executive of the NHS and Regional CEO for Yorkshire. He is currently Deputy Chairman of the Royal Bank of Canada Europe Limited and Chairman of the Commonwealth Games England. He is also Non-Executive Director at PruHealth.
Sir Andrew has conducted independent reviews for the government into the Intercity Express Project, the Building Colleges for the Future programme, and previously into further education and the future of athletics.

Tony McDonald, Company Secretary (50)

Tony McDonald was appointed Company Secretary in May 2000. Prior to joining the Group, he held senior legal positions with the in-house legal teams at Guardian Royal Exchange and BP and in private practice with Slaughter and May. He is a qualified solicitor.

Members of the Audit Committee

Date of appointment	
Tim Score (Chairman)	21 February 2005
Roger Devlin	26 February 2008
Sir Andrew Foster	23 November 2004

Members of the Remuneration Committee

Date of appointment	
Roger Devlin (Chairman)	31 May 2008
Miranda Curtis	1 June 2008
Tim Score	14 December 2005

Members of the Nomination Committee

Date of appointment	
John Devaney (Chairman)	2 April 2009
Jorge Cosmen	2 June 2008
Sir Andrew Foster	15 December 2004

Members of the Safety and Environment Committee

Date of appointment	
Miranda Curtis (Chairman)	1 June 2008
Jorge Cosmen	14 December 2005
John Devaney	2 April 2009
Roger Devlin	28 November 2007
Sir Andrew Foster	9 November 2004
Tim Score	23 March 2005

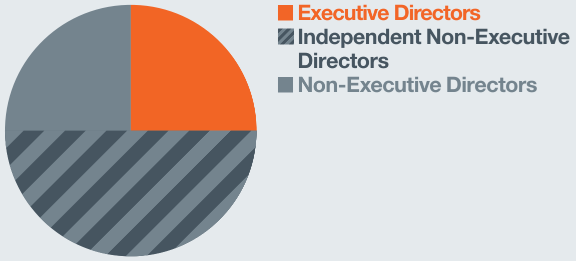
Running the business responsibly
Corporate governance

Governance framework
The Directors believe it is essential for the Group to be led and controlled by an effective Board that provides entrepreneurial leadership within a framework of sound controls. The Board is responsible for setting the Group's strategic aims, its values and standards and ensuring the necessary financial and human resources are in place to achieve its goals.

Statement of Compliance with the Combined Code
In the opinion of the Directors, the Company has complied during the year with the provision of Section 1 of the Combined Code on Corporate Governance issued by the Financial Reporting Council in 2008 ("the Code") save in respect of the following provisions:

- The composition of the Nomination Committee (A.4.1). The Board considers that, as, Deputy Chairman and the representative of one of the Company's main shareholders, Jorge Cosmen, who is not considered independent, should be a member of the Nomination Committee in order to be involved in the recruitment process for Board appointments.
- Board Composition and Balance (A.2.1 and A.3.2) Prior to the appointment of Dean Finch as Group Chief Executive on 15 February 2010 the Board was non-compliant with the requirement of the Code in respect of Board composition and balance (A.2.1 and A.3.2) as John Devaney assumed the roles of both Chairman and Chief Executive on the departure of the previous Chief Executive.

Composition of the Board



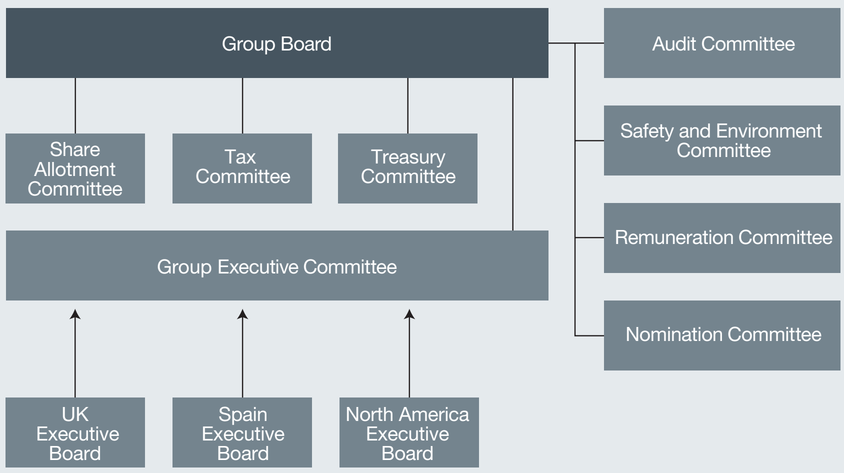
Applying the principles of good governance
The Board of Directors, Chairman and Group Chief Executive

As at the date of this Report the Board consists of the Chairman, two Executive and five Non-Executive Directors. A full list of the Directors with details of their biographies and Committee memberships is given on pages 40 and 41. The offices of Chairman and Group Chief Executive are held separately. The division of responsibilities between the roles of Chairman and Group Chief Executive is shown below.

Tim Score is the Senior Independent Director. The Board considers all of the Non-Executive Directors to be independent other than Jorge Cosmen and considered John Devaney to be independent prior to his appointment as Chairman. Mr Cosmen is not considered to be independent by the Board due to his close links with the ALSA business and significant interests in

Main responsibilities of the Chairman:
- chairing and managing the business of the Board;
- together with the Group Chief Executive, leading the Board in developing the strategy of the business and ensuring this is effectively implemented by the executive management team;
- ensuring that there is effective dialogue with investors concerning mutual understanding of objectives;
- in conjunction with the Nomination Committee, taking responsibility for the composition and replenishment of the Board;
- periodically reviewing with the Board its working practices and performance; and
- ensuring there is effective contribution from the Non-Executive Directors and a constructive relationship between the Executive and Non-Executive Directors.

Main responsibilities of the Group Chief Executive:
- the development and implementation of management strategy;
- the day-to-day management of the Group;
- managing the executive management team; and
- fostering relationships with key stakeholders.



Management structure

The main committees of the Board are the Audit, Safety and Environment, Remuneration and Nomination Committees.

The Executive Boards meet on a monthly basis and matters dealt with at these boards are reported to the Group Executive Committee.

the shares of the Company which are held through European Express Enterprises Limited. The Non-Executives bring a variety of different experiences and considerable knowledge to assist with Board decisions. Non-Executive Directors do not participate in any of the Company's share option or bonus schemes and their service is non-pensionable.

The Board and its principal Committees

The Board normally meets at least eight times during the year. In 2010 the Board met eight times. There is a formal schedule of matters reserved for the Board's decision, the main terms of which are shown on page 44. The Board has established a number of Committees with defined terms of reference and receives reports of their proceedings. The principal Committees are the Remuneration Committee, the Nomination Committee, the Audit Committee and the Safety and Environment Committee. The members of each principal Committee and main duties are shown on pages 47 to 51. In addition there is an Executive Committee with authority to approve routine matters of business and a Tax and Treasury Committee which reviews the Group's tax planning, banking facilities and treasury reports. The table below sets out the number of meetings of the Board and its Committees during the year and individual attendance by the Board and Committee members at these meetings. All of the Committees are authorised to obtain legal or other professional advice as necessary, to secure the attendance of external advisors at their meetings and to seek information required from any employee of the Company in order to perform their duties. The full terms of reference of the principal Committees are available on the Company's website at www.nationalexpressgroup.com.

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

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

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

	The Board of Directors	Audit Committee	Nomination Committee	Remuneration Committee	Safety and Environment Committee
Total Meetings in 2010	8	2	1	3	4
Executive Directors					
Dean Finch[1] Group Chief Executive	7 (7)	–	–	–	–
Jez Maiden	8	–	–	–	–
Ray O'Toole[2]	2 (2)	–	–	–	–
Non-Executive Directors					
John Devaney Chairman	8	–	1	–	4
Jorge Cosmen	8	–	1	–	4
Miranda Curtis	7	–	–	2	3
Roger Devlin	8	2	–	3	4
Sir Andrew Foster	7	2	1	–	3
Tim Score Senior Independent Director	8	2	–	3	4

Company Secretary: Tony McDonald (also acts as Secretary to the Board Committees).

[1] Appointed to the Board on 15 February 2010. Maximum possible meetings attended shown in brackets.

[2] Resigned from the Board on 5 May 2010. Maximum possible meetings attended shown in brackets.

Information and professional development

Reports from the Executive Directors, which include in-depth financial information, are circulated to Board members prior to every Board meeting. Senior management and advisors give presentations to the Board on significant matters during the year.

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

On appointment, Directors are offered training as appropriate and are thereafter encouraged to keep abreast of matters affecting their duties as a Director and to attend training courses relevant to their role. An induction process is in place for new Directors, the aims of which are to:

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

Performance evaluation

Formal evaluation of the Board's performance is periodically carried out using external consultants. The external consultants receive evaluation questionnaires from each of the Directors and the Company Secretary. The questionnaires, cover the performance of the Board as a whole and individual Board members. As a follow up to the questionnaires, individual meetings are held by the consultants with each Board member at which the answers to the questionnaires are explored further and additional matters raised, before being discussed with the Chairman of the Board and the Board as a whole. Subsequently, the Board agrees a series of actions to improve its performance and increase its effectiveness. An internal evaluation was commenced in late 2010 and will be completed in the first quarter of 2011. The next evaluation will be undertaken using an external facilitator.

Re-election

In accordance with the Company's Articles of Association, all Directors submit themselves for election at the Annual General Meeting following their appointment and thereafter by rotation at least once every three years. Non-Executive Directors are appointed for specific terms, subject to re-election. Non-Executive Directors will only be put forward for re-election if, following performance evaluation, the Board believes the Director's performance continues to be effective and demonstrates commitment to the role.

Remuneration and service contracts

The Directors' Remuneration Report, including details of remuneration policy and service contracts, is set out on pages 51 to 63.

Directors' conflicts of interest

The Board has a procedure in place to deal with a situation where a Director has a conflict of interest, as required by the Companies Act 2006. As part of this process, the members of the Board prepare a list of other positions held and all other conflict situations that may need authorising either in relation to the Director concerned or his/her connected persons. The Board considers each Director's situation and decides whether to approve any conflict situations, taking into consideration what is in the best interests of the Company and whether the Director's ability to act in accordance with his or her wider duties is affected. Each Director is required to notify the Company Secretary of any potential or actual conflict situations that will need authorising by the Board. Authorisations given by the Board are reviewed annually.

Accountability and audit

Statements of the respective responsibilities of the Directors and auditors are set out on pages 68 and 134.

Internal control

The Board's responsibilities

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

Key elements of the control framework

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

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

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

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

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

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

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

Internal audit – the internal control system is independently monitored and supported by a Group internal audit function. The Group internal audit function was successfully moved from an outsourced provider to an in-house function during 2010. The internal audit function reports to management and the Audit Committee on the Group's financial and operational controls, and monitors and reviews the extent to which its recommendations have been implemented.

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

Review of internal control effectiveness

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

Whistle blowing policy

A Group "whistle blowing" policy has been issued to all Group companies to ensure a consistent approach across the Group and it is also available on the Group's website www.nationalexpressgroup.com. The Board supports the highest standards of corporate governance and ethical practices within all its operations and continues to review its policies on an ongoing basis. The Board has endorsed a set of principles which establish the framework for how its businesses operate. Key to these is working in an open and honest manner. The Group is committed to the highest standards of quality, honesty, openness and accountability. Employees are encouraged to raise genuine concerns under the policy either by contacting their line manager or the Company Secretary. Any concerns raised are investigated carefully and thoroughly to assess what action, if any, should be taken and confidential records are maintained. The Company Secretary reports any matters of significance to the appropriate committee. In 2010 no issues of significance were raised.

Share capital

Information about the share capital of the Company is included in the Directors' report on page 66.

Relations with shareholders

Dialogue with shareholders

The Board recognises the importance of maintaining good communications with the Company's shareholders to ensure mutual understanding of the Group's strategy, objectives, governance and performance. The Chairman, Group Chief Executive and Group Finance Director hold a number of meetings with existing and prospective institutional shareholders during the year as well as giving presentations following the full year and half-year results. They also meet and give presentations to analysts and brokers. The Company's brokers in turn provide confidential feedback to the Company on the views of the major institutions. The Chairman, Senior Independent Director and other Non-Executive Directors are also given the opportunity to meet institutional shareholders and are available by contact through the normal channels.

The Board is provided with regular updates on the views and issues raised by the Company's investors. During the year the Board received external presentations from advisors on shareholder and market perception of the Group Performance. Written responses are given to correspondence received from shareholders.

During the year shareholders are kept informed of the progress of the Group through regular corporate communications; the Preliminary announcement, the Notice of AGM, interim management statements and press releases regarding any other significant development, as well as the dissemination of regulated information. Such communications are made available to the London Stock Exchange and simultaneously available on the Company's website (www.nationalexpressgroup.com). The Company's website houses wide-ranging information about the Group, including the Annual Report and Accounts, press releases, share price data and links to subsidiary company websites.

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

Major shareholdings

As at 24 February 2011, the Company had been notified of the following interests in its shares which represent 3% or more of the voting rights in the Company:

	Ordinary shares	Percentage of share capital*	Nature of holding
Elliott International LP Liverpool Ltd Partnership	83,096,195	16.29%	Direct
European Express Enterprises Ltd	87,095,062	17.08%	Direct
Legal & General Group Plc	30,300,908	5.94%	Direct
Prudential PLC	65,904,373	12.92%	Direct
UBS Investment Bank	32,508,655	6.37%	Direct

* Using the total voting rights figure of 510,057,338.

The holdings for European Express Enterprises Ltd are included in Jorge Cosmen's holdings which are shown on page 61 of the Directors' Remuneration Report.

Analysis of ordinary shareholdings at 24 February 2011

	Number of accounts	Percentage of total number of accounts	Number of shares	Percentage of ordinary capital
By size of holding				
1–500	6,792	47.69%	1,021,848	0.20%
501–1,000	1,846	12.96%	1,444,691	0.28%
1,001–5,000	3,829	26.88%	8,922,826	1.74%
5,001–50,000	1,523	10.69%	18,332,834	3.58%
50,001–1,000,000	174	1.22%	42,306,453	8.27%
Over 1,000,000	79	0.56%	439,697,374	85.93%
	14,243	**100%**	**511,726,026**	**100%**
By investor type				
Individuals	13,246	92.99%	25,779,671	5.04%
Institutional Investors	893	6.27%	456,707,377	89.25%
Other Corporate Investors	104	0.74%	29,238,978	5.71%
	14,243	**100%**	**511,726,026**	**100%**

Analyst coverage

The Company is aware of 19 analysts who have published equity research notes covering National Express Group PLC during 2010 and we provide names and contact numbers of their firms on our website.

The Annual General Meeting

The Annual General Meeting provides an opportunity for all shareholders to question the Chairman and Directors on a variety of topics, and information is provided at the meeting on different aspects of the Group's activities. All of the Company's Directors are present at the meeting. Voting at the Annual General Meeting on all resolutions is by poll on a one share, one vote basis. The results are available on the Group's website following the meeting. Notice of the Annual General Meeting and related papers are sent to shareholders at least 20 working days before the meeting.

Tim Score

Audit Committee overview

Dear Shareholder

2010 has been an excellent year for National Express as reflected in the results presented to you within this document. During the year the Committee has dealt with its usual programme of business as well as a range of one-off or new issues, some of which I detail below.

During 2010 one particular area of focus for the Audit Committee has been the Company's internal audit resource. For a number of years the Company has operated with a substantially outsourced internal audit function provided by PricewaterhouseCoopers LLP ("PwC"). During 2010 the Committee, on the advice of the Executive management, approved the transition of most internal audit services from PwC to an internal resource. The Company's internal audit function is now operating at full complement and has taken over from PwC in the Company's North America and UK operations. I would like to take this opportunity to thank PwC, on behalf of the Committee, for all of its assistance in those geographies. In Spain, PwC will continue to provide internal audit services to the Company's Spanish businesses and will be supported in this role by an internal audit manager from within the Company's internal audit team, who has responsibility for Spain.

Throughout 2010 the Committee has also been focusing on new developments that could potentially have an impact on the Company. These have ranged from new accounting standards such as IAS 1 (revised) and IFRS 7, to the introduction of new legislation such as the Bribery Act 2010. In relation to the Bribery Act, the Company's plans for compliance are well advanced and the Company is now awaiting the publication of final governmental guidance before finalising its policies and procedures.

Tim Score
Audit Committee Chairman

24 February 2011

Audit Committee

List of Members	Position
Tim Score	Chairman, Senior Independent Director
Roger Devlin	Non-Executive Director
Sir Andrew Foster	Non-Executive Director

The role of the Audit Committee

The Committee oversees the process for selecting the external auditor, assesses the continuing independence of the external auditor and recommends approval of the audit fee to the Board. It is responsible for ensuring that provision of non-audit services does not impair the external auditor's independence or objectivity. It discusses with the external auditor the nature and scope of the audit and any issues or concerns arising from the audit process. The Committee reviews the internal audit programme, considers major findings of the internal audit investigations and reviews management's financial reporting and risk management. The Committee reviews the half-year and annual financial statements and the effectiveness of the Company's internal control and risk management systems.

The Committee met twice in 2010. The agenda reflects the duties delegated to it by its terms of reference, details of which are summarised above. There are a number of standing items considered during the year such as consideration of the internal and external audit reports, review of the Annual Report and Accounts, review of the preliminary and half-year announcements, and review of the Corporate Governance Report.

At the invitation of the Committee, and as appropriate to the matters under discussion, meetings may be attended by the Executive Directors and internal and external auditors. Full minutes are kept by the Secretary of the matters considered and decisions taken by the Committee. Outside of the meeting process the Committee Chairman has regular contact with the Executive Directors, other Committee members and the auditors on a variety of topics.

Main activities during the year

Other items, in addition to the responsibilities noted above, that were considered and discussed during 2010 included:

- progress with the implementation of the Group's internal audit structure;
- review of the Group Risk Register;
- the results of the Annual Fitness Checks within the subsidiaries; and
- the external auditor's performance and fees.

Review of external auditors

The Audit Committee assesses and reviews on a regular basis the independence of the external auditors. As part of their determination the Audit Committee considers a report by the external auditors on the firm's independence which is required in order to carry out their professional duties and responsibilities as auditors.

Policy on auditors providing non-audit work

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

- services that are considered to have 'general pre-approval' by the Audit Committee, by virtue of the approval of the policy;
- services that require 'specific pre-approval', on a case-by-case basis, before any work can commence; and
- services that cannot be supplied by the external auditors ("prohibited services").

The services that have general pre-approval are tax, transaction investigation and advisory and corporate finance services. The fees for these services are pre-approved up to a level of 25% of the total fees paid to the external auditors. For services exceeding this limit specific pre-approval is required.

In deciding whether or not to grant approval for the provision of specific services by the external auditors, the Audit Committee includes in its consideration the following factors:

(i) whether the external auditing firm is best placed to provide an effective and efficient service, given its familiarity with the Company's processes, systems and people; and

(ii) the level of non-audit fees paid to the external auditors in the year as a proportion of the annual external audit fee.

The majority of non-audit work undertaken by the external auditors during the year relates to advice in respect of tax advisory and other regulatory services. These items the Committee believes would be impractical and costly to provide through another party.

John Devaney

Nomination Committee overview

Dear Shareholder

After a period of significant change within the Board at Group Chief Executive and Chairman level, 2010 has, upon Dean Finch taking up his appointment as Group Chief Executive in February, been a stable year for the Board of the Company. During 2010 the Nomination Committee has focused on reviewing the work undertaken by the Group Human Resources Director on succession planning and management development so as to ensure that appropriate systems are in place to develop the senior management of the Group so that, when the need arises, suitable internal candidates will be in place to compete for Board positions.

In 2011 the Committee will continue to assess the balance of skills, experience, knowledge and expertise on the Board as a whole to ensure it continues to match the needs of the Company going forward.

John Devaney
Nomination Committee Chairman

24 February 2011

Nomination Committee

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

Governance

The role of the Nomination Committee

The Committee is responsible for identifying and nominating, for the approval of the Board, candidates to fill Board vacancies as and when they arise. It will give full consideration to succession planning, and keep under review the leadership needs of the organisation, both Executive and Non-Executive. The Committee reviews the time required from a Non-Executive Director and uses performance evaluation to assess whether the Non-Executive Director is spending enough time on fulfilling their duties.

The Nomination Committee leads the process for Board appointments and makes recommendations to the Board. The Committee will prepare a description of the role and requirements for any particular appointment based on its evaluation of the Board as a whole.

The terms and conditions of appointment of the Non-Executive Directors are available for inspection at the Company's registered office during normal business hours and at the Annual General Meeting of the Company. The Non-Executive Directors disclose to the Board their other significant commitments. The procedures adopted by the Company in relation to Directors' conflicts of interest are detailed on page 44.

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

During the year the Committee reviewed succession planning for the Group.

Miranda Curtis

Safety and Environment Committee overview

Dear Shareholder

For National Express, as a business that transports people, a focus on safety is paramount. This unrelenting focus on safety has been demonstrated in a number of initiatives throughout the year.

During the first half of the year the Committee focussed on the Company's operations in Morocco where, from a safety point of view, the conditions are perhaps the most challenging amongst the territories in which the Company operates. The Committee commissioned a review of the Company's operations in Morocco by Arthur D. Little, the leading safety consultancy and as a result of this review a series of recommendations were presented to, and approved by, the Committee. These recommendations are now being implemented in our Moroccan operations.

In the second half of the year Arthur D. Little were again commissioned to develop a Group-wide safety development programme. This programme, which is branded 'Driving Out Harm' is championed by Dean Finch personally. To date, 13 courses, covering 220 of the Group's most senior managers, have been held and they will be followed by further training for middle and junior managers in 2011. In addition the programme has developed a series of Global Safety Standards which will be rolled out throughout the Group in 2011.

2010 also saw the development of new values for the National Express Group. Safety is first among these values. With the support of the Driving Out Harm programme, the Safety Committee is confident of further improving the Company's safety performance going forward.

In addition to its safety responsibilities the Committee also reviews the Company's environmental practices, procedures and record. In this area the Committee has reviewed reports on the CO_2 emissions of the Company's operations and the steps being taken to reduce those emissions. The Committee has also been monitoring the Government's Carbon Reduction Commitment and Climate Change Levy requirements.

Miranda Curtis

Miranda Curtis
Safety and Environment Committee Chairman

24 February 2011

Safety and Environment Committee

Name of Director	Position
Miranda Curtis	Chairman
Jorge Cosmen	Non-Executive Director
Roger Devlin	Non-Executive Director
John Devaney	Non-Executive Director
Sir Andrew Foster	Non-Executive Director
Tim Score	Senior Independent Director

The role of the Safety and Environment Committee

The Committee is responsible for reviewing and challenging constructively the structure, content and operation of the safety management arrangements put in place by members of the executive management of the Group's operating companies. It reports periodically to the Board its observations on the safety management arrangements in place and reviews and makes recommendations to the Board on any specific safety management issues relating to the Group or any subsidiary company.

Main activities during the year

During the year the Committee:

- visited Group locations to review safety practices and procedures;
- reviewed compliance by the North America division with the requirements of the Group's Health & Safety policy;
- monitored the progress of implementation of the Group's Health & Safety Plan 2009–2011; and
- considered the strategic aims of the business in relation to risk and liability and efficiency of energy use.

Directors' remuneration report

Roger Devlin

Remuneration Committee overview

Dear Shareholder

2010 has continued to see a growing focus on levels of executive remuneration within UK listed PLCs. The Association of British Insurers, NAPF and RREV have each issued or refined their guidance for the chairmen of remuneration committees during the year.

During 2010, the Remuneration Committee has, with the assistance of its independent remuneration consultants, Hewitt New Bridge Street, reviewed its practices and policies to ensure they are in line with what it perceives to be best practice and the Company's strategic objectives. As a result of this the following features have been introduced into elements of the remuneration package during 2010:

- Deferral into Company shares of part of the annual bonus of the Executive Directors;
- Provisions allowing clawback of part of the annual bonus of the Executive Directors in the event of a material misstatement of financial results becoming evident;
- Retention of two performance conditions in the Company's long-term incentive plan that ensure that executives are only rewarded over the longer-term for the achievement of challenging EPS growth conditions and relative outperformance of the Company's closest comparator companies on a TSR basis;
- The introduction of a safety performance improvement condition to any payment under the annual bonus plan for 2011; and
- An increase in the maximum bonus potential of the Executive Directors tied directly to margin improvement targets which form the backbone of the Company's strategic plan for 2011.

The Committee considers that the remuneration paid to our management team fairly reflects their performance during the year. The annual bonus paid out at 100% of maximum reflecting more than 110% of 2010 budgeted normalised profit being achieved. None of the 2008 LTIP awards vested as the challenging EPS and TSR targets set immediately prior to the awards being granted were not met.

We directors on the Remuneration Committee are clearly mindful of our role of balancing the increased focus by, and guidance from, stakeholders on remuneration issues with the need of the Company to attract and retain the best available talent. I believe in 2010 we have achieved an appropriate balance in this regard.

Roger Devlin
Remuneration Committee Chairman

24 February 2011

This report sets out the policy for the financial year just ended, for the forthcoming year and, subject to ongoing review, for subsequent years. The report has been approved by the Board and the Remuneration Committee (the "Committee"). Shareholders will be invited to approve the report at the 2011 Annual General Meeting.

Remuneration Committee

List of Members	Position
Roger Devlin	Chairman
Miranda Curtis	Non-Executive Director
Tim Score	Senior Independent Director

Role of the Remuneration Committee

The key responsibilities of the Committee are to:

- determine the fees of the Chairman;
- determine the remuneration and conditions of employment (including any termination arrangements) of the Executive Directors;
- approve the remuneration and conditions of employment of the Divisional Chief Executives and Company Secretary;
- review the remuneration and conditions of employment of the senior management team; and
- select and appoint any remuneration consultants who advise the Committee.

The full terms of reference of the Committee are available on the Company's website at www.nationalexpressgroup.com.
The members of the Committee who served during the year were all independent Directors.

Advisors to the Committee

The Committee has appointed independent remuneration consultants, Hewitt New Bridge Street ("HNBS") to advise on all aspects of senior executive remuneration. HNBS has no other connection with the Group other than in the provision of advice on executive and employee remuneration.

Dean Finch, the Group Chief Executive, provided advice to the Remuneration Committee in respect of the remuneration of the senior executive team (other than himself).

Activities in 2010

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

- Executive Directors' and senior executives' salary levels;
- Annual bonus scheme terms for 2010;
- Review of the Non-Executive fees;
- The total shareholder return comparator group used in the Long Term Incentive Plan's performance condition;
- 2010 award levels under the Company's share plans;
- Recruitment packages for new senior executives;
- Testing of performance conditions and vesting of Long Term Incentive Plan awards granted in 2007;
- Long Term Incentive Plan entitlements upon redundancy; and
- Outline of 2011 bonus scheme.

The Committee's recommendations in 2010 were all accepted and implemented by the Board.

Remuneration of Non-Executive Directors

The fees of the Non-Executive Directors are set by the Board as a whole and those of the Chairman are set by the Remuneration Committee in both cases following an annual review. The review takes account of fees paid for similar positions in the market, the time commitment required from the Director (estimated to be 100 days per year for the Chairman and 20 days per year for the other Non-Executive Directors) and any additional responsibilities undertaken, such as acting as Chairman to one of the Board Committees or fulfilling the role of Senior Independent Director. Non-Executive Directors are not eligible to receive pension entitlements or bonuses and may not participate in share option schemes.

	2010 £	2009 £
Chairman's fee	**225,000**	225,000
Non-Executive Director basic fee	**44,000**	44,000
Senior Independent Director additional fee	**5,000**	5,000
Committee Chairman additional fee	**7,000**	7,000

For 2011 the basic fee for acting as a Non-Executive Director will increase to £45,500 and the fee for chairing a Committee will increase to £10,000. There will be no increase in the additional fee paid to the Senior Independent Director nor to the fee of the Chairman.

Remuneration policy for Executive Directors

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

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

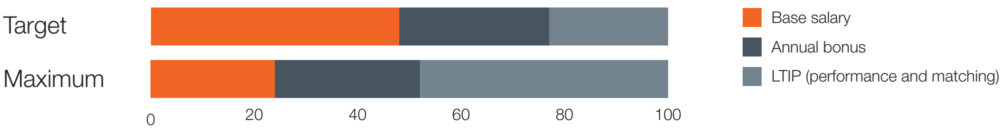
The objective of this policy is aligned with the recommendation of the UK Corporate Governance Code on Directors' remuneration. That is to provide a level of remuneration "to attract, retain and motivate Directors of the quality required to run the Company successfully, but avoid paying more than is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

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

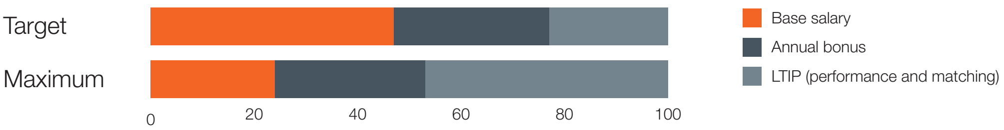
Remuneration policy is reviewed on an ongoing basis against the Committee's broad principles and in light of emerging best practice in corporate governance. The Committee believes that it continues to take into account the principles of sound risk management when setting pay. Appropriate liaison takes place between the Remuneration and Audit Committees as part of an effective remuneration risk assessment process. In line with the Association of British Insurers' ("ABI's") Guidelines on Responsible Investment Disclosure, the Committee ensures that the incentive structure for Executive Directors and senior management will not raise environmental, social or governance ("ESG") risks by inadvertently motivating irresponsible behaviour. More generally, with regard to the overall remuneration structure, there is no restriction on the Committee which prevents it from taking into account corporate governance on ESG matters and it takes due account of issues of general operational risk when structuring incentives. The Committee takes due account of remuneration structures elsewhere in the Group when setting pay for the Executive Directors (for example, consideration is given to the overall salary increase budget and the incentive structures that operate across the Group).

The Group operates a leadership and development programme which includes an appraisal system for Directors and senior management. In 2010 the appraisal system used balanced scorecards to assess performance against financial, customer, operational and people objectives. The results of the annual appraisal system are taken into consideration when setting remuneration levels.

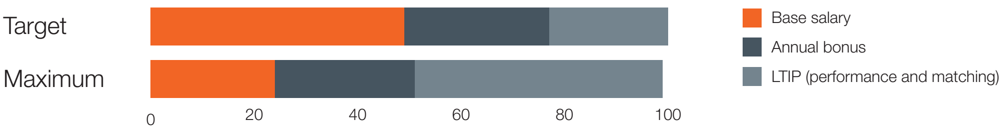
2010: Fixed and variable pay: Average Executive Director at target and maximum performance levels



2011: Fixed and variable pay: Group Chief Executive at target and maximum performance levels



2011: Fixed and variable pay: Group Finance Director at target and maximum performance levels



Fixed versus variable remuneration

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

Elements of remuneration[1]

Summary of the components of the Executive Directors' remuneration.

	Objective	Performance period	Policy
Basic salary	To position at a competitive level for similar roles within comparable markets	Annually	Individual pay levels (using comparable mid-market data for guidance) as appropriate are determined by reference to the individual's performance, experience in post and potential
Performance related bonus	To incentivise delivery of performance objectives	1 year	Bonus payments are based on the achievement of specified corporate (70% financial and 30% non-financial) objectives
Pension	To provide competitive benefits in line with market practice and to act as a retention mechanism and reward long service	Ongoing	The policy is to provide market competitive retirement benefits or, depending on individual circumstances, to provide a cash alternative with which the executive may make his own arrangements. Only basic salary is pensionable
Long Term Incentive Plan	To drive performance, aid retention and align the interests of Executive Directors with shareholders	3 years	Half of any award is subject to EPS growth. The remaining half is subject to the relative total shareholder return ("TSR") of the Company compared against a bespoke peer group
Other benefits	To provide competitive benefits in line with market practice	Ongoing	Executive Directors receive a fully expensed car, private health and long-term sickness insurance. A cash alternative may be provided according to individual circumstances

1 Awards granted to Directors in respect of buy-out of share awards lost upon leaving previous employment have not been included as an element of remuneration and they are not recurring.

(i) Basic salary

The salary of individual Executive Directors is reviewed at 1 January each year. Account is taken of the performance of the individual concerned, together with any change in responsibilities that may have occurred and the rates for similar roles in two comparator groups of companies. The comparator groups for the 2010 financial year were (i) a group of transport/leisure sector companies and (ii) a group of companies from the FTSE Mid 250 drawn from across all sectors. The constituents of each group were selected to be broadly reflective of the size (market capitalisation and turnover) and complexity of National Express at the time of completing the review. For 2011 the comparator groups will be based on similar groups of transport/leisure and general sector companies drawn from the FTSE 250.

In setting the Executive Directors' remuneration, due account is taken of the salary budget for the Group as a whole and the policy that is applied across all employees when setting individual salary levels. In line with this policy, the performance of each Executive Director is taken into account along with the results of comparative benchmarking. In light of these factors, and after taking into account broader economic conditions, salary levels are then set by the Committee. In 2010 employees received an inflationary uplift but Executive Directors were not awarded a pay increase. In 2011 Dean Finch's salary will increase to £550,000 and Jez Maiden's salary to £420,000. The salary of Dean Finch upon appointment was set at a level which the Committee believed was reasonable given that he had not previously held the post of Group Chief Executive of a listed company. The benchmarking undertaken by the Committee, taken together with Mr Finch's demonstrable achievements since his appointment, indicated that a salary of £550,000 was now appropriate for Mr Finch. Mr Maiden's salary was also subject to a benchmarking exercise and performance appraisal which the Committee believes justifies a salary of £420,000.

(ii) Performance related bonus

The maximum potential bonus payable to Executive Directors in 2010 was 100% of salary. 70% of the bonus payable was based on financial targets and 30% based on non-financial targets. The non-financial targets encompassed customer, operational excellence and people objectives. The financial target set for 2010 was normalised profit (the definition of normalised profit is set out in the Glossary on page 150.

In relation to the proportion of the bonus determined by performance against financial targets, Executive Directors receive 25% of the bonus upon achieving 95% of budget, 50% of the bonus upon achieving budget and 100% upon achieving a stretch target which, for 2010, was 110% of budget.

The targets set in relation to non-financial performance are key strategic Group objectives that are tailored to the responsibilities of each individual Executive Director and, in aggregate, are considered to be similarly challenging to the range of financial targets set. In addition, no bonus in respect of non-financial performance is payable unless 95% of the Group's normalised profit budget is achieved. Irrespective of the performance achieved in respect of the financial and non-financial performance targets, the Committee will, in exceptional circumstances, have the ability to scale back (to zero) bonus awards based on safety performance if it feels that there are sufficiently extenuating circumstances.

In terms of actual performance against the financial targets set for the financial year under review, more than 110% of budgeted normalised profit was delivered resulting in a bonus payable of the financial targets of 70% of salary. In terms of performance against non-financial targets, the performance delivered resulted in the full 30% of targets being achieved. In total, bonuses were payable at 100% of salary.

Bonuses awarded in 2009 were deferred for a period of one year and vested, subject to the terms of the award and the relevant Director's continuing employment, on 10 March 2010. Half of each award was a cash deferred bonus conditional upon the continued employment of the relevant director. The other half of the award was converted into deferred forfeitable ordinary shares of the Company. Both cash deferred bonus and the deferred forfeitable ordinary shares were awarded under the terms of The National Express Group Executive Deferred Bonus Plan.

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

	As at 1 January 2010								
	Cash Award	Deferred Shares Award	Granted	Exercised	Lapsed	At 31 December 2010	Option price	Market price at date of vesting	Date of vesting
Jez Maiden	£16,000	15,241	–	15,241	–	–	–	218.9p	10.03.10
Ray O'Toole (resigned as director 5 May 2010)	£115,178	109,721	–	109,721	–	–	–	218.9p	10.03.10

The principal terms of awards under the Executive Deferred Bonus Plan ("EDBP") are summarised below:

- Awards under the Plan may be cash awards, conditional awards or forfeitable shares awards.
- Awards normally vest one year from the date of grant, subject to the relevant Director's continued employment with the Company.
- The Committee may decide that Participants shall be entitled to receive a benefit determined by reference to the value of the dividends that would have been paid on the vested shares in respect of dividend record dates occurring during the period between the Grant date and the date of vesting.
- The awards will normally lapse on cessation of employment save in certain compassionate "good leaver" circumstances (eg death or disability).
- In the event of a variation of the share capital the Committee may make such adjustments to the awards as it considers appropriate.

For 2011 bonus payments will be based on a similar structure but with the maximum potential bonus opportunity increasing to 125% of salary for Dean Finch and 112.5% of salary for Jez Maiden. The additional 25% and 12.5% of salary respectively will be awarded by reference to a challenging sliding scale of margin improvement targets which, along with normalised profit, reflect the key short-term objectives of the Group. In light of the fact that bonuses are to operate in 2011 with higher maximum potential reward, 25% of any bonus earned will be the subject of a mandatory deferral into the Company's shares for a period of one year. Since the deferred shares will be awarded under the EDBP, receipt of the deferred shares will be subject to continued service and the same 'good leaver' provisions and other terms as noted above. The 2011 bonus will also operate with an additional clawback feature that would require the deferred shares to be forfeited or repaid should it be necessary for the Company to restate materially its 2011 results within a two year period following the deferred bonus being awarded. The proportion of the bonus that would be the subject to a clawback would depend on the extent to which the original bonus payment turned out to be false following the publication of corrected results. In addition, the Committee has decided that no bonus will be awarded unless there is a continued improvement in safety statistics in 2011 in place of the more general safety override that is described above in respect of the annual bonus year under review.

(iii) Pensions

Under the terms of their service agreements, Executive Directors are either entitled to become members of one of the Group pension schemes or to receive payment of a fixed percentage of salary.

Ray O'Toole was a member of The National Express Group Staff Pension Plan ("the Plan") until 7 April 2006. This Plan is an HM Revenue & Customs ("HMRC") approved defined benefit scheme. The benefits from this Plan are subject to HMRC limits. Spouses' pensions are provided in accordance with the terms of the Plan. Life assurance of four times' basic annual salary is provided for the Executive Directors. From 7 April 2006, Ray O'Toole has received a salary supplement of 44% in lieu of pension contributions.

Dean Finch and Jez Maiden are not members of a company pension scheme. Dean Finch receives a 35% salary supplement and Jez Maiden receives a 25% salary supplement in lieu of pension contributions.

(iv) Incentive scheme and share options

(a) Long-term incentive arrangements

The National Express Group Long Term Incentive Plan ("LTIP") was approved by shareholders at the 2005 Annual General Meeting and operates as the Company's sole type of executive long term incentive arrangement. The LTIP consists of annual awards of performance and matching shares. Details of the plan are provided below.

Performance shares

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

Matching shares

Executive Directors are also eligible to receive awards of matching shares that are based on a personal investment in National Express Group PLC shares funded either through a personal investment (for example using an annual bonus award) or through pledging of shares not already allocated to the LTIP. The maximum matching award is restricted to 100% of basic salary and matching awards are made on the basis of up to two matching shares being awarded on a net of tax basis for each National Express share pledged or purchased from net of tax income. Matching share awards are also conditional on the performance conditions set out below.

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

Performance conditions

There are normally two distinct performance conditions applying to awards made. First, the performance condition attached to one-half of an award (Part "A") is based on the Company's normalised diluted earnings per share ("EPS") growth performance in excess of inflation over a fixed three-year period (three financial years commencing with the financial year in which the award is made). The performance condition attached to the other half of an award (Part "B") is based on the Company's Total Shareholder Return ("TSR") performance over the same fixed three-year period relative to the TSR performance of a comparator group of up to around 20 transport companies taken predominantly from the FTSE Industrial Transportation and FTSE Travel & Leisure sectors. The companies comprising the comparator group have been chosen on the basis of their comparability to National Express Group PLC (based on their size and scope of business operations). There is no ability to retest either performance condition. EPS and TSR have generally been chosen for the LTIP as the most appropriate measures of the Group's long term performance, since EPS is an important growth measure and driver and TSR improves shareholder alignment and is consistent with the Company objective of providing superior long-term returns to shareholders.

For awards made in 2008 Parts A and B will vest to the extent that the performance conditions set out in the tables below are met:

Average growth in the Company's normalised diluted EPS* in excess of inflation ("CPI")*	Percentage of Part A that vests
Less than 3%	0%
3%	30%
6%	100%
Between 3% and 6%	30%–100% pro rata

* Normalised diluted earnings per share and CPI are as defined in the Glossary on page 150.

Rank of the Company's Total Shareholder Return against a bespoke comparator group of transport companies (as noted above)	Percentage of Part B that vests
Below median	0%
Median	30%
20th percentile	100%
Between median and 20th percentile	30% and 100% pro rata

Exceptionally in 2009, relative TSR was applied as the sole performance condition as the prevailing economic conditions made it difficult to set a robust range of earnings targets at National Express.

However, to ensure that the relative condition was supported by improved underlying financial performance, the awards made in September 2009 were also subject to an earnings underpin that will apply to the extent that the performance condition set out in the table below is met:

Rank of the Company's Total Shareholder Return against a bespoke comparator group of transport companies (as noted above)	Percentage that vests
Below median	0%
Median	30%
20th percentile	100%
Between median and 20th percentile	30% and 100% pro rata

For Awards granted in 2010, it was considered appropriate to return to the use of relative TSR in tandem with a challenging range of EPS growth targets. As a result, the awards were granted in two parts with Part A vesting to the extent that the EPS performance condition set out below is met and Part B vesting based on the same sliding scale of TSR targets set out above. The TSR peer group applying to the awards granted in 2010 was an appropriately weighted group of transport-related comparator companies.

EPS for the financial year ending 31 December 2012	Percentage of Part A that vests
Less than 23 pence	0%
23 pence	30%
28 pence	100%
Between 23 pence and 28 pence	30%–100% pro rata

The following table sets out the percentage of each extant award that would have vested if the performance conditions had been tested as at 31 December 2010 (without making any allowance for pro rata reduction for any period of less than three years).

Indicative percentage of LTIP awards vesting based on performance to 31 December 2010

Year of award	TSR element[1]	EPS element[1]	Total (max 100%)
2008	0.00%	0.00%	0.00%
2009	70.10%	Not applicable	70.10%
2010	37.04%	100%	87.04%

[1] For 2008 and 2010 TSR applies to 50% of the award and EPS applies to 50% of the award. For 2009 TSR applies to 100% of the award.

To determine vesting of LTIP awards, the Committee retains independent consultants to test the proportion of an award vesting under the relative TSR test and then reviews the conclusion of this analysis before shares formally vest. With regard to the EPS targets, vesting is based on the Company's audited results with liaison, as required, between the Audit and Remuneration Committees.

(b) Savings Related Share Option Scheme ("Sharesave Scheme")
The Company operates an HMRC approved Sharesave Scheme which is open to all UK employees, including the Executive Directors, who have completed at least six months' service at the date of grant. The options are exercisable after three years at a discount of 10% to the market value of the shares at the time of grant.

Performance criteria

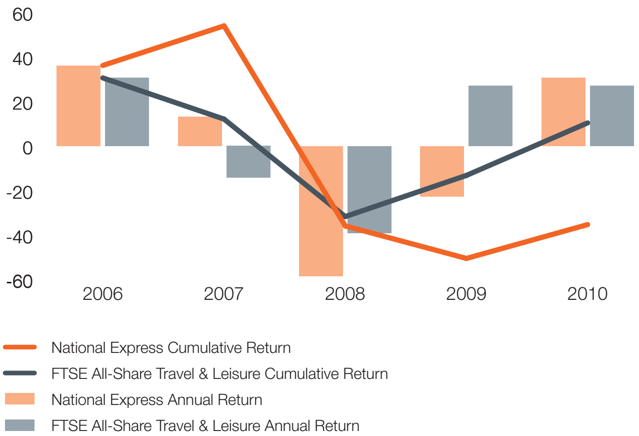
The Committee believes that budgeted profit and/or EPS growth as performance measures for the discretionary bonus scheme and long term incentives, in most normal circumstances, provide a transparent and accessible method of gauging the performance of the Company. The Company calculates performance against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

As noted earlier, it is currently intended that the performance targets that will apply to awards granted in 2011 will again be an equal blend of EPS and TSR. If it were considered appropriate to make any fundamental changes to the performance targets in 2011, it is anticipated that this would be accompanied by a consultation with major shareholders.

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

Total shareholder return versus FTSE All-Share Travel & Leisure Index

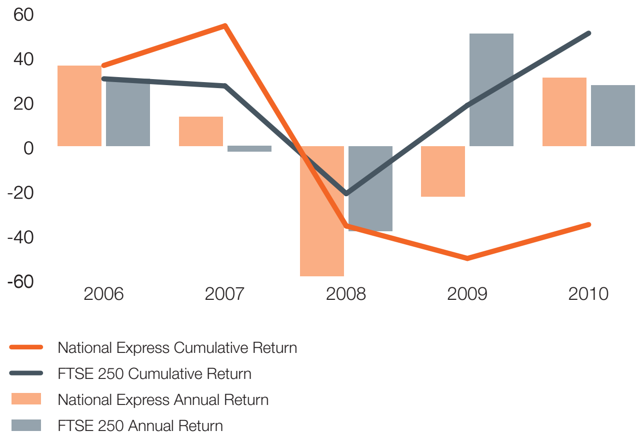
Source: Thomson Reuters



Each point plotted on the graph above represents the total cumulative shareholder return on an investment made in National Express Group on 31 December 2005 compared with an investment in the FTSE All-Share Travel & Leisure Index, with the corresponding annual returns.

Total shareholder return versus FTSE 250 Index

Source: Thomson Reuters



Each point plotted on the graph above represents the total cumulative shareholder return on an investment made in National Express Group on 31 December 2005 compared with an investment in the FTSE 250 Index, with the corresponding annual returns.

Directors' service contracts, notice periods and termination payments

Executive Directors

The contract dates and notice periods for the Executive Directors are as follows:

Director	Contract date	Notice period from the Company	Notice period from the Director
Jez Maiden	17 November 2008	12 months	12 months
Dean Finch	16 December 2009	12 months	6 months
Former Director			
Ray O'Toole (resigned as a director 5 May 2010)	11 September 2003	12 months	6 months

The service contracts of all the Executive Directors, which are rolling contracts, contain a provision, exercisable at the option of the Company, to pay an amount on early termination of employment equal to one year's salary or, in the case of Dean Finch, one year's salary, salary supplement in lieu of pension and car allowance. The Company will use the payment in lieu of notice provisions when the speed, certainty and protection of restrictive covenants afforded by such clauses are thought to be in the best interests of the Company and the circumstances surrounding the departure of the relevant Director justify their use.

The service contract of Ray O'Toole has a further provision that, where the Company initiates a termination, other than for cause, within six months of a change of control taking place the Company will exercise its option to make a payment in lieu of notice of an amount equal to the salary and benefits that the Director would have received during the notice period.

The service contract of Dean Finch contains a provision that, if there is a change of control within 24 months of his commencement date and directly or indirectly in connection with it the Company initiates a termination, other than for cause, or Dean Finch serves notice of termination on the Company on account of provable constructive dismissal, then the period of notice required from the Company will increase to 24 months. The Company waives any requirement for the Director's duty to mitigate his losses in respect of such termination in these circumstances. This clause, while not reflective of the Company's policy, was considered necessary by the Committee to facilitate the appointment of Dean Finch given that the Company had been formally approached in relation to a takeover during the year in which he was recruited.

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

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

Executive Directors' external appointments

Under the terms of their service agreements, Board approval is required before any external appointment may be accepted by an Executive Director. The Executive Director is permitted to retain any fees paid for such services. Details of fees received by Executive Directors in 2010 are as follows:

Jez Maiden	£36,000	(Yule Catto & Co plc)

Non-Executive Directors

The Non-Executive Directors do not have service contracts with the Company but are appointed for an initial three-year term. Non-Executive Directors are typically expected to serve for two three-year terms, although their appointment can be terminated either by them or the Company on one month's written notice. It is open to the Company to invite a Non-Executive to serve for a further period after the expiry of two three-year terms. All Directors are required to stand at least once every three years for re-appointment by shareholders. The original appointment dates of the Chairman and Non-Executive Directors are:

Jorge Cosmen	1 December 2005
Miranda Curtis	1 June 2008
John Devaney	2 April 2009
Roger Devlin	1 October 2007
Sir Andrew Foster	1 August 2004
Tim Score	21 February 2005

Senior executive remuneration

The Remuneration Committee reviews and notes the salaries of senior executives within the Group. The salaries of this group of employees by band are as follows:

Salary band £000	Number of executives 2010
>201–410	**7**
>151–200	**7**
>101–150	**38**
>75–100	**44**

Information subject to audit: Directors' remuneration

Directors' emoluments

	Salary/fees £000	Performance related bonus £000[4]	Benefits[1] £000	Benefits in lieu of pension £000	**Total 2010[2] £000**	Total 2009 £000
Executive Directors						
Dean Finch (appointed 15 February 2010)	690	500	13	153	**1,356**	–
Jez Maiden	400	400	23	100	**923**	621
Former Executive Directors						
Ray O'Toole (resigned 5 May 2010)	472	400	24	176	**1,072**	644
Richard Bowker (resigned 10 July 2009)	–	–	–	–	**–**	465
Non-Executive Directors						
John Devaney (Chairman)[3]	250	–	–	–	**250**	315
Tim Score (Senior Independent Director)	56	–	–	–	**56**	76
Jorge Cosmen (Deputy Chairman)	44	–	–	–	**44**	44
Miranda Curtis	51	–	–	–	**51**	51
Roger Devlin	51	–	–	–	**51**	53
Sir Andrew Foster	44	–	–	–	**44**	44

1 Benefits in kind include a company car, fuel, life assurance and health insurance. Relocation expenses of £100,000 were also incurred in respect of Jez Maiden.

2 Total remuneration excludes Company pension contributions which are shown below.

3 John Devaney received a temporary additional fee in 2010 for the period during which he held the role of Executive Chairman.

4 Ray O'Toole's 2010 bonus was calculated solely on the basis of the Company's financial performance using the same stretch targets as applied to the continuing directors.

Former Director

Ray O'Toole stepped down as an Executive Director of the Company on 5 May 2010. He will remain in full time employment with the Group until 4 May 2011. He will continue to receive his usual salary and benefits in accordance with the terms of his contract until this date. On 4 May 2011 Ray O'Toole will receive, in accordance with his contractual entitlements any accrued but unused holiday entitlement. On retirement, any unvested awards held by Ray O'Toole under the Long Term Incentive Plan (the "Plan") shall vest subject to a pro-rating reduction and the fulfilment of the applicable performance conditions in accordance with the rules of the Plan.

Pensions

Pension benefits earned by Directors in the year to 31 December 2010 from both the approved and unapproved plans were:

	Age	NRA[1]	Accrued benefit at 1 January 2010 £000	Increase in period (net of indexation) £000	Transfer value of increase in period £000	**Accrued benefit at 31 December 2010 £000**	Transfer value at 1 January 2010 £000	**Transfer value at 31 December 2010 £000**	Movement in transfer value during period less Director's contributions £000
Ray O'Toole (resigned as a director 5 May 2010)[2]	55	60	38.2	(0.6)	–	**37.6**	842.6	**845.1**	2.5

1 Normal Retirement Age.
2 Ray O'Toole ceased to accrue pension benefits on 7 April 2006.

Directors' shareholdings

Directors' interests and transactions

The beneficial and non-beneficial interests of the Directors in office as at 31 December 2010 are shown below:

	At 31 December 2010[1]	At 1 January 2010 or on appointment if later	Change from 31 December 2010 to 24 February 2011
Executive Directors			
Dean Finch	**68,275**	–	–
Jez Maiden	**116,347**	77,255	–
Non-Executive Directors			
Jorge Cosmen	**88,860,685**	92,591,971	–
John Devaney	**66,666**	66,666	–
Roger Devlin	**65,916**	20,961	–
Miranda Curtis	**–**	–	–
Sir Andrew Foster	**22,893**	14,160	–
Tim Score	**–**	–	–
Former Executive Director			
Ray O'Toole (resigned 5 May 2010)	**146,757**	146,757	N/A

(The above table is not subject to audit.)

1 For Ray O'Toole as at date of resignation.

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

Sharesave Share Option Awards

	At 1 January 2010	During year Granted	During year Exercised	During year Lapsed	**At 31 December 2010**	Option price	Market price at date of exercise	Date from which exercisable	Expiry date
Former Executive Director									
Ray O'Toole (resigned 5 May 2010)	600	–	–	–	**600**	479.01p	–	01.11.11	30.04.12

Governance

Conditional award of shares to Dean Finch

As disclosed in last year's Directors' Remuneration Report, in relation to his appointment as Group Chief Executive, the Committee granted Dean Finch share awards under a one-off arrangement in accordance with Listing Rule 9.4.2 (2). The Committee felt that the award was appropriate to provide compensation for share arrangements forfeited in the process of joining National Express Group PLC and assisted with his recruitment and provided alignment with the interests of the Company's shareholders.

The share award comprised two parts, an award of 28,023 shares (the "First Award") and an award of 18,281 shares (the "Second Award"). Each award is structured as an award of forfeitable shares. Subject to the terms of the awards, the First Award and Second Award will ordinarily vest on 1 April 2011 and 1 April 2012 respectively. At the time of vesting the relevant shares subject to the awards will cease to be subject to a risk of forfeiture.

In connection with the awards, a cash payment was also made to Dean Finch of equal value to the prevailing market value of 32,177 ordinary shares in National Express Group PLC. This was also agreed at the time of recruitment in compensation for forfeited remuneration in relation to joining the Company.

In addition, as part of compensation for remuneration forfeited on joining National Express, and to align Dean Finch with other key executives, it was agreed that he would also receive separate awards of performance shares and matching shares under the LTIP. These awards were each equal in value to £500,000 at grant and comprised his sole LTIP awards in 2010. These awards were subject to the same performance targets described above.

The Matching Award was granted on the basis of shares acquired from a cash payment of £254,250 that was made in lieu of remuneration forfeited in joining National Express Group PLC.

Conditional award of shares to Jez Maiden

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

The award comprised three parts, an award over 21,074 shares (the "First Award"), an award over 21,075 shares (the "Second Award") and an award over 28,666 shares (the "Third Award"). Each award is structured as a conditional right to free shares, the terms of which were set after taking account of Jez Maiden's forfeited awards (which included performance and non-performance awards).

The First and Second Awards have now vested with the Third Award, subject to the terms of the Award, due to vest on 17 November 2011. The extent of vesting of the Third Award is also dependent on the satisfaction of performance targets assessed over a three-year performance period.

The performance targets applying to the Third Award are identical to those set for the 2008 LTIP awards, details of which are set out above (a mix of earnings per share and shareholder return targets).

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

		At 1 January 2010[3]	During year			At 31 December 2010	Option price	Market price at date of exercise	Date of vesting
			Granted	Exercised	Lapsed				
Dean Finch	First Award[1]	–	28,023	–	–	**28,023**	–	–	1.4.11
	Second Award[1]	–	18,281	–	–	**18,281**	–	–	1.4.12
Jez Maiden	Second Award	40,565	–	40,565	–	**–**	–	233.7p	17.11.10
	Third Award[2]	55,176	–	–	–	**55,176**	–	–	17.11.11

Notes

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

2 The extent of vesting of the Third Award will be dependent on the satisfaction of performance targets assessed over a three year performance period. The performance targets applying to the Third Award are identical to those set for the 2008 LTIP awards, details of which are set out above (a mix of earning per share and shareholder return targets).

3 The number of shares subject to The First Award, the Second Award and the Third Award was adjusted to incorporate the effects of the Rights Issue, effective 15 December 2009 and multiplied by a factor of 1.9248. The adjustment process is standard practice and results in the impact of the Rights Issue being neutral on outstanding awards (where the Rights Issue is undertaken at a discount as was the case at National Express) and ensures consistency of treatment (in value terms) between shareholders and award holders.

Long Term Incentive Plan ("LTIP") Awards

Performance shares of 1 x salary are awarded to Executive Directors as nil cost options under the Long Term Incentive Plan. In addition 100 matching shares are awarded for every 30 investment shares pledged or invested by the Director under the share matching element of the LTIP. Further details of the LTIP and the performance conditions that have applied to each award below are shown on page 57.

	LTIP Share Awards	At 1 January 2010	During year Granted	During year Exercised	During year Lapsed[1]	**At 31 December 2010**	Market price on date of award	Market price at date of exercise	Date from which exercisable	Expiry date
Dean Finch	Performance Shares	–	227,272	–	–	**227,272**	220.3p	–	15.03.13	15.09.13
	Matching Shares	–	227,270	–	–	**227,270**	220.3p	–	15.03.13	15.09.13
Jez Maiden	Performance shares	176,342	–	–	–	**176,342**	405.0p	–	01.09.12	01.03.13
	Matching shares	132,637	–	–	–	**132,637**	405.0p	–	01.09.12	01.03.13
	Performance shares	–	174,672	–	–	**174,672**	230.0p	–	01.04.13	01.10.13
	Matching shares	–	174,670	–	–	**174,670**	230.0p	–	01.04.13	01.10.13
Ray O'Toole (resigned 5 May 2010)	Performance shares	54,681	–	–	54,681	**–**	1320.0p	–	11.04.10	11.10.10
	Performance shares	77,573	–	–	–	**77,573**	992.5p	–	10.04.11	10.10.11
	Matching shares	12,830	–	–	–	**12,830**	992.5p	–	10.04.11	10.10.11
	Performance shares	193,251	–	–	–	**193,251**	405.0p	–	01.09.12	01.03.13
	Matching shares	193,249	–	–	–	**193,249**	405.0p	–	01.09.12	01.03.13
	Performance shares	–	174,672	–	–	**174,672**	230.0p	–	01.04.13	01.10.13
	Matching shares	–	174,670	–	–	**174,670**	230.0p	–	01.04.13	01.10.13

Notes

1 Performance and matching shares granted under the LTIP on 11 April 2007 lapsed on 11 April 2010. TSR performance had been such as to result in 0% of that part of the performance and matching share awards that were subject to the TSR performance condition to vest and the EPS performance had been such as to result in 0% of that part of the performance and matching share awards that were subject to the EPS performance condition to vest.

In respect of the operation of the Long Term Incentive Plan the Company operates the National Express Group Employee Benefit Trust which currently holds 429,222 shares as at 24 February 2011.

The Register of Directors' Interests maintained by the Company contains full details of the Directors' holdings of shares and options over shares in the Company. No LTIPs vested during the year. The aggregate value of the LTIPs which vested in 2009 was £92,021. The mid-market price of the Company's ordinary shares at 31 December 2010 was 251p (2009: 191.9p) and the range during the year ended 31 December 2010 was 259.6p to 194p.

By order of the Board

Roger Devlin
Director and Chairman of the Remuneration Committee

24 February 2011

Directors' report

The Directors present their annual report and the audited financial statements for the year ended 31 December 2010.

Principal activities

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

Business review

Reviews of the business, likely future developments and details of principal risks and uncertainties as required by Section 417 of the Companies Act 2006 and paragraph 4.1.8R of the Disclosure and Transparency Rules of the Financial Services Authority (the "DTRs") can be found in the following pages and are incorporated by reference into this report.

- Group Chief Executive's review on pages 4 to 8.
- Performance and Financial Review on pages 30 to 33.

Branches outside the UK

The Company has branches in Spain.

Results and dividends

The profit on ordinary activities before tax from continuing operations for the year ended 31 December 2010 was £40.2 million (2009: loss of £83.5 million) and a profit attributable to equity shareholders of £61.4 million (2009: loss of £53.5 million) was transferred to reserves.

The Directors recommend a final dividend for the year of 6p per ordinary share (2009: nil). No interim dividend was paid during the year (2009: nil). Subject to shareholder approval, the final dividend of 6p per ordinary share will be paid on 13 May 2011 to ordinary shareholders on the register of members at the close of business on 26 April 2011.

Directors

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

John Devaney
Dean Finch (appointed 15 February 2010)
Miranda Curtis
Jorge Cosmen
Roger Devlin
Sir Andrew Foster
Jez Maiden
Ray O'Toole (resigned 5 May 2010)
Tim Score

Directors are appointed by ordinary resolution at a general meeting of ordinary shareholders. The Directors have the power to appoint a Director during the year but any person so appointed must be put up for appointment at the next Annual General Meeting. One-third of the Directors, or the number nearest to but not exceeding one-third, must retire from office at each Annual General Meeting. A retiring Director is eligible to stand for re-appointment. Any Director who has held office for three years or more since their last appointment must retire and offer themselves for re-appointment. In accordance with the provisions of the Articles of Association of the Company, Jez Maiden and Roger Devlin will retire by rotation at the 2011 Annual General Meeting and, being eligible, will offer themselves for re-election. Ray O'Toole resigned as Director of the Company on 5 May 2010. The names and biographies of the current Directors of the Company appear on pages 40 to 41. Details of the remuneration of the Directors, their interests in shares of the Company and service contracts are contained in the Directors' Remuneration Report on pages 51 to 63.

Corporate Governance

A full report on corporate governance including the Company's corporate governance statement can be found in the Governance section of this document and is incorporated by reference into this report.

Directors' interests in contracts

Except as stated in note 36 on page 131, no contract existed during the year in relation to the Company's business in which any Director was materially interested.

Directors' Liability Insurance

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

Events after the balance sheet date

There have been no important events of the Company or its subsidiaries after the balance sheet date.

Employment policies

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

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

Employee involvement

The Group encourages employee involvement in its affairs. Subsidiary companies produce a range of internal newsletters and circulars which keep employees abreast of developments. Senior management within the Group meet regularly to review strategic developments and a Management Conference is held annually to bring our senior managers together to share ideas and develop policy. Dialogue takes place regularly with Trade Unions and other employee representatives on a wide range of issues. Employees are able to share in the Group's results through various employee share schemes.

Employee views are also sought through regular employee satisfaction questionnaires, both within business units and across the Group. Following such surveys, results are shared with employees and action plans are put in place to deal with issues arising. The Group's Innovation programme gives high priority to employee engagement as well as seeking the opinions of our customers.

The Group places considerable emphasis on the development of its employees through individual development plans. A scheme to focus on the identification and development of our high potential staff was launched in 2010. Succession plans are in place in each business and these are monitored by the Board.

Environmental policy

Information on the Group's environmental initiatives can be found in the Corporate Responsibility Review on page 36 and in the Corporate Responsibility section of the Company's website, www.nationalexpressgroup.com, where you will find Corporate Responsibility reports, policies and other information.

Charitable and political contributions

Charitable donations made during the year totalled £151,000 (2009: £187,000). It is the Group's policy not to make political donations and accordingly none were made in the year. However, the Company did attend and sponsor various political events during the year for which total expenditure was £14,000 (2009: £11,000).

Creditors' payment policy and practice

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

Trade creditor days of the Company for the year ended 31 December 2010 were 23 days (2009: 20 days) based on the ratio of Company trade creditors at the end of the year to the amounts invoiced during the year by trade creditors.

Financial instruments

Details of the use by the Company and its subsidiaries of financial instruments and any related risk management objectives and policies (including hedging policy) and exposure (including price, credit, liquidity or cash flow risk) of the Company in connection with such financial instruments can be found in the Notes to the Consolidated Accounts on pages 116 to 119 and are incorporated by reference into this report.

Major shareholdings

Disclosures of major shareholdings notified to the Company pursuant to DTR5 are shown on page 46 and these disclosures are incorporated by reference into this report.

Share capital and rights attaching to the Company's shares

Under the Company's Articles of Association, any share in the Company may be issued with such rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise as the Company may from time to time by ordinary resolution determine (or, in the absence of any such determination, as the Directors may determine).

At 31 December 2010, the Company's issued share capital consisted of a single class of ordinary shares with a nominal value of 5p. At a general meeting of the Company every member has one vote on a show of hands and on a poll one vote for each share held. The Notice of Meeting accompanying this document, specifies deadlines for exercising voting rights either by proxy or by being present in person in relation to resolutions to be passed at a general meeting. Details of the authorised and issued share capital of the Company and details of shares issued during the year can be found in note 32 on page 120.

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

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

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

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

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

Resolutions will be proposed at the 2011 AGM to authorise the Directors to exercise all powers to allot shares, or grant rights for, or to convert any security into, shares, and approve a limited disapplication of statutory pre-emption rights. Details are set out in the Notice of Meeting accompanying this document.

The Company was granted authority at the AGM in 2010 to purchase its own shares up to an aggregate value of 10% of the issued nominal capital. The authority was not used during the year. The authority is renewed annually and approval will be sought at the AGM in 2011 for its renewal. Further details are set out in the Notice of Meeting accompanying this document.

As at 24 February 2011, the Company held a total of 1,668,688 ordinary 5 pence shares (nominal value £83,434) in treasury equal to 0.33% of the issued share capital.

Share schemes
The IFG Trust (Jersey) Limited, as Trustee of the National Express Group Employee Benefit Trust, as at 24 February 2011 held 429,222 shares (0.084% of the share capital) of the Company for employee share schemes. Further details of the Company's employee share schemes can be found in note 7 on page 89 and are incorporated by reference into this report. The Trustee may vote the shares held by the Trust at its discretion.

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

Annual General Meeting
The Annual General Meeting ("AGM") will be held at 11.00am on 10 May 2011 at Kings Place, 90 York Way, London, N1 9AG. At the meeting, special resolutions will be proposed to authorise the Directors to issue shares without applying statutory pre-emption rights, to authorise the Company to make market purchases of its own shares and to authorise the calling of general meetings (other than Annual General Meetings) on 14 clear days' notice. Full details are provided in the Notice of Meeting. If you would like to register any question you may have in advance of the AGM you can do so at info@nationalexpress.com or you can write to the Company Secretary at National Express Group PLC, National Express House, Birmingham Coach Station, Mill Lane, Digbeth, Birmingham B5 6DD.

Powers of the Directors
Subject to its Articles of Association and relevant statutory law and to any direction that may be given by the Company in general meeting by special resolution, the business of the Company shall be managed by the Directors, who may exercise all powers of the Company which are not required to be exercised by the Company in general meeting.

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

Under the terms of the £1,000,000,000 Euro Medium Term Note Programme under which the Company issued Medium Term Notes ("MTNs") to various institutions on 7 January 2010, there is a change of control put option such that, upon a change of control event, any holder of any MTN may require the Company to redeem or purchase that MTN.

The Group's UK Rail portfolio currently comprises two DfT franchises: National Express East Anglia and c2c. Each rail franchise agreement with DfT contains termination rights for the benefit of DfT which would be triggered by a change of control in National Express Group PLC.

The Group's rail franchisees lease their rolling stock. All of National Express East Anglia's rolling stock leases with HSBC Rail (UK) Limited and its more significant leases with Porterbrook Leasing Company Limited contain termination rights for the benefit of the lessor which would be triggered by a change of control in National Express Group PLC.

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

Directors' and employees' service contracts
Dean Finch has a provision in his service contract which provides that if there is a change of control within 24 months of his commencement date and directly or indirectly in connection with it the Company initiates a termination other than for cause, or Dean Finch serves notice of termination on the Company on account of provable constructive dismissal, then the period of notice required from the Company will increase from 12 months to 24 months. There are no other agreements between the Company and its Directors or employees providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) that occurs because of a takeover bid.

Auditors
Resolutions to appoint Ernst & Young LLP as auditors of the Company and to authorise the Directors to fix their remuneration will be proposed at the 2011 AGM.

Disclosure of information to auditors
The Directors confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware and that each Director has taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Going concern
After reviewing the 2011 budget and longer-term plans, the Directors are satisfied that, at the time of preparation of these accounts, it is appropriate to adopt the going concern basis in preparing the accounts. Details of borrowings, liquidity risks and committed facilities can be found in notes 29 and 30 to the Group financial statements and in the Performance and Financial Review.

Directors' responsibilities for the financial statements
The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards as adopted by the European Union or, in the case of the Company's accounts, UK GAAP.

The Directors are required to prepare financial statements for each financial year that give a true and fair view of the financial position of the Company and of the Group and the financial performance and cash flows of the Group for that period. In preparing those accounts the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- present information and accounting policies in a manner that provides relevant, reliable and comparable information;
- provide additional disclosures where necessary to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance;
- state that the Company and the Group have complied with applicable accounting standards, subject to any material departures disclosed and explained in the accounts; and
- make judgements and estimates that are reasonable and prudent

The Directors confirm that these accounts comply with the above requirements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the accounts comply with relevant legislation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Information published on the internet is accessible in many countries with different legal requirements. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' responsibility statement pursuant to DTR 4
The Directors confirm that, to the best of each person's knowledge:

(a) the financial statements set out in pages 70 to 146, which have been prepared in accordance with applicable United Kingdom law and International Financial Reporting Standards as adopted by the European Union or, in the case of the Company's accounts, UK GAAP, give a true and fair view of the assets, liabilities, financial position and profit of the Company and of the Group taken as a whole; and

(b) the Performance and Financial Review on pages 30 to 33 contained in this report includes a fair review of the development and performance of the business and the position of the Company and the Group taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board.

Tony McDonald
Secretary
24 February 2011

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

We have audited the Group financial statements of National Express Group PLC for the year ended 31 December 2010 which comprise the Group Balance Sheet, the Group Income Statement, the Group Statement of Comprehensive Income, the Group Statement of Cash Flows, the Group Statement of Changes in Equity and the related notes 1 to 38. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 68, the Directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2010 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Statement set out on pages 38 to 50 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

- certain disclosures of Directors' remuneration specified by law are not made;
- we have not received all the information and explanations we require for our audit; or
- a Corporate Governance Statement has not been prepared by the Company.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 68, in relation to going concern;
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

Other matter

We have reported separately on the parent Company financial statements of National Express Group PLC for the year ended 31 December 2010 and on the information in the Directors' Remuneration Report that is described as having been audited.

Alison Baker (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
24 February 2011

Group Income Statement
For the year ended 31 December 2010

	Note	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	4	**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	5	**–**	**(57.1)**	**(57.1)**	–	(60.4)	(60.4)
Exceptional items	5	**–**	**(61.2)**	**(61.2)**	–	(100.0)	(100.0)
Total operating costs	6	**(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	5	**–**	**–**	**–**	–	(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	18	**0.3**	**–**	**0.3**	(0.1)	(12.0)	(12.1)
Finance income	9	**4.8**	**–**	**4.8**	9.6	–	9.6
Finance costs	9	**(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	10	**(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	11	**–**	**(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	13			**12.0p**			(17.6p)
– diluted earnings per share	13			**12.0p**			(17.6p)
Normalised earnings per share:							
– basic earnings per share	13	**23.6p**			30.5p		
– diluted earnings per share	13	**23.5p**			30.4p		
Earnings per share from continuing operations:							
– basic earnings per share	13			**12.1p**			(20.3p)
– diluted earnings per share	13			**12.1p**			(20.3p)

Group Statement of Comprehensive Income
For the year ended 31 December 2010

	Note	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	**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)

Financial statements

Group Balance Sheet
At 31 December 2010

	Note	2010 £m	2009 £m
Non-current assets			
Intangible assets	14	**1,284.2**	1,349.9
Property, plant and equipment	15	**714.1**	672.6
Financial assets – Available for sale	17	**7.8**	7.7
– Derivative financial instruments	17	**7.2**	3.3
Investments accounted for using the equity method	18	**6.6**	6.7
Trade and other receivables	20	**6.0**	4.0
Deferred tax asset	27	**2.8**	35.2
		2,028.7	2,079.4
Current assets			
Inventories	21	**17.6**	16.4
Trade and other receivables	22	**226.8**	226.7
Financial assets – Derivative financial instruments	17	**18.3**	5.9
Current tax assets		**3.4**	3.7
Cash and cash equivalents	23	**128.8**	105.8
		394.9	358.5
Total assets		**2,423.6**	2,437.9
Non-current liabilities			
Financial liabilities – Borrowings	28	**(674.4)**	(506.1)
– Derivative financial instruments	28	**(5.1)**	(11.2)
Deferred tax liability	27	**(86.9)**	(99.0)
Other non-current liabilities	25	**(25.2)**	(21.6)
Non-current tax liabilities		**(12.3)**	–
Defined benefit pension liability	34	**(10.4)**	(54.9)
Provisions	26	**(35.7)**	(22.0)
		(850.0)	(714.8)
Current liabilities			
Trade and other payables	24	**(501.0)**	(467.0)
Financial liabilities – Borrowings	28	**(64.4)**	(258.4)
– Derivative financial instruments	28	**(12.4)**	(36.0)
Current tax liabilities		**(12.1)**	(56.8)
Provisions	26	**(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	32	**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	33	**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

D Finch Group Chief Executive
J K Maiden Group Finance Director
24 February 2011

Group Statement of Changes in Equity
For the year ended 31 December 2010

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Own shares (note 32) £m	Other reserves (note 33) £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
At 1 January 2010	**25.6**	**533.2**	**0.2**	**(14.6)**	**116.1**	**175.8**	**836.3**	**6.0**	**842.3**
Costs of Rights Issue	**–**	**(0.5)**	**–**	**–**	**–**	**–**	**(0.5)**	**–**	**(0.5)**
Shares purchased	**–**	**–**	**–**	**(1.7)**	**–**	**–**	**(1.7)**	**–**	**(1.7)**
Own shares released to satisfy employee share schemes	**–**	**–**	**–**	**2.2**	**–**	**(2.2)**	**–**	**–**	**–**
Total comprehensive income	**–**	**–**	**–**	**–**	**9.0**	**85.9**	**94.9**	**0.7**	**95.6**
Share-based payments	**–**	**–**	**–**	**–**	**–**	**3.9**	**3.9**	**–**	**3.9**
Tax on share-based payments	**–**	**–**	**–**	**–**	**–**	**0.3**	**0.3**	**–**	**0.3**
Dividends paid to non-controlling interest	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(0.1)**	**(0.1)**
At 31 December 2010	**25.6**	**532.7**	**0.2**	**(14.1)**	**125.1**	**263.7**	**933.2**	**6.6**	**939.8**

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Own shares (note 32) £m	Other reserves (note 33) £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
At 1 January 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

	Note	2010 £m	2009 £m
Cash generated from operations	37	**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	19(a)	**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	14	**(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	11	**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	23	**128.8**	105.8

Notes to the Consolidated Accounts
For the year ended 31 December 2010

1 Corporate information

The consolidated accounts of National Express Group PLC and its subsidiaries ("the Group") for the year ended 31 December 2010 were authorised for issue in accordance with a resolution of the Directors on 24 February 2011. National Express Group PLC is a public limited company incorporated in England and Wales whose shares are publicly traded on the London Stock Exchange.

The principal activities of the Group are described in the Operating Review that accompanies these accounts.

2 Accounting policies

Statement of compliance

These accounts have been prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") as adopted by the European Union ("EU"), and with those parts of the Companies Acts 2006 applicable to companies reporting under IFRS. The Group is required to comply with international accounting requirements under IAS 1 'Presentation of Financial Information' except in extremely rare circumstances where management concludes that compliance would be so misleading that it would conflict with the objective to 'present fairly' its accounts. On this basis, the Group has departed from the requirements of IAS 19 'Employee Benefits' and has accounted for its constructive but not legal obligations for the Railways Pension Scheme (RPS) under the terms of its UK rail franchise agreements. Details of the background and rationale for this departure are provided in note 34, including the impact on the Group's reported financial performance and position of adopting the accounting treatment as required by IAS 1.

Basis of preparation

The financial statements have been prepared under the historical cost convention, except for the recognition of derivative financial instruments, available for sale investments and accounting for pensions detailed below.

As noted above, the Group has taken the extremely rare decision to depart from the requirement of IAS 19 'Employee Benefits' so as to present fairly its financial performance, position and cash flows in respect of its obligation for the RPS. The details of this departure and impact on the Group's accounts are set out in note 34.

A summary of the Group's accounting policies applied in preparing the accounts for the year ended 31 December 2010 is set out below.

The preparation of accounts in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the accounts and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge, actual results may ultimately differ from those estimates.

The key sources of estimation uncertainty that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are the measurement and impairment of indefinite life intangible assets (including goodwill), the measurement of defined benefit pension obligations, the measurement of tax assets and liabilities and the measurement of insurance provisions. The measurement of intangible assets other than goodwill in a business combination involves estimation of future cash flows and the selection of a suitable discount rate. The Group determines on an annual basis whether indefinite life intangible assets are impaired and this requires an estimation of the value in use of the cash-generating units to which the intangible assets are allocated. This requires estimation of future cash flows and choice of a suitable discount rate (see note 14). Measurement of defined benefit pension obligations requires estimation of future changes in salaries and inflation, as well as mortality rates, the expected return on assets and the choice of a suitable discount rate (see note 34). The measurement of tax assets and liabilities requires an assessment to be made of the potential tax consequence of certain items that will only be resolved when agreed by the relevant tax authorities. The estimation of the insurance provisions is based on an assessment of the expected settlement on known claims together with an estimate of settlements that will be made in respect of incidents occurring prior to the balance sheet date but for which claims have not been reported to the Group. Key accounting judgements which may impact future financial performance are described in the Performance and Financial Review.

The consolidated accounts are presented in pounds Sterling and all values are rounded to the nearest one hundred thousand Pounds (£0.1m) except where otherwise indicated.

2 Accounting policies continued

Basis of consolidation

The consolidated accounts comprise the accounts of National Express Group PLC and all its subsidiaries drawn up to 31 December each year. Adjustments are made to bring any dissimilar accounting policies that may exist into line with the Group's accounting policies.

On acquisition of a business, the purchase method of accounting is adopted, and the Group income statement includes the results of subsidiaries and businesses purchased during the year from the date control is assumed. The purchase consideration is allocated to assets and liabilities on the basis of fair value at the date of acquisition. On the sale of a business, the Group income statement includes the results of that business to the date of disposal.

Intragroup transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated.

Non-controlling interests represent the portion of comprehensive income and equity in subsidiaries that is not attributable to the parent Company shareholders and is presented separately from parent shareholders' equity in the consolidated balance sheet.

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the following amendments and IFRIC interpretations as of 1 January 2010.

IAS 27 (Revised) 'Consolidated and separate financial statements' (effective for annual periods beginning on or after 1 July 2009). The revised standard was issued in January 2008 and requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will they give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary and the loss of control of a subsidiary. The new requirements did not have an impact on the consolidated financial statements.

IFRS 3 (Revised) 'Business combinations' (effective for business combinations occurring in accounting periods beginning on or after 1 July 2009). This standard continues to apply the acquisition method to business combinations. However, it introduces a number of changes that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. The new requirements did not have a material impact on the consolidated financial statements.

IFRIC 17 'Distributions of Non-cash Assets to Owners' (effective for annual periods beginning on or after 1 July 2009). IFRIC 17 provides guidance on how an entity should account for distributions other than cash (non-cash assets) to owners. The new requirements did not have an impact on the consolidated financial statements, as the Group currently has no plan to distribute non-cash assets to owners.

IFRS 2 (Amendment) 'Share-based Payment' (effective for annual periods beginning on or after 1 January 2010). The amendment clarifies the accounting for group cash settled share-based transactions. The new requirement does not have any impact on the consolidated financial statements.

IFRIC 19 'Extinguishing financial liabilities with equity instruments' (effective retrospectively, from the beginning of the earliest comparative period presented, for annual periods beginning on or after 1 July 2010): this IFRIC clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. The new requirements did not have an impact on the consolidated financial statements.

Interests in joint ventures

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

The Group recognises its interest in the entity's assets and liabilities using the equity method of accounting. The Group balance sheet includes the appropriate share of these joint ventures' net assets or liabilities and the income statement includes the appropriate share of their results after tax.

Accounts of jointly controlled entities are prepared for the same reporting period as the Group. Adjustments are made in the Group's accounts to eliminate the Group's share of unrealised gains and losses on transactions between the Group and its jointly controlled entities. The Group ceases to use the equity method from the date it no longer has joint control over the entity.

2 Accounting policies continued

Interests in associates

Companies, other than subsidiaries and joint ventures, in which the Group has an investment representing not less than 20% of the voting rights and over which it exerts significant influence are treated as associates. The consolidated accounts include the appropriate share of these associates' results and net assets based on their latest accounts under the equity method.

Income statement presentation

The income statement has been presented in a columnar format to enable users of the financial statements to view the normalised results of the Group. Normalised results are defined as the statutory results before the following, as appropriate: profit or loss on the sale of businesses, exceptional profit or loss on the sale of non-current assets and charges for goodwill impairment, amortisation of intangible assets, exceptional items and tax relief on qualifying exceptional items and intangibles.

Exceptional items

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

Revenue recognition

Rendering of services

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

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

UK Rail revenue includes amounts attributed to the train operating companies ("TOCs"), based principally on agreed models of route usage by Railway Settlement Plan Limited (which administers the income allocation system within the UK rail industry), in respect of passenger receipts. In addition, franchise agreement receipts from the Department for Transport Rail Division ("DfT Rail") and local Passenger Transport Executives ("PTEs") are treated as revenue. Franchise agreement payments to DfT Rail are recognised in operating costs. UK Coach revenue comprises amounts receivable generated from ticket sales. UK Bus and European Coach & Bus revenue comprises amounts receivable generated from ticket sales and revenue generated from services provided on behalf of local transport authorities, which is recognised as the services are provided. For all the divisions noted above, the relevant share of season ticket or travelcard income is deferred within liabilities and released to the income statement over the life of the relevant season ticket or travelcard. North American Bus revenue from school boards and similar contracts is recognised as the services are provided.

Rental income

Rental income is accounted for on a straight-line basis over the lease term.

Finance income

Revenue is recognised using the effective interest method.

Government grants

Government grants relating to property, plant and equipment are included in liabilities as deferred income and are credited to the income statement over the expected useful economic life of the assets concerned. Other grants are credited to the income statement as the related expenditure is expensed.

Segmental reporting

Each of the Group's business and geographical segments provides services that are subject to risks and returns that are different from those of the other business segments. Due to the nature of the Group's operations the distinct business segments align directly with geographical segments which are operating in separate economic environments.

The Group's segments comprise: UK Bus; UK Coach; UK Rail; North American Bus; European Coach & Bus; and Central functions. These segments are described in more detail in the Operating Review accompanying these accounts.

2 Accounting policies continued

Leases

Leases of property, plant and equipment where substantially all the risks and rewards of ownership of the asset have passed to the Group, are capitalised in the balance sheet as property, plant and equipment. Finance leases are capitalised at the lower of the fair value of the leased property and the present value of the minimum lease payments. The capital element of future obligations under hire purchase contracts and finance leases is included as a liability in the balance sheet. The interest element of rental obligations is charged to the income statement over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding. Property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term.

Leases of property, plant and equipment where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Rentals paid under operating leases are charged to the income statement on a straight-line basis over the term of the lease. Incentives received under operating leases and initial direct costs in negotiating the lease are amortised to the income statement on a straight-line basis over the term of the lease.

All material arrangements and transactions entered into by the Group are reviewed to check whether they contain elements that meet the accounting definition of a lease, although they may not follow the legal form of a lease.

Borrowing costs

Borrowing costs are recognised as an expense when incurred except where they are directly attributable to the acquisition, construction or production of a qualifying asset, in which case they are capitalised as part of the cost of that asset.

Current tax and deferred tax

Current tax is provided on taxable profits earned according to the local tax rates applicable where the profits are earned. Income taxes are recognised in the income statement unless they relate to an item accounted for in other comprehensive income or equity, in which case the tax is recognised directly in other comprehensive income or equity. The tax rates and tax laws used to compute the current tax are those that are enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full in respect of all material temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, apart from the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill;
- where an asset or liability is recognised in a transaction that is not a business combination and that at the time of the transaction affects neither accounting nor taxable profit or loss; and
- in respect of investment in subsidiaries, associates and joint ventures where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is measured on a non-discounted basis at tax rates that are expected to apply in the periods in which the temporary differences reverse based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Deferred tax assets are recognised to the extent that it is considered more likely than not that future taxable profits will be available against which the underlying temporary differences can be deducted. Their carrying amount is reviewed at each balance sheet date on the same basis.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and when the Group intends to settle its current tax assets and liabilities on a net basis.

Intangible assets

Intangible assets acquired separately that meet the recognition criteria of IAS 38 ‘Intangible Assets’, are capitalised at cost and when acquired in a business combination are capitalised at fair value at the date of acquisition. Following initial recognition, finite life assets are amortised on a straight-line basis and indefinite life assets are not amortised. The amortisation expense is taken to the income statement through operating expenses.

The existing finite life intangible assets have a residual value of nil and are amortised over their estimated useful lives as follows:

Customer contracts	– over the life of the contract (between 1 and 33 years)
Right to operate TOC franchises	– over the life of the franchise (between 1 and 7 years)

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

The Group’s indefinite life intangible assets include customer relationships and goodwill. Customer relationship intangible assets are recognised only on contracts where historical experience has shown that these contracts are consistently renewed.

2 Accounting policies continued

Software

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

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

Goodwill

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

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

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

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

Property, plant and equipment

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

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

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

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

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

2 Accounting policies continued

Impairment of non-financial assets

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

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

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

Financial instruments

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

Financial assets at fair value through profit or loss

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

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

Loans and receivables

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

Available-for-sale financial assets

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

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

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

2 Accounting policies continued

Derivative financial instruments

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

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

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

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

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

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

Inventories

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

Pre-contract costs

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

Trade and other receivables

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

Cash and cash equivalents

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

Trade and other payables

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

Interest-bearing loans and borrowings

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

2 Accounting policies continued

Insurance

The Group's policy is to self-insure high frequency claims within the businesses. To provide protection above these types of losses the Group purchases insurance cover from a selection of proven and financially strong insurers. The insurance provision is based on estimated exposures at the year end principally for claims arising in the UK and North America prior to the year-end date, subject to the overall stop loss within the Group's insurance arrangements. The majority of provisions will be utilised within six years, and the provision has been discounted to take account of the expected timing of future cash settlements.

Pensions and other post-employment benefits

The Group has a number of pension schemes, both of a defined benefit and defined contribution nature. Full details are provided in note 34 including the departure from IAS 19 required for the Group's RPS obligations as outlined in the Statement of Compliance.

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

The current service cost and gains and losses on settlements and curtailments are recognised in staff pension costs within operating costs in the income statement. Past service costs are included in operating costs where the benefits have vested, otherwise they are amortised on a straight-line basis over the vesting period. The finance elements of the pension cost, comprising the expected return on assets of funded defined benefit schemes and the interest on pension scheme liabilities, are also included in operating costs. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income in the period in which they arise.

Our TOCs participate in the RPS, a defined benefit scheme which covers the whole of the UK Rail industry. This is partitioned into sections and the Group is responsible for the funding of these sections whilst it operates the relevant franchise. In contrast to the pension schemes operated by most businesses, the RPS is a shared cost scheme, which means that costs are formally shared 60% by the employer and 40% by the employee. A liability is recognised in line with other defined benefit schemes in the Group, although this is offset by a franchise adjustment so that the net liability represents the deficit that the Group expects to fund during the franchise term. This represents a departure from IAS 19 so as to present fairly the Group's financial performance, position and cash flow in respect of its obligations for the RPS.

The charges in respect of defined contribution schemes are recognised when they are due. The Group has no legal or constructive obligation to pay further contributions into a defined contribution scheme if the fund has insufficient assets to pay all employees benefits relating to employee service in the current and prior periods.

Share-based payment

The Group awards equity-settled share-based payments to certain employees, under which the Group receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted, excluding the impact of any non-market service and performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material using a pre-tax discount rate. The amortisation of the discount is recognised as a finance cost.

Contingent liabilities are obligations that arise from past events that are dependent on future events. They are disclosed in the notes to the accounts where the expected future outflow is not probable.

2 Accounting policies continued

Share capital, share premium and dividends

Where either the Company or employee share trusts purchase the Company's equity share capital, the consideration paid, including any transaction costs, is deducted from total shareholders' equity as Own shares until they are cancelled or reissued. Any consideration subsequently received on sale or re-issue is included in shareholders' equity.

Dividend distributions to the Company's shareholders are recognised as a liability in the Group's financial statements on the date when dividends are approved by the Company's shareholders. Interim dividends are recognised in the period they are paid.

Non-current assets held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use.

A discontinued operation is a component of the Group that has been disposed of, or is classified as held for sale and it either represents a separate major line of business or geographical area; is part of a plan to dispose of a separate major line of business or geographical area; or was an acquired subsidiary intended for resale. The resulting profit or loss from discontinued operations is reported separately in the income statement.

Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortised.

Foreign currencies

The trading results of foreign currency denominated subsidiaries, joint ventures and associates are translated into Sterling, the presentation currency of the Group and functional currency of the parent, using average rates of exchange for the year as a reasonable approximation to actual exchange rates at the dates of transactions.

The balance sheets of foreign currency denominated subsidiaries, joint ventures and associates are translated into Sterling at the rates of exchange ruling at the year end and exchange differences arising are taken directly to the translation reserve in equity. On disposal of a foreign currency denominated subsidiary, the deferred cumulative amount recognised in the translation reserve (since 1 January 2004 under the transitional rules of IFRS 1) relating to that entity is recognised in the income statement. All other translation differences are taken to the income statement, with the exception of differences on foreign currency borrowings and forward foreign currency contracts which are used to provide a hedge against the Group net investments in foreign enterprises. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in the income statement.

New standards and interpretations not applied

The IASB and IFRIC have issued the following standards, interpretations and amendments with an effective date after the date of these financial statements.

IAS 32 (Amendment) 'Financial Instruments: Presentation' (effective for annual periods beginning on or after 1 February 2010): this amendment addresses the accounting for Rights Issues that are denominated in a currency other than the functional currency of the issuer. The Group will apply this revised standard from 1 January 2011 and does not anticipate any material impact on the financial statements.

IAS 24 (Amendment) 'Related party disclosures' (effective for annual periods beginning on or after 1 January 2011): the amendment simplifies the disclosure for government-related entities and clarifies the definition of a related party. The Group will apply this revised standard from 1 January 2011.

IFRIC 14 (Amendment) 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction' (effective for annual periods beginning on or after 1 January 2011 and will apply from the beginning of the earliest comparative period presented): the amendment deals with voluntary pension prepayments where there is a minimum funding requirement and the recognition of a surplus. The Group will apply this amendment from 1 January 2011 and does not anticipate any material impact on the financial statements.

IFRS 9 'Financial instruments' (effective for annual periods beginning on or after 1 January 2013): the standard deals with the classification and measurement of financial assets but has yet to be endorsed by the EU.

Improvements to IFRSs (effective for annual periods beginning on or after 1 January 2011): in May 2010 the International Accounting Standards Board issued an omnibus of amendments to its standards, primarily with a view to remove inconsistencies and clarify wording. The Group will apply the improvements from 1 January 2011 and is currently evaluating the impact.

3 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.

4 Revenue

	2010 £m	2009 £m
Rendering of services	**2,118.8**	2,699.9
Rental income	**7.1**	11.2
Revenue	**2,125.9**	2,711.1
Finance income	**4.8**	9.6
Total revenue from continuing operations	**2,130.7**	2,720.7

5 Segmental analysis

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

5 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

5 Segmental analysis continued

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

	Intangible asset amortisation 2010 £m	Operating exceptional items 2010 £m	Total 2010 £m
UK Bus	–	6.7	6.7
UK Coach	0.2	(0.1)	0.1
UK Rail	2.4	18.3	20.7
North American Bus	8.6	25.7	34.3
European Coach & Bus	45.9	1.9	47.8
Central functions	–	8.7	8.7
Total continued operations	57.1	61.2	118.3
Discontinued operations (note 11)	–	0.5	0.5
Total	57.1	61.7	118.8

	Intangible asset amortisation 2009 £m	Operating exceptional items 2009 £m	Total 2009 £m
UK Bus	0.2	1.5	1.7
UK Coach	0.3	2.6	2.9
UK Rail	1.0	71.2	72.2
North American Bus	2.9	15.7	18.6
European Coach & Bus	56.0	1.8	57.8
Central functions	–	7.2	7.2
Total continued operations	60.4	100.0	160.4
Discontinued operations (note 11)	–	(7.3)	(7.3)
Total	60.4	92.7	153.1

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.

In the year to 31 December 2009 exceptional costs of £64.8m were incurred in relation to National Express East Coast. This comprised an onerous contract charge of £21.4m, a £31.4m performance bond payment and a £12.0m non cash write-off related to bidding and other costs, £4.1m of exceptional costs were incurred at National Express East Anglia reflecting a change in the expected termination date of the franchise. In addition, £6.4m for UK Integration were incurred in UK Bus, UK Coach and UK Rail. Restructuring costs of £1.8m were incurred in European Coach & Bus. Business Transformation costs of £14.2m and restructuring costs of £1.5m were incurred in North American Bus. In addition, exceptional costs of £7.2m were incurred in Central functions due to bid defence and other corporate projects.

In 2009 non-operating exceptional loss of £7.4m comprises a £5.6m loss on disposal of Travel London, a £2.0m loss on the sale and lease-back of the Digbeth coach depot, and a £0.2m profit on disposal of concessions owned by ALSA (note 19b).

5 Segmental analysis continued

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

	Assets 2010 £m	Of which non-current assets* 2010 £m	Liabilities 2010 £m	Capital** expenditure 2010 £m	Assets 2009 £m	Of which non-current assets* 2009 £m	Liabilities 2009 £m	Capital expenditure 2009 £m
UK Bus	**129.0**	**109.3**	**(85.0)**	**8.8**	129.4	116.6	(120.8)	3.1
UK Coach	**57.4**	**45.5**	**(38.9)**	**5.4**	57.0	46.7	(55.8)	12.6
UK Rail	**83.2**	**17.5**	**(202.6)**	**3.0**	111.4	23.2	(202.2)	8.7
Intercompany elimination	**(1.3)**	**–**	**1.3**	**–**	(2.6)	–	2.6	–
UK operations	**268.3**	**172.3**	**(325.2)**	**17.2**	295.2	186.5	(376.2)	24.4
North American Bus	**712.1**	**642.8**	**(164.9)**	**95.8**	618.0	566.8	(74.6)	20.9
European Coach & Bus	**1,276.2**	**1,183.1**	**(158.2)**	**37.7**	1,371.4	1,268.7	(181.8)	20.1
Central functions	**11.7**	**0.1**	**(112.5)**	**0.1**	27.9	0.5	(107.5)	0.1
Unallocated	**169.1**	**–**	**(736.8)**	**–**	162.4	–	(892.5)	–
Intercompany elimination	**(13.8)**	**–**	**13.8**	**–**	(37.0)	–	37.0	–
Total	**2,423.6**	**1,998.3**	**1,483.8**	**150.8**	2,437.9	2,022.5	(1,595.6)	65.5

* Non-current assets only include intangible assets, property, plant and equipment.

** The net capital expenditure, after allowing for the movements in capital creditors, disposal of fixed assets and payments to acquire intangibles, was £121.6m.

Capital expenditure comprises property, plant and equipment additions as disclosed above and in note 15. In 2010 software intangible assets of £2.0m (2009: £5.8m) were acquired in North America and disclosed in note 14.

Unallocated assets and liabilities comprise the following items:

	Unallocated assets 2010 £m	Unallocated liabilities 2010 £m	Unallocated assets 2009 £m	Unallocated liabilities 2009 £m
Cash and cash equivalents	**128.8**	**–**	105.8	–
Other debt receivable	**0.8**	**–**	0.8	–
Current tax	**3.4**	**(12.1)**	3.7	(56.8)
Non-current tax	**–**	**(12.3)**	–	–
Available for sale investments	**7.8**	**–**	7.7	–
Derivative financial assets/(liabilities)	**25.5**	**(17.5)**	9.2	(47.2)
Borrowings, excluding finance leases	**–**	**(607.5)**	–	(688.9)
Dividend payable	**–**	**(0.5)**	–	(0.6)
Deferred tax	**2.8**	**(86.9)**	35.2	(99.0)
Total	**169.1**	**(736.8)**	162.4	(892.5)

6 Operating costs

		2010 £m	2009 £m
Materials and consumables		**75.8**	88.5
Staff costs (including exceptional cost of £12.8m (2009: £8.8m))		**801.8**	909.4
Depreciation – Owned assets		**84.4**	89.7
– Leased assets		**15.4**	18.3
Amortisation of leasehold property prepayment		**–**	0.1
Amortisation of fixed asset grants		**(1.7)**	(2.0)
Operating lease charges	Rolling stock: capital element	**87.4**	129.9
	Rolling stock: non-capital element	**37.3**	56.8
	Public service vehicles	**4.4**	4.7
	Other	**10.9**	9.8
	– Plant and equipment	**140.0**	201.2
	Fixed track access	**57.0**	143.5
	Other	**41.9**	54.4
	– Land and buildings	**98.9**	197.9
Pre-contract bid costs: UK Rail		**–**	0.7
Foreign exchange differences (including exceptional expense of £nil (2009: £1.8m))		**–**	1.8
Other charges (including exceptional expense of £48.4m (2009: £89.4m))		**768.3**	1,145.7
Operating costs before intangible asset amortisation		**1,982.9**	2,651.3
Intangible asset amortisation		**57.1**	60.4
Total operating costs – continuing operations		**2,040.0**	2,711.7

The TOCs have fixed track access contracts with Network Rail Infrastructure Limited for access to the railway infrastructure (tracks, stations and depots). Under the revised CP4 rail agreement which came into force in April 2009, the fixed track access charge was reduced with a commensurate increase in the franchise premium together with other Department for Transport cost increases. This increase is contained within 'Other charges' (above).The TOCs also have contracts under which rolling stock is leased. The capital element of the rolling stock lease charge is based on the purchase price, capital funded refurbishments and modifications. The non-capital element of the lease charge includes heavy maintenance charges and charges based on mileage.

An analysis of fees paid to the Group's auditors is provided below:

	2010 £m	2009 £m
Fees payable to the Company's auditors for the audit of the consolidated and parent Company accounts	**0.5**	0.6
Fees payable to the Company's auditors and its associates for other services:		
The audit of the Company's subsidiaries	**0.7**	1.0
Tax services	**1.0**	0.7
Corporate finance services	**0.1**	1.6
Other services	**0.6**	–
	2.9	3.9

Included in the above fees paid to the Group's auditors are fees for corporate finance services of £nil (2009: £1.5m) in relation to the Rights Issue which were charged against the share premium account. All other fees have been charged to the income statement.

7 Employee benefit costs

(a) Staff costs

	2010 £m	2009 £m
Wages and salaries	**691.8**	783.0
Social security costs	**90.8**	100.3
Pension costs (note 34)	**15.3**	24.2
Share-based payment (note 8)	**3.9**	1.9
	801.8	909.4

Included within staff costs are exceptional costs of £12.8m (2009: £8.8m).

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

	2010	2009
Managerial and administrative	**3,341**	3,863
Operational	**34,063**	37,427
	37,404	41,290

Included in the above costs are the following costs related to the Group's key management personnel who comprise the Directors of the parent Company.

	2010 £m	2009 £m
Fees	**0.4**	0.6
Basic salaries	**1.2**	1.1
Benefits	**0.5**	0.5
Performance-related bonuses	**1.3**	0.2
Share-based payment	**1.3**	(0.1)
	4.7	2.3

Information concerning Directors' emoluments, shareholdings and share options is disclosed in the Directors' Remuneration Report.

(b) Share schemes

Details of options or awards outstanding as at 31 December 2010 under the Group's share schemes are as follows:

	Number of share options 2010	Number of share options 2009	Exercise price[1]	Future exercise periods
Executive Share Option Plan	**149,211**	198,070	**207p–448p**	**2011–2014**
Long Term Incentive Plan	**4,043,170**	3,464,399	**nil**	**2011–2013**
Share Matching Plan	**1,037,951**	833,220	**nil**	**2011–2013**
Deferred Annual Share Bonus Plan	**1,027,658**	824,510	**nil**	**2011–2013**
WMT Long Service Option Scheme	**7,530**	–	**nil**	**2013-2020**
WMT Long Service Option Scheme	**308,330**	315,285	**117p–604p**	**2011–2019**
Sharesave Scheme	**1,003,187**	1,387,451	**479p**	**2011–2012**
Executive Deferred Benefit Plan	**–**	578,388	**nil**	**n/a**
	7,577,037	7,601,323		

(i) Executive Share Option Plan

The Company operates tax approved and unapproved executive share option schemes open to Group employees in senior management positions. Options granted by this Plan have a maximum term of ten years. The options vest after three years subject to the satisfaction of certain performance criteria[1] based on the achievement of a target growth in earnings per share. If the performance criteria are not met when initially tested, in some instances they may be reassessed during the term of the option. From 2005 executive share option grants have been replaced by awards made under the Long Term Incentive Plan, as described in (ii). There are no cash settlement alternatives.

7 Employee benefit costs continued

(b) Share schemes continued

(ii) Long Term Incentive Plan ("LTIP")

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

(iii) Share Matching Plan (the "Plan")

The Share Matching Plan was introduced in 2005 as part of the new Long Term Incentive Plan arrangements described in (ii). Under the Plan a Matching Award to acquire a specified number of shares for free may be made if the employee pledges a number of shares as investment shares which are then matched by the Company on either a 1:1 or 2:1 basis with the number of shares that could have been purchased with the pre-tax equivalent of the amount invested. The Matching Awards vest on the third anniversary of the grant date and remain exercisable for a period of up to six months following the vesting date. There are no cash settlement alternatives at present.

(iv) Deferred Annual Share Bonus Plan

The Deferred Annual Share Bonus Plan is a discretionary scheme which forms part of the bonus arrangements for certain senior employees. Under the scheme part of any bonus may be received in cash whilst the remainder is used to make an award of nil cost options which vest three years after the award date. The options must be exercised within six months of vesting. There are no cash settlement alternatives at present.

(v) West Midlands Travel Ltd ("WMT") Long Service Option Scheme

The WMT Long Service Option Scheme utilises a fixed amount of shares set aside for this purpose following the acquisition of WMT in 1995 and is open to all WMT employees who have been in service for more than 25 years. The options are exercisable between three and ten years following the grant date. There are no cash settlement alternatives.

(vi) TWM Share Incentive Plan (the "SIP")

The TWM SIP exists for the benefit of WMT employees. At the end of the year, 908 (2009: 889) National Express Group PLC shares were held for the benefit of the Trustee. Dividends on shares held in the SIP forfeited shares account are waived. There are no cash settlement alternatives.

(vii) Savings Related Share Option Scheme ("Sharesave Scheme")

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

[1] Performance criteria for Executive Share Option Plan:

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

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

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

7 Employee benefit costs continued

(b) Share schemes continued

(viii) Executive Deferred Benefit Plan

As detailed in last year's Directors' Remuneration Report, the Committee considered it appropriate for bonuses awarded in respect of the 2008 calendar year to be deferred for a period of one year and that these would vest, subject to the terms of the award and the relevant Director's continuing employment on 10 March 2010. Half of the award made during the year was a cash deferred bonus conditional upon the continued employment of the relevant Director. The other half of the award was converted into deferred forfeitable ordinary shares of the Company. Both the cash deferred bonus and the deferred forfeitable ordinary shares were awarded under the terms of The National Express Group Executive Deferred Bonus Plan which was adopted by the Board of the Company on 10 March 2009.

The principal terms of awards under the Executive Deferred Bonus Plan are summarised below:

- awards under the Plan may be cash awards, conditional awards or forfeitable shares awards;
- awards normally vest one year from the date of grant, subject to the relevant Director's continued employment with the Company;
- the Committee may decide that Participants shall be entitled to receive a benefit determined by reference to the value of the dividends that would have been paid on the vested shares in respect of dividend record dates occurring during the period between the Grant date and the date of vesting; and
- the awards will normally lapse on cessation of employment save in certain compassionate 'good leaver' circumstances (eg death or disability).

In the event of a variation of the share capital of the Company, the Committee may make such adjustments to the awards as it considers appropriate.

8 Share-based payment

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

	2010 £m	2009 £m
Expense arising from share and share option plans – continuing operations	**3.9**	1.9

Included within the charge are exceptional costs of £0.9m (2009: nil).

During the year ended 31 December 2010, the Group had eight share-based payment arrangements, which are described in note 7(b).

On 27 November 2009 the Company raised proceeds of approximately £355.0m, net of issue costs of approximately £20.0m, through a Rights Issue as explained in note 32. The number of shares allotted to employees under the Group's share schemes has been adjusted to reflect the bonus element of the Rights Issue. The terms of the Group's employee share schemes were adjusted such that participants of the various plans were no better or worse off as a result of the Rights Issue. Consequently, no additional expense was or will be recognised as a result of changes to the Group's employee share schemes.

8 Share-based payment continued

For the following disclosure, share options with a nil exercise price have been disclosed separately to avoid distorting the weighted average exercise prices. The number of share options in existence during the year was as follows:

	2010			2009
	Number of share options	**Weighted average exercise price p**	Number of share options[2]	Weighted average exercise price[2] p
Options without a nil exercise price:				
At 1 January	**1,900,806**	**449**	2,257,834	467
Granted during the year	**17,820**	**116**	69,900	129
Lapsed during the year	**(455,568)**	**463**	(423,813)	491
Exercised during the year	**(2,330)**	**129**	(3,115)	500
Outstanding at 31 December[1]	**1,460,728**	**442**	1,900,806	449
Exercisable at 31 December	**359,568**	**405**	398,707	386
Options with a nil exercise price:				
At 1 January	**5,700,517**	**nil**	2,182,038	nil
Granted during the year	**3,272,571**	**nil**	4,290,648	nil
Lapsed during the year	**(1,557,556)**	**nil**	(396,696)	nil
Exercised during the year	**(1,299,223)**	**nil**	(375,473)	nil
Outstanding at 31 December	**6,116,309**	**nil**	5,700,517	nil
Exercisable at 31 December	**10,357**		nil	nil
Total outstanding at 31 December	**7,577,037**		7,601,323	
Total exercisable at 31 December	**369,925**		398,707	

1 Included within this balance are options over 92,209 (2009: 127,324) shares for which no expense has been recognised in accordance with the transitional provisions of IFRS 2 as the options were granted before 7 November 2002. Although there has been subsequent modification to the options, no IFRS 2 charge has been recognised as the amounts are not material.

2 Movement in allocations prior to 11 November 2009 and the corresponding weighted average exercise price have been adjusted to reflect the bonus element of the Rights Issue. Details of the Rights Issue are provided in note 32.

The options outstanding at 31 December 2010 had exercise prices that were between 117p and 604p (2009: between 129p and 604p) excluding options with a nil exercise price. The range of exercise prices for options was as follows:

Exercise price (p)	**2010**	2009
0–300	**132,914**	128,668
300–350	**40,509**	51,321
350–650	**1,287,305**	1,720,817
	1,460,728	1,900,806

The options have a weighted average contractual life of one year (2009: one year). Options were exercised regularly throughout the year and the weighted average share price at exercise was 229p (2009: 335p).

8 Share-based payment continued

The weighted average fair value of the share options granted during the year was calculated using a stochastic model, with the following assumptions and inputs:

	Share options without nil exercise price		Share options with nil exercise price	
	2010	2009	**2010**	2009
Risk free interest rate	**1.8%–3.0%**	2.8%	**1.8%–3.0%**	2.0%
Expected volatility	**37.6%**	32.5%	**52.7%**	48.4%
Peer group volatility	**–**	–	**49.6%–50.8%**	49.9%
Expected option life in years	**8 years**	6 years	**3 years**	3 years
Expected dividend yield	**0%**	12.6%	**0%**	2.7%
Weighted average share price at grant date	**226p**	129p	**229p**	91p–210p
Weighted average exercise price at grant date	**225p**	129p	**nil**	nil
Weighted average fair value of options at grant date	**76p**	10p	**202p**	91p–194p

Experience to date has shown that approximately 15% (2009: 15%) of options are exercised early, principally due to leavers.

This has been incorporated into the calculation of the expected option life for the share options without nil exercise price.

Expected volatility in the table above was determined from historic volatility over the last nine years, adjusted for one-off events that were not considered to be reflective of the volatility of the share price going forward. The expected dividend yield represents the dividends declared in the 12 months preceding the date of the grant divided by the average share price in the month preceding the date of the grant.

For share options granted during the year under the LTIP, the TSR targets have been reflected in the calculation of the fair value of the options above.

9 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 four 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.

10 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 (credit)/charge	**(28.2)**	23.2
Deferred taxation (note 27)		
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 charge/(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 (note 10h)	**(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)

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

	2010 £m	2009 £m
Current taxation:		
(Debit)/credit on exchange movements offset in reserves	**(6.0)**	1.9
	(6.0)	1.9
Deferred taxation:		
Deferred tax credit on share-based payment	**0.3**	0.2
Deferred tax (debit)/credit on actuarial gains	**(9.8)**	5.4
Deferred tax (charge) on cash flow hedges	**(6.6)**	(23.0)
	(16.1)	(17.4)

10 Taxation continued

(c) Reconciliation of the total tax charge

	2010 £m	2009 £m
Profit/(loss) from continuing operations before income tax	**40.2**	(83.5)
(Loss)/profit from discontinued operations before income tax	**(0.5)**	7.3
Accounting profit/(loss) before income tax	**39.7**	(76.2)
Notional charge/(credit) at UK corporation tax rate of 28% (2009: 28.0%)	**11.1**	(21.3)
Non-deductible goodwill impairment and intangible amortisation	**0.1**	0.3
UK tax settlement (note 10h)	**(32.1)**	–
Utilisation of unrecognised tax losses	**(0.1)**	(3.8)
Effect of reduction in UK tax rates (note 10g)	**0.1**	–
Prior year adjustments within current and deferred tax	**8.7**	2.8
Spanish reinvestment relief and other tax credits	**(5.1)**	(4.3)
Effect of overseas tax rates	**1.7**	4.6
Tax on Spanish goodwill and intangibles	**(6.0)**	(6.3)
Effect of removal of Industrial Buildings Allowances	**–**	(5.0)
Non-taxable profit on sale of non-current assets	**–**	2.6
Overseas financing deductions	**(6.4)**	(4.6)
Non-deductible expenditure on the exit of NXEC	**–**	8.8
Non-deductible expenditure	**5.4**	2.7
Total tax credit reported in the income statement (note 10a)	**(22.6)**	(23.5)

(d) Temporary differences associated with Group investments

No deferred tax (2009: £nil) is recognised on the unremitted earnings of subsidiaries, associates and joint ventures, as the Group has determined that these undistributed profits will not be distributed in the near future. As a result of changes to tax legislation in 2009, overseas dividends received on or after 1 July 2009 are generally exempt from UK corporation tax, but may be subject to withholding tax. There are no temporary differences (2009: £nil) associated with investments in subsidiaries, associates and joint ventures, for which a deferred tax liability has not been recognised but for which a tax liability may arise.

(e) Unrecognised tax losses

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit against future taxable profits is probable. UK and overseas deferred tax assets that the Group has not recognised in the accounts amount to £37.0m (2009: £27.4m), which arise in tax jurisdictions where the Group does not expect to generate sufficient suitable future profits. In addition, there are capital losses of £7.5m (2009: £30.9m) which have not been recognised, recoverability of which is dependent on capital gains arising. A deferred tax asset of £2.8m has been recognised in respect of deductible temporary differences carried forward in the UK as the Group expects there to be sufficient taxable profits in that jurisdiction against which the assets could be utilised.

(f) Deferred tax included in the income statement

	2010 £m	2009 £m
Accelerated capital allowances	**(9.2)**	0.5
Other short-term temporary differences	**(13.1)**	(5.1)
Utilisation/(recognition) of losses	**27.9**	(42.1)
	5.6	(46.7)

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

(g) Deferred tax included in the income statement

In the June 2010 Budget Statement, it was announced that the main rate of UK corporation tax would reduce from 28% to 27% on 1 April 2011. The legislation was enacted in July 2010. The reduction in the tax rate results in a tax charge of £0.1m, as the UK has a net deferred tax asset.

The proposed changes to reduce the UK corporation tax rate from 27% to 24% on 1 April 2014 will have a similar effect in future years.

10 Taxation continued

(h) UK tax settlement

During 2010, the Group entered into discussions with HM Revenue & Customs ("HMRC") to settle a number of UK corporation tax issues. Negotiations were concluded and the Group agreed to a liability of £16.8m, including interest, to be paid in instalments. This resulted in an exceptional tax release of £32.1m.

11 Discontinued operations

On 9 January 2009 the Group completed the sale of the Dot2Dot business. The 2010 results include an exceptional charge to the income statement of £0.3m in respect of the discontinued operation (2009: £2.4m).

The 2010 cash flows from discontinued operations include an outflow of £1.6m (2009: £3.0m) in relation to Dot2Dot, plus an outflow of £1.8m (2009: £2.9m) relating to North America Public Transit that was disposed of in 2005.

During 2009, a £10.6m credit was recognised after costs in relation to a settlement of outstanding claims from the exit of the Australian operations.

The results of the Group's discontinued operations in 2010 are presented below together with the comparative data for 2009 and the respective taxation charges:

	Australia		Dot2Dot		North America Public Transit		Total	
	2010 £m	2009 £m	**2010 £m**	2009 £m	**2010 £m**	2009 £m	**2010 £m**	2009 £m
Revenue	**–**	–	**–**	–	**–**	–	**–**	–
Operating costs, before intangible amortisation and exceptional items	**(0.1)**	–	**–**	–	**–**	–	**(0.1)**	–
Normalised operating loss	**(0.1)**	–	**–**	–	**–**	–	**(0.1)**	–
Normalised loss before tax	**(0.1)**	–	**–**	–	**–**	–	**(0.1)**	–
Tax credit on normalised loss	**–**	–	**–**	–	**–**	–	**–**	–
Normalised loss from discontinued operations	**(0.1)**	–	**–**	–	**–**	–	**(0.1)**	–
Goodwill impairment	**–**	–	**–**	–	**–**	–	**–**	–
Exceptional items	**–**	10.3	**(0.4)**	(3.0)	**–**	–	**(0.4)**	7.3
	–	10.3	**(0.4)**	(3.0)	**–**	–	**(0.4)**	7.3
Tax on exceptional items	**–**	0.3	**0.1**	0.6	**–**	–	**0.1**	0.9
	–	10.6	**(0.3)**	(2.4)	**–**	–	**(0.3)**	8.2
(Loss)/profit from discontinued operations	**(0.1)**	10.6	**(0.3)**	(2.4)	**–**	–	**(0.4)**	8.2
Profit per share								
Basic from discontinued operations	**–**	–	**–**	–	**–**	–	**–**	2.7p
Diluted from discontinued operations	**–**	–	**–**	–	**–**	–	**–**	2.7p
Net cash (outflow)/inflow from:								
Operating activities	**(0.1)**	–	**(1.6)**	–	**(2.1)**	–	**(3.8)**	–
Investing activities	**–**	11.4	**–**	(3.0)	**0.3**	(2.9)	**0.3**	5.5

12 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	**–**	15.2
Ordinary interim dividend for 2009 nil 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**	–

13 Earnings per share

	2010	2009
Basic earnings/(loss) per share – continuing operations	**12.1p**	(20.3p)
Basic (loss)/earnings per share – discontinued operations	**(0.1p)**	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	**(0.1p)**	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.

13 Earnings per share continued

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

	2010 £m	2010 Basic EPS p	2010 Diluted EPS p	2009 £m	2009 Basic EPS p	2009 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

14 Intangible assets

	Customer contracts £m	Rail franchise £m	Software £m	Finite life assets £m	Contractual relationships £m	Goodwill £m	Indefinite life assets £m	Total £m
Cost:								
At 1 January 2010	**434.0**	**9.9**	**18.6**	**462.5**	**55.8**	**1,116.4**	**1,172.2**	**1,634.7**
Companies acquired	**4.7**	**–**	**–**	**4.7**	**–**	**0.9**	**0.9**	**5.6**
Additions	**–**	**–**	**2.0**	**2.0**	**–**	**–**	**–**	**2.0**
Foreign exchange	**(12.4)**	**–**	**1.4**	**(11.0)**	**2.0**	**(12.9)**	**(10.9)**	**(21.9)**
At 31 December 2010	**426.3**	**9.9**	**22.0**	**458.2**	**57.8**	**1,104.4**	**1,162.2**	**1,620.4**
Amortisation and impairment:								
At 1 January 2010	**191.0**	**5.7**	**1.3**	**198.0**	**–**	**86.8**	**86.8**	**284.8**
Charge for year	**47.0**	**2.4**	**7.7**	**57.1**	**–**	**–**	**–**	**57.1**
Foreign exchange	**(4.6)**	**(0.1)**	**0.3**	**(4.4)**	**–**	**(1.3)**	**(1.3)**	**(5.7)**
At 31 December 2010	**233.4**	**8.0**	**9.3**	**250.7**	**–**	**85.5**	**85.5**	**336.2**
Net book value:								
At 31 December 2010	**192.9**	**1.9**	**12.7**	**207.5**	**57.8**	**1,018.9**	**1,076.7**	**1,284.2**
At 1 January 2010	**243.0**	**4.2**	**17.3**	**264.5**	**55.8**	**1,029.6**	**1,085.4**	**1,349.9**

14 Intangible assets continued

	Customer contracts £m	Rail franchise £m	Software £m	Finite life assets £m	Contractual relationships £m	Goodwill £m	Indefinite life assets £m	Total £m
Cost:								
At 1 January 2009	471.6	9.9	13.1	494.6	57.6	1,205.8	1,263.4	1,758.0
Disposals	(4.0)	–	–	(4.0)	–	(13.2)	(13.2)	(17.2)
Additions internally generated	–	–	5.8	5.8	–	–	–	5.8
Foreign exchange	(33.6)	–	(0.3)	(33.9)	(1.8)	(76.2)	(78.0)	(111.9)
At 31 December 2009	434.0	9.9	18.6	462.5	55.8	1,116.4	1,172.2	1,634.7
Amortisation and impairment:								
At 1 January 2009	146.9	4.7	–	151.6	–	86.8	86.8	238.4
Charge for year	58.1	1.0	1.3	60.4	–	–	–	60.4
Disposals	(3.6)	–	–	(3.6)	–	–	–	(3.6)
Foreign exchange	(10.4)	–	–	(10.4)	–	–	–	(10.4)
At 31 December 2009	191.0	5.7	1.3	198.0	–	86.8	86.8	284.8
Net book value:								
At 31 December 2009	243.0	4.2	17.3	264.5	55.8	1,029.6	1,085.4	1,349.9
At 1 January 2009	324.7	5.2	13.1	343.0	57.6	1,119.0	1,176.6	1,519.6

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

	2010 Contractual relationships £m	**2010 Goodwill £m**	**Total £m**	2009 Contractual relationships £m	2009 Goodwill £m	Total £m
UK Coach	**–**	**13.2**	**13.2**	–	13.2	13.2
North American Bus	**40.0**	**276.4**	**316.4**	37.4	262.2	299.6
European Coach & Bus	**17.8**	**729.3**	**747.1**	18.4	754.2	772.6
	57.8	**1,018.9**	**1,076.7**	55.8	1,029.6	1,085.4

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

The recoverable amount of indefinite life intangible assets has been determined based on a value in use calculation using cash flow projections based on financial budgets and forecasts approved by senior management covering a five year period. Key assumptions, including growth rates and operating margins, are based on historical experience, detailed budget plans as well as management's assessment of current market and economic conditions. Growth has then been extrapolated forward from the end of the forecasts.

14 Intangible assets continued

The assumptions used for the cash-generating units, are as follows:

	Discount rate applied to cash flow projections 2010	Discount rate applied to cash flow projections 2009	Growth rate used to extrapolate cash flows beyond five year period of management plan 2010	Growth rate used to extrapolate cash flows beyond five year period of management plan 2009
UK Coach	**9.9%**	10.1%	**2.0%**	2.0%
North American Bus	**11.1%**	11.7%	**2.0%**	2.0%
European Coach & Bus	**8.4%**	7.5%	**2.0%**	2.0%

The discount rates represent the pre-tax risk adjusted weighted average cost of capital appropriate for the cash flow generated. In the current year the weighted average cost of capital has been impacted by a change in the Group's capital structure and a decline in the cost of debt.

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

The value in use of the North American Bus exceeds its carrying amount by £32.4m. Sensitivity analysis has been completed on each key assumption in isolation, and this indicates that the value in use of the division will be equal to its carrying amount following a reduction in operating profit margin of 50 basis points, an increase in the discount rate of 30 basis points or a reduction in revenue growth rates of 110 basis points. The continued non-impairment of North America is dependent upon delivering the expected margin recovery in future years.

The value in use of the European Coach & Bus division exceeds its carrying amount by £252.3m. Sensitivity analysis has been completed on each key assumption in isolation, and this indicates that the value in use of the division will be equal to its carrying amount following a reduction in operating profit margin of 380 basis points, an increase in the discount rate of 130 basis points or a reduction in revenue growth rates of 620 basis points.

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

The Directors consider the assumptions used to be consistent with the historical performance of each cash-generating unit and to be realistically achievable in light of economic and industry measures and forecasts.

15 Property, plant and equipment

	Freehold land and buildings £m	Long leasehold property improvements £m	Public service vehicles £m	Plant and equipment, fixtures and fittings £m	Total £m
Cost:					
At 1 January 2010	**95.5**	**4.4**	**816.9**	**158.6**	**1,075.4**
Additions	**3.2**	**0.6**	**131.8**	**15.2**	**150.8**
Acquisitions of businesses	**–**	**–**	**2.4**	**–**	**2.4**
Disposals	**(1.4)**	**(1.5)**	**(56.4)**	**(8.6)**	**(67.9)**
Foreign exchange	**(2.1)**	**0.2**	**12.1**	**0.5**	**10.7**
At 31 December 2010	**95.2**	**3.7**	**906.8**	**165.7**	**1,171.4**
Depreciation:					
At 1 January 2010	**11.0**	**2.5**	**286.6**	**102.7**	**402.8**
Charge for the year	**1.8**	**0.5**	**79.5**	**18.0**	**99.8**
Disposals	**(1.6)**	**(1.5)**	**(45.6)**	**(4.2)**	**(52.9)**
Foreign exchange	**–**	**0.1**	**7.4**	**0.1**	**7.6**
At 31 December 2010	**11.2**	**1.6**	**327.9**	**116.6**	**457.3**
Net book value:					
At 31 December 2010	**84.0**	**2.1**	**578.9**	**49.1**	**714.1**
At 1 January 2010	**84.5**	**1.9**	**530.3**	**55.9**	**672.6**

15 Property, plant and equipment continued

	Freehold land and buildings £m	Long leasehold property improvements £m	Public service vehicles £m	Plant and equipment, fixtures and fittings £m	Total £m
Cost:					
At 1 January 2009	109.5	6.1	902.5	192.0	1,210.1
Additions	10.1	2.2	32.3	20.9	65.5
Disposals	(18.9)	(3.4)	(67.6)	(50.7)	(140.6)
Foreign exchange	(5.2)	(0.5)	(50.3)	(3.6)	(59.6)
At 31 December 2009	95.5	4.4	816.9	158.6	1,075.4
Depreciation:					
At 1 January 2009	9.9	2.8	261.5	94.4	368.6
Charge for the year	1.8	0.7	79.2	26.3	108.0
Disposals	(0.4)	(0.7)	(38.0)	(16.4)	(55.5)
Foreign exchange	(0.3)	(0.3)	(16.1)	(1.6)	(18.3)
At 31 December 2009	11.0	2.5	286.6	102.7	402.8
Net book value:					
At 31 December 2009	84.5	1.9	530.3	55.9	672.6
At 1 January 2009	99.6	3.3	641.0	97.6	841.5

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

		2010 £m	2009 £m
Land and buildings	– cost	**1.5**	1.8
	– depreciation	**(0.1)**	(0.1)
Net land and buildings		**1.4**	1.7
Public service vehicles	– cost	**215.1**	151.3
	– depreciation	**(54.0)**	(41.4)
Net public service vehicles		**161.1**	109.9
Plant and equipment	– cost	**1.3**	1.5
	– depreciation	**(1.2)**	(1.5)
Net plant and equipment		**0.1**	–
Total net book value		**162.6**	111.6

Finance leased assets and assets under hire purchase contracts are pledged as security for the related finance lease and hire purchase liabilities.

16 Subsidiaries

The companies listed below include all those which principally affect the result and net assets of the Group. A full list of subsidiaries, joint ventures and associates will be annexed to the next Annual Return to Companies House. The principal country of operation in respect of the companies below is the country in which they are incorporated.

National Express Group PLC is the beneficial owner of all the equity share capital, either itself or through subsidiaries, of the companies. The Group's train passenger services in the UK are operated through franchises awarded by DfT Rail, as delegated by the UK Government.

Incorporated in England and Wales

National Express Limited	Administration and marketing of express coach services in Great Britain
Eurolines (UK) Limited	Administration and marketing of express coach services to Europe
Airlinks Airport Services Limited	Operation of coach services
National Express Rail Replacement Limited	Operation of coach services
The Kings Ferry Limited	Operation of coach services
West Midlands Travel Limited	Operation of bus services
c2c Rail Limited	Operation of train passenger services
London Eastern Railway Limited (trading as National Express East Anglia)	Operation of train passenger services
NXEC Trains Limited (trading as National Express East Coast)	Operation of train passenger services (ceased operating on 13 November 2009)

Incorporated in Scotland

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

Incorporated in the USA

Durham School Services LP	Operation of school bus services

Incorporated in Canada

Stock Transportation Limited	Operation of school bus services

Incorporated in Spain

NEX Continental Holdings SL*	Holding company for operating companies
Tury Express SA*	Holding company for operating companies
General Tecnica Industrial SLU*	Holding company for operating companies

* The main holding companies of the ALSA Group.

17 Financial assets

	2010 £m	2009 £m
Available for sale investments – Unlisted ordinary shares	**7.8**	7.7
Derivative financial instruments – Fuel price derivatives	**7.2**	3.3
Financial assets included in non-current assets	**15.0**	11.0
Derivative financial instruments – Interest rate derivatives	**3.8**	–
Derivative financial instruments – Fuel price derivatives	**14.1**	5.6
Derivative financial instruments – Foreign exchange derivatives	**0.4**	0.3
Financial assets included in current assets	**18.3**	5.9

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

Available for sale investments

	2010 £m	2009 £m
Cost or valuation:		
At 1 January	**7.7**	10.0
Additions	**0.3**	0.3
Disposals	**–**	(1.8)
Foreign exchange	**(0.2)**	(0.8)
At 31 December	**7.8**	7.7
Accumulated impairment:		
At 1 January	**–**	(0.8)
Disposals	**–**	0.8
At 31 December	**–**	–
Net carrying amount:		
At 31 December	**7.8**	7.7
At 1 January	**7.7**	9.2

The principal available for sale investments are as follows:

Name	Country of registration	Class of share	2010 Proportion held %	2009 Proportion held %
Bosnjak Holdings Pty Ltd	Australia	Ordinary shares	**86**	86
Prepayment Cards Limited (PCL)	England and Wales	Ordinary shares	**23.5**	23.5
Metros Ligeros de Madrid, S.A. (MLM)	Spain	Ordinary shares	**15**	15
Various investments within ALSA and Continental Auto	Spain	Ordinary shares	**1–16**	1–16

Additions during the year relate to investments held by ALSA and Continental Auto.

18 Investments accounted for using the equity method

Investments accounted for using the equity method are as follows:

	2010 £m	2009 £m
Joint ventures	**2.0**	2.0
Associates	**4.6**	4.7
Total investments accounted for under the equity method	**6.6**	6.7

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

	2010 £m	2009 £m
Share of joint venture's profit	**0.1**	–
Share of associates' profit/(loss)	**0.2**	(0.1)
	0.3	(0.1)
Exceptional charge for associate onerous contract provision	**–**	(12.0)
Total share of results from associates and joint ventures	**0.3**	(12.1)

(a) Investments in joint ventures

The Group's interests in joint ventures are as follows:

Name	Country of registration	Activity	Proportion held %
Ibero-Eurosur S.L.	Spain	Holding company of Deutsche Touring	20

The financial information of this joint venture is summarised below:

Share of joint venture's balance sheet	2010 £m	Ibero 2009 £m
Non-current assets	**3.7**	3.8
Current assets	**0.1**	0.1
Share of gross assets	**3.8**	3.9
Non-current liabilities	**(1.5)**	(1.6)
Current liabilities	**(0.3)**	(0.3)
Share of gross liabilities	**(1.8)**	(1.9)
Share of net assets	**2.0**	2.0

Share of joint venture's revenue and results	2010 £m	Ibero 2009 £m
Revenue	**0.1**	0.2
Profit	**0.1**	–

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

18 Investments accounted for using the equity method continued

(b) Investments in associates

The Group's interests in associates are as follows:

Name	Country of registration	Proportion held %
Inter-Capital and Regional Rail Limited	England and Wales	40
European Coach & Bus associates	Spain	20–50

Inter-Capital and Regional Rail Limited (ICRRL) was contracted to manage the operations of Eurostar UK until 2010. In 2006 and 2009, onerous contract provisions were recognised in relation to the Group's obligation to fund the losses of ICRRL (note 26). As a result, the Group has ceased to recognise the share of results of ICRRL.

European Coach & Bus's associates are generally involved in the operation of coach and bus services, management of bus stations and similar operations.

The associates' financial information is summarised below:

	Held by European Coach & Bus	
Share of associates' balance sheets	**2010 £m**	2009 £m
Non-current assets	**5.1**	5.1
Current assets	**6.1**	7.3
Share of gross assets	**11.2**	12.4
Non-current liabilities	**(2.4)**	(2.9)
Current liabilities	**(4.2)**	(4.8)
Share of gross liabilities	**(6.6)**	(7.7)
Share of net assets	**4.6**	4.7

The Group's net investment in associates is £4.6m (2009: £4.7m) which comprises associates held by European Coach & Bus only.

	Revenue		Profit/(loss)	
Share of associates' revenue and results	**2010 £m**	2009 £m	**2010 £m**	2009 £m
European Coach & Bus associates	**15.5**	20.2	**0.2**	(0.1)
Total normalised associates' results	**15.5**	20.2	**0.2**	(0.1)
Exceptional ICRRL charge	**–**	–	**–**	(12.0)
Total associates' results	**15.5**	20.2	**0.2**	(12.1)

An additional onerous contract provision was recognised in 2009 in relation to the Group's obligation for the proposed early termination of the ICRRL contract with Eurostar. This resulted in a total income statement charge of £12.0m included in exceptional items.

19 Business combinations

(a) Acquisitions

2010 Acquisitions

On 31 December 2010, in the United States, the Group acquired the entire share capital of school bus operator Vogel (Vogel Bus Company Inc).

Net assets at date of acquisition:	Book value £m	Fair value adjustments £m	**Fair value total £m**
Intangible assets	–	4.7	**4.7**
Property, plant and equipment	1.5	0.9	**2.4**
Trade and other receivables	0.5	–	**0.5**
Cash and cash equivalents	0.1	–	**0.1**
Trade and other payables	(0.1)	–	**(0.1)**
Net assets acquired	2.0	5.6	**7.6**
Goodwill on acquisition			**0.9**
Total consideration			**8.5**
Less: deferred consideration			**(8.5)**
Cash acquired			**0.1**
Net cash inflow			**0.1**

The acquisition balance sheet has been adjusted to reflect fair value adjustments. The adjustment to intangible assets represents customer contracts acquired with Vogel and will be amortised over the life of the contracts. The adjustment to property, plant and equipment represents the difference between book value and market value of the assets.

Total consideration was £8.5m, of which £6.5m was paid on 3 January 2011 and the remaining £2.0m has been deferred. In addition, £0.1m of acquisition costs were incurred which have been expensed.

As the acquisition completed on the last day of the financial year it did not contribute to operating profit. If this combination had taken place at the beginning of 2010 the Group operating profit in 2010 would have been £87.0m and revenue from continuing operations in 2010 would have been £2,133.5m.

Included in the goodwill recognised above are certain intangible assets that cannot be separately identified and measured due to their nature. This includes control over the acquired business and assembled workforce, and increased scale in our North American school bus operations. Management believes that goodwill represents value to the Group for which the recognition of a discrete intangible asset is not permitted. The majority of the value was assessed to comprise of synergy benefits expected to be achieved by merging the businesses acquired into the Group's North American operations. All of the goodwill recognised is expected to be deductible for tax purposes.

2009 Acquisitions

There were no acquisitions in the Group in 2009.

(b) Disposals

2010 Disposals

There were no disposals in the Group in 2010.

2009 Disposals

The trade and business of Travel London, the Group's London bus business was disposed of on 9 June 2009. Cash flows arising on disposal comprised consideration of £32.0m less cash repaid and other expenses of £3.6m. The net assets disposed of were £34.0m including £13.6m of goodwill, resulting in a loss of £5.6m.

In 2009, the Group disposed of Spanish concessions held by ALSA within the European Coach & Bus division for £0.2m.

20 Non-current assets – other receivables

	2010 £m	2009 £m
Trade receivables	**4.7**	–
Prepayments and accrued income	**0.1**	2.5
Other receivables	**1.2**	1.5
	6.0	4.0

21 Inventories

	2010 £m	2009 £m
Raw materials and consumables	**17.6**	16.4

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

22 Current assets – trade and other receivables

	2010 £m	2009 £m
Trade receivables	**150.3**	166.1
Less: provision for impairment of receivables	**(14.3)**	(12.1)
Trade receivables – net	**136.0**	154.0
Amounts due from associates and joint ventures (note 36)	**0.8**	1.3
Amounts owed by other related parties (note 36)	**1.3**	1.5
Other receivables	**30.5**	21.2
Prepayments and accrued income	**58.2**	48.7
	226.8	226.7

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

	2010 £m	2009 £m
At 1 January	**(12.1)**	(11.8)
Provided in the year	**(2.2)**	(0.3)
At 31 December	**(14.3)**	(12.1)

23 Cash and cash equivalents

	2010 £m	2009 £m
Cash at bank and in hand	**81.5**	58.3
Overnight deposits	**36.8**	12.0
Other short-term deposits	**10.5**	35.5
Cash and cash equivalents	**128.8**	105.8

Cash and cash equivalents include restricted balances of £21.7m (2009: £16.8m) held by the UK Rail subsidiaries (“TOCs”). Under the terms of the train franchise agreements, cash can only be distributed by the TOCs either up to the value of retained profits or the amount determined by prescribed liquidity ratios. The restricted cash represents the balance that is either not available for distribution or the amount required to satisfy the liquidity ratio at the balance sheet date.

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group and earn interest at the agreed short-term floating deposit rate. The fair value of cash and cash equivalents is equal to the carrying value.

24 Current liabilities – trade and other payables

	2010 £m	2009 £m
Trade payables	**175.3**	187.3
Amounts owed to associates and joint ventures (note 36)	**1.1**	1.5
Amounts owed to other related parties (note 36)	**0.7**	1.0
Other tax and social security payable	**36.0**	35.4
Accruals and deferred income	**171.1**	154.4
Other payables	**116.8**	87.4
	501.0	467.0

Trade payables are non-interest bearing and are normally settled on 30 day terms and other payables are non-interest bearing and have an average term of two months. Included within other payables are deferred fixed asset grants from government or other public bodies of £2.3m (2009: £2.9m).

25 Other non-current liabilities

	2010 £m	2009 £m
Deferred fixed asset grants	**3.7**	4.6
Other liabilities	**21.5**	17.0
	25.2	21.6

26 Provisions

	Insurance claims[1] £m	Eurostar onerous contract provision[2] £m	Other[3] £m	Total £m
At 1 January 2010	42.9	26.9	14.8	84.6
Charged to the income statement	21.1	–	13.3	34.4
Utilised in the year	(20.2)	(8.7)	(12.7)	(41.6)
Amortisation of discount	1.1	–	–	1.1
Exchange difference	0.9	–	0.2	1.1
At 31 December 2010	**45.8**	**18.2**	**15.6**	**79.6**
Current 31 December 2010	26.1	9.0	8.8	43.9
Non-current 31 December 2010	19.7	9.2	6.8	35.7
	45.8	**18.2**	**15.6**	**79.6**
Current 31 December 2009	21.0	26.9	14.7	62.6
Non-current 31 December 2009	21.9	–	0.1	22.0
	42.9	26.9	14.8	84.6

1 The insurance claims provision arises from estimated exposures at the year end, the majority of which will be utilised in the next five years, and comprises provisions for existing claims arising in the UK and North America.

2 A provision was recognised in 2006 for the Group's onerous contract for Eurostar with ICRRL. £8.7m (2009: £8.6m) was paid to ICRRL during the year. £9.0m will be paid in 2011, with the remainder to be settled in 2012.

3 Other includes amounts provided for onerous property contracts, liabilities for future franchise exits within the UK Rail division and costs arising from restructuring activities. Non-current amounts are expected to be settled in 2012.

When the effect is material, the provisions are discounted to their net present value.

27 Deferred tax

	2010 £m	2009 £m
Net deferred tax liability at 1 January	**(63.8)**	(104.9)
Acquisition of subsidiaries	**–**	–
Disposal of subsidiaries	**–**	2.0
(Debit)/credit to income statement	**(5.6)**	46.7
Charge to other comprehensive income or equity	**(16.1)**	(17.4)
Exchange differences	**1.4**	9.8
Net deferred tax liability at 31 December	**(84.1)**	(63.8)

Based on current capital investment plans, the Group expects to be able to claim capital allowances in excess of depreciation in future years at a similar level to the current year.

Deferred tax assets and liabilities within the same jurisdiction have been offset.

Deferred tax assets	2010 £m	2009 £m
Accelerated tax depreciation	**(1.0)**	(14.9)
Losses carried forward	**1.2**	29.0
Other short-term temporary differences	**2.6**	21.1
Total	**2.8**	35.2

Deferred tax liabilities	2010 £m	2009 £m
Accelerated tax depreciation	**(94.4)**	(89.6)
Losses carried forward	**37.3**	30.1
Other short-term temporary differences	**(29.8)**	(39.5)
Total	**(86.9)**	(99.0)

28 Financial liabilities

	2010 £m	2009 £m
Non-current		
Bank loans	**3.6**	447.2
Bonds	**565.6**	–
Finance lease obligations	**103.8**	57.7
Other debt payable	**1.4**	1.2
Financial liabilities – Interest-bearing loans and borrowings	**674.4**	506.1
Fuel price derivatives	**–**	3.8
Interest rate derivatives	**5.1**	–
Foreign exchange derivatives	**–**	7.4
Financial liabilities – Derivative financial instruments	**5.1**	11.2
Non-current financial liabilities	**679.5**	517.3
Current		
Bank loans	**36.2**	240.5
Finance lease obligations	**27.8**	17.9
Other debt payable	**0.4**	–
Financial liabilities – Interest-bearing loans and borrowings	**64.4**	258.4
Fuel price derivatives	**2.0**	11.5
Interest rate derivatives	**–**	24.2
Foreign exchange derivatives	**10.4**	0.3
Financial liabilities – Derivative financial instruments	**12.4**	36.0
Current financial liabilities	**76.8**	294.4

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

29 Interest-bearing loans and borrowings

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

	2010 £m	**Maturity**	**Effective interest rate**	2009 £m	Maturity	Effective interest rate
7 year Sterling bond	**345.0**	**January 2017**	**6.54%**	–	–	–
10 year Sterling bond	**220.6**	**June 2020**	**6.85%**	–	–	–
Bonds	**565.6**					
Sterling bank loans	**35.3**	**August 2014[1]**	**LIBOR + 1.45%**	445.8	June 2011	LIBOR + 1.5%
Euro bank loans	**3.0**	**2011–2015**	**3.00%**	2.6	2010–2015	EURIBOR + 1.0%
Euro bank loans	**1.5**	**2011–2015**	**2.64%**			
Euro bank loans	**–**	**–**	**–**	239.3	September 2010	EURIBOR + 2.0%
Bank loans	**39.8**			687.7		
US dollar finance leases at fixed rate	**90.9**	**2011–2017**	**3.70%**	30.3	2010–2014	4.0%
Euro finance leases at fixed rate	**8.4**	**2011–2015**	**6.5%**	0.5	2010–2012	5.0%
Euro finance leases at floating rate	**8.8**	**2011–2016**	**EURIBOR + 0.62%**	18.0	2010–2016	EURIBOR + 0.5%
Sterling finance leases at fixed rate	**23.5**	**2011–2018**	**4.76%**	26.8	2010–2018	5.4%
Finance leases	**131.6**			75.6		
Euro loans	**1.8**	**2011–2016**	**–**	1.2	2010–2011	–
Other debt payable	**1.8**			1.2		
Total	**738.8**			764.5		

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

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

Under the terms of the £1bn EMTN programme, there is a change in control put option such that, upon a change of control event, any holder of any MTN may require the Company to redeem or purchase that MTN.

Details of the Group's interest rate risk management strategy and associated interest rate derivatives are included in notes 30 and 31.

The Group is subject to a number of financial covenants in relation to its syndicated credit facilities which, if contravened, could result in its borrowings under the facility becoming immediately repayable. These covenants specify maximum net debt to EBITDA and minimum EBITDA to net interest payable.

29 Interest-bearing loans and borrowings continued

The following table sets out the carrying amount, by maturity of the Group's interest bearing financial instruments and borrowings.

As at 31 December 2010	< 1 year £m	1–2 years £m	2–3 years £m	3–4 years £m	4–5 years £m	> 5 years £m	Total £m
Fixed rate							
Bonds	**–**	**–**	**–**	**–**	**–**	**(565.6)**	**(565.6)**
Finance leases	**(22.9)**	**(13.8)**	**(15.6)**	**(23.8)**	**(12.7)**	**(34.0)**	**(122.8)**
Net interest rate swaps	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Other debt payable	**(0.4)**	**–**	**(1.2)**	**–**	**–**	**(0.2)**	**(1.8)**
Floating rate							
Cash assets	**128.8**	**–**	**–**	**–**	**–**	**–**	**128.8**
Bank loans	**(36.1)**	**(0.8)**	**(1.6)**	**(0.7)**	**(0.6)**	**–**	**(39.8)**
Finance leases	**(4.9)**	**(1.4)**	**(0.8)**	**(0.7)**	**(0.8)**	**(0.2)**	**(8.8)**
Net interest rate swaps	**–**	**–**	**–**	**–**	**–**	**(1.3)**	**(1.3)**

As at 31 December 2009	< 1 year £m	1–2 years £m	2–3 years £m	3–4 years £m	4–5 years £m	> 5 years £m	Total £m
Fixed rate							
Finance leases	(9.0)	(10.5)	(7.0)	(6.6)	(14.5)	(10.0)	(57.6)
Net interest rate swaps	(24.2)	–	–	–	–	–	(24.2)
Other debt payable	–	(1.2)	–	–	–	–	(1.2)
Floating rate							
Cash assets	105.8	–	–	–	–	–	105.8
Bank loans	(240.5)	(446.0)	(0.7)	(0.1)	(0.2)	(0.2)	(687.7)
Finance leases	(8.9)	(4.7)	(1.6)	(1.0)	(0.8)	(1.0)	(18.0)

30 Financial risk management objectives and policies

Financial risk factors and management

The Group's multinational operations and debt levels expose it to a variety of financial risks, of which the most material are market risks relating to fuel prices, foreign currency exchange rates, interest rates and the availability of funding at reasonable margins. The Group has in place a risk management programme that seeks to manage the impact of these risks on the financial performance of the Group by using financial instruments including borrowings, committed facilities and forward exchange, fuel price and interest rate derivatives.

The Board of Directors has delegated to a sub-committee, the Treasury Committee, the responsibility for implementing the risk management policies laid down by the Board. The Treasury Committee provides assurance to the Board that the Group's financial risk profile including financial risk identification and measurement is in accordance with the Group's policies and procedures for Group Treasury. The policies are implemented by the Group Treasury department which receives regular reports from all the operating companies to enable prompt identification of financial risks so that appropriate actions may be taken.

Foreign currency

The Group has major foreign operations in the US, Canada and Spain and as a result is exposed to the movements in foreign currency exchange rates on the translation of these foreign currency denominated net assets and earnings. These movements can have a significant impact on the Group's reported results. The Group seeks to manage this foreign currency exchange movements risk by aligning its foreign currency denominated liabilities with the EBIT generated in each currency, such that some protection is afforded to the net debt: EBITDA covenant within the Group's core borrowing facility. This is achieved by a combination of foreign currency borrowings and finance leases, and entering into derivative financial instruments such as cross currency interest rate swaps and foreign exchange swaps. At the year end, the Group had outstanding foreign exchange derivatives of €275.0m, US$85.0m, a cross-currency interest rate swap of US$85.0m and finance leases of US$141.7m and €20.1m.

Derivative financial instruments are designated as net investment hedges of foreign currency assets. The effective portion of the gain or loss on the hedge is recognised in the statement of comprehensive income and recycled to the income statement at the same time as the underlying hedged net assets affect the income statement. Any ineffectiveness is taken to the income statement.

The table below demonstrates the sensitivity of the Group's financial instruments to a reasonably possible change in foreign exchange rates, with all other variables held constant. This would affect the Group's profit before tax and translation reserve. The effect on the translation reserve represents the movement in the translated value of the foreign currency denominated loans and change in fair value of cross-currency swap contracts. These movements would be offset by an opposite movement in the translated value of the Group's overseas net investments. It is estimated that a 10% change in the corresponding exchange rates would result in an exchange gain or loss in the translation reserve of £37.3m.

As at 31 December	Strengthening/ (weakening) in currency	**2010** Effect on profit before tax £m	**2010** Effect on translation reserve £m	2009 Effect on profit before tax £m	2009 Effect on translation reserve £m
US dollar	10%	**–**	**(15.5)**	–	(4.8)
Euro	10%	**–**	**(21.7)**	–	(21.8)
Canadian dollar	10%	**–**	**(0.1)**	–	–
US dollar	(10%)	**–**	**15.5**	–	4.8
Euro	(10%)	**–**	**21.7**	–	21.8
Canadian dollar	(10%)	**–**	**0.1**	–	–

30 Financial risk management objectives and policies continued

Interest rate risk

The Group is exposed to movements in interest rates on both interest-bearing assets and liabilities. It is the Group's policy to maintain an appropriate balance between fixed and floating interest rates on borrowings in order to provide a level of certainty to interest expense in the short term and to reduce the year on year impact of interest rate fluctuations over the medium term. To achieve the desired fixed/floating ratio, the Group has entered into a series of interest rate swaps that have the effect of converting fixed rate debt to floating rate debt. The net effect of these transactions was that as at 31 December 2010 the proportion of Group net debt at floating rates was 19.6% (2009: 45.3%).

The table below demonstrates the sensitivity of the Group's financial instruments to a reasonably possible change in interest rates, with all other variables held constant, on the Group's profit before tax and on the Group's hedging reserve.

The sensitivity analysis covers all floating rate financial instruments, including the interest rate swaps. If the interest rates applicable to floating rate instruments denominated in Sterling were increased by 100bps, it is estimated that the Group's profit before taxation would decrease by approximately £1.8m. If the interest rates applicable to floating rate instruments denominated in US$ were increased by 50bps, it is estimated that the Group's profit before taxation would increase by approximately £0.1m. If the interest rates applicable to floating rate instruments denominated in Euro were increased by 75bps, it is estimated that the Group's profit before taxation would increase by approximately £0.2m. The analysis assumes that the amount and mix of floating rate debt, including finance leases, remains unchanged from that in place at 31 December 2010.

			2010		2009
As at 31 December	Increase/ (decrease) in basis points	**Effect on profit before tax £m**	**Effect on hedging reserve £m**	Effect on profit before tax £m	Effect on hedging reserve £m
Sterling	100	**(1.8)**	**–**	(4.0)	–
US dollars	50	**0.1**	**–**	0.4	–
Euro	75	**0.2**	**–**	0.2	–
Sterling	(100)	**1.8**	**–**	4.0	–
US dollars	(50)	**(0.1)**	**–**	(0.4)	–
Euro	(75)	**(0.2)**	**–**	(0.2)	–

30 Financial risk management objectives and policies continued

Commodity prices

The Group is exposed to movements in commodity prices as a result of its fuel usage. It is the Group's policy to hedge this exposure in order to provide a level of certainty as to its cost in the short term and to reduce the year on year impact of price fluctuations over the medium term. This is achieved by entering into fuel derivatives. At 31 December 2010, the Group had hedged approximately 93% of its 2011 expected usage, 50% of its expected usage in 2012 and 15% of its expected usage in 2013.

The table below demonstrates the effect of a reasonably possible variation in fuel prices, with all other variables held constant, on the fair value of the Group's financial instruments and accordingly on the Group's profit before tax and on the Group's hedging reserve.

The sensitivity analysis includes all fuel price derivatives. The effect on the hedging reserve arises through movements on the fair value of the Group's fuel price derivatives. For these derivative contracts the sensitivity of the net fair value to an immediate 20% increase or decrease in all prices would have been £37.3m at 31 December 2010. The figure does not include any corresponding economic advantage or disadvantage that would arise from the natural business exposure which would be expected to offset the gain or loss on the derivatives.

		2010		2009	
As at 31 December	Increase/ (decrease) in price	**Effect on profit before tax £m**	**Effect on hedging reserve £m**	Effect on profit before tax £m	Effect on hedging reserve £m
Sterling denominated ULSD	20%	**–**	**13.5**	–	9.3
US dollar denominated gasoil	20%	**–**	**11.6**	–	7.3
Euro denominated ULSD	20%	**–**	**12.2**	–	11.3
Sterling denominated ULSD	(20%)	**–**	**(13.5)**	–	(9.3)
US dollar denominated gasoil	(20%)	**–**	**(11.6)**	–	(7.3)
Euro denominated ULSD	(20%)	**–**	**(12.2)**	–	(11.3)

Credit risk

The maximum credit risk exposure of the Group is the gross carrying value of each of its financial assets. This risk is mitigated by a number of factors. Many of the Group's principal customers, suppliers and financial institutions with which it conducts business are public (or quasi-public) bodies, both national (DfT Rail and Network Rail in the UK) and local (school boards in North America, municipal authorities in Spain and Morocco, Transport for London and Centro in the UK). The Group does not consider these counterparties to pose a significant credit risk. Outside of this the Group does not consider it has significant concentrations of credit risk. The Group has implemented policies that require appropriate credit checks on potential customers before sales commence.

The counterparties for financial assets other than investments and trade receivables are subject to pre-approval by the Treasury Committee and such approval is limited to financial institutions with an A credit rating or better. The amount of exposure to any individual counterparty is subject to a limit, which is set by the Treasury Committee.

The only elements of the Group's financial assets which are not impaired but are past due are certain trade receivable items. An ageing of the assets which are past due is included in the table below. In terms of trade receivables that are neither impaired nor past due, there are no indications as at the year-end reporting date that the debtors will not meet their payment obligations.

			Of which: not impaired and past due in the following periods			
	Carrying amount £m	Of which: neither impaired nor past due £m	Less than 30 days £m	Between 30 and 60 days £m	Between 61 and 90 days £m	Over 90 days £m
Trade receivables at 31 December 2010	**140.7**	**104.7**	**12.8**	**4.4**	**4.0**	**14.8**
Trade receivables at 31 December 2009	154.0	67.0	44.1	10.8	4.4	27.7

30 Financial risk management objectives and policies continued

Liquidity risk

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

At 31 December 2010, the Group had committed bank borrowing and finance lease facilities of £631.6m (2009: £1,066.7m) of which £420.6m (2009: £318.6m) were undrawn. The reduction in committed facilities follows the issue of a seven year, £350m Sterling bond and a ten year, £225m Sterling bond. Proceeds from the bond issues were used to repay the Euro bank loan facility of €270m and outstanding amounts on the Group's £800m syndicated credit facility. In July 2010 the Group's £800m credit facility (maturity June 2011) was refinanced with a £500m syndicated credit facility (maturity 31 August 2014). This reduced excess headroom following the issue of the Sterling bonds and provided a longer term facility to the Group.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2010 based on the contractual undiscounted cash flows including interest cash flows. As such the amounts in this table will not agree to the carrying amounts disclosed in the Balance Sheet or other Notes. The table includes cash outflows associated with derivative hedging instruments. Their amounts reflect the maturity profile of the fair value liability where the instrument will be settled net, and the gross settlement amount where the pay leg of a derivative will be settled separately to the receive leg.

Year ended 31 December 2010	On demand £m	Less than 1 year £m	1–5 years £m	> 5 years £m	Total £m
Bank loans	–	1.6	47.7	–	49.3
Bonds	–	36.8	147.1	693.3	877.2
Finance lease obligations	–	28.3	83.1	38.5	149.9
Other debt payable	–	0.4	1.2	0.2	1.8
Net interest rate swaps	–	–	–	1.2	1.2
Fuel price swaps	–	3.7	6.4	–	10.1
Foreign exchange forward contracts	–	10.4	–	–	10.4
Trade and other payables	–	390.7	21.5	–	412.2
ICRRL onerous contract obligation	–	9.0	9.2	–	18.2
	–	480.9	316.2	733.2	1,530.3

Year ended 31 December 2009	On demand £m	Less than 1 year £m	1–5 years £m	> 5 years £m	Total £m
Bank loans	–	248.7	451.7	0.2	700.6
Finance lease obligations	–	20.6	52.5	12.0	85.1
Other debt payable	–	–	1.2	–	1.2
Net interest rate swaps	–	28.3	–	–	28.3
Fuel price swaps	–	11.9	6.0	–	17.9
Foreign exchange forward contracts	–	0.2	7.4	–	7.6
Trade and other payables	–	367.1	17.0	–	384.1
ICRRL onerous contract obligation	–	26.9	–	–	26.9
	–	703.7	535.8	12.2	1,251.7

Capital risk management

The Group seeks to adopt efficient financing structures that enable it to use its balance sheet strength to achieve the Group's objectives without putting shareholder value at risk. The Group's capital structure comprises its equity (refer to the Group Statement of Changes in Equity) and its net debt (refer to note 37). See Liquidity Risk in this section for further details of changes in debt structure during 2010.

The reduction in the Group's net debt from £657.9m to £610.4m is explained in the Operating Review. Information about the financial covenants in relation to the Group's borrowing facilities is included in note 29.

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

Fair values

The table below illustrates the fair values of all financial assets and liabilities held by the Group at 31 December 2010.

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are measured at amortised cost using the effective interest rate method and the carrying value in all cases approximates to the fair value.

Available for sale investments are non derivative assets that are either designated as available for sale, or are not classified as loans and receivables or held to maturity investments. The Group's available for sale investments have no active market, and in the absence of any other reliable external information are carried at cost or amortised cost which approximates to the fair value.

The fair value of derivatives is either determined by the third party financial institution with which the Group holds the instrument, in line with the market value of similar financial instruments or by use of valuation techniques using market data. Derivatives, other than those designated as effective hedging instruments, are classified as fair value through profit or loss and are carried on the balance sheet at their fair value with gains or losses recognised in the income statement. Derivatives designated as hedging instruments in an effective hedge are carried on the balance sheet at their fair value. For cash flow hedges and hedges of net investments in foreign operations, the effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income, while the ineffective portion is recognised in the income statement. Amounts taken to other comprehensive income are transferred to the income statement when the hedged transaction affects profit or loss or when the foreign operation is sold or partially disposed. For fair value hedges, all gains or losses are recognised in the income statement.

Derivatives are the only instrument which the Group holds at fair value. The fair value measurement of these instruments is categorised within the Level 2 (ie the fair values are derived based on observable market inputs), in accordance with IFRS 7.

The Group's bonds are held at a hybrid amortised cost with some fair value adjustment. After initial recognition at fair value, the bonds are measured at amortised cost using the effective interest rate method. A portion of the bonds are designated as the hedged item in an effective fair value hedging relationship. As such the carrying value of this portion is adjusted for changes in fair value attributable to the risk being hedged. This net carrying value will differ to the fair value depending on movements in the Group's credit risk, movements in interest rates on the un-hedged portion and unamortised fees.

All other liabilities including finance leases, banks loans, trade and other payables and other debt payable are held at amortised cost. After initial fair value recognition, these instruments are measured at amortised cost using the effective interest rate method. The carrying value of these liabilities approximates to the fair value.

Classification of financial instruments As at 31 December 2010	Loans and receivables £m	Available-for-sale assets £m	Derivatives used for hedging £m	Liabilities measured at amortised cost £m	At fair value through profit or loss £m	Total £m
Assets						
Investments	–	7.8	–	–	–	7.8
Fuel price swaps	–	–	21.3	–	–	21.3
Foreign exchange forward contracts	–	–	0.4	–	–	0.4
Interest rate swaps	–	–	3.8	–	–	3.8
Cash and cash equivalents	128.8	–	–	–	–	128.8
Trade and other receivables	232.8	–	–	–	–	232.8
	361.6	7.8	25.5	–	–	394.9
Liabilities						
Bank loans	–	–	–	(39.8)	–	(39.8)
Bonds	–	–	–	(602.5)	–	(602.5)
Finance lease obligations	–	–	–	(131.6)	–	(131.6)
Other debt payable	–	–	–	(1.8)	–	(1.8)
Interest rate swaps	–	–	(5.1)	–	–	(5.1)
Fuel price swaps	–	–	(2.0)	–	–	(2.0)
Foreign exchange forward contracts	–	–	(10.4)	–	–	(10.4)
Trade and other payables	–	–	–	(526.2)	–	(526.2)
ICRRL onerous contract obligation	–	–	–	(18.2)	–	(18.2)
	–	–	(17.5)	(1,320.1)	–	(1,337.6)

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

Fair values continued

Classification of financial instruments As at 31 December 2009	Loans and receivables £m	Available-for-sale assets £m	Derivatives used for hedging £m	Liabilities measured at amortised cost £m	At fair value through profit or loss £m	Total £m
Assets						
Investments	–	7.7	–	–	–	7.7
Fuel price swaps	–	–	8.9	–	–	8.9
Foreign exchange forward contracts	–	–	–	–	0.3	0.3
Cash and cash equivalents	105.8	–	–	–	–	105.8
Trade and other receivables	209.3	–	–	–	–	209.3
	315.1	7.7	8.9	–	0.3	332.0
Liabilities						
Bank loans	–	–	–	(687.7)	–	(687.7)
Finance lease obligations	–	–	–	(75.6)	–	(75.6)
Other debt payable	–	–	–	(1.2)	–	(1.2)
Interest rate swaps	–	–	–	–	(24.2)	(24.2)
Fuel price swaps	–	–	(14.4)	–	(0.9)	(15.3)
Foreign exchange forward contracts	–	–	(7.5)	–	(0.2)	(7.7)
Trade and other payables	–	–	–	(384.1)	–	(384.1)
ICRRL onerous contract obligation	–	–	–	(26.9)	–	(26.9)
	–	–	(21.9)	(1,175.5)	(25.3)	(1,222.7)

Other receivables and other payables are to be settled in cash in the currency they are held in.

In accordance with IAS 39, 'Financial Instruments: Recognition and Measurement', the Group has reviewed all contracts for embedded derivatives that are required to be separately accounted for. No embedded derivatives have been identified.

The Group assesses at each year-end reporting date whether a financial asset or group of financial assets is impaired. In the financial year 2010 there was no objective evidence that would have necessitated the impairment of loans and receivables or available-for-sale assets except the provision for impairment of receivables (see note 22).

Hedging activities

The Group uses derivative financial instruments to manage exposures to market risk, such as movements in foreign exchange rates, fuel prices and interest rates. Such derivative financial instruments are initially recognised at fair value and are subsequently re-measured at fair value. In line with the IAS 39 the Group classifies hedges as (a) fair value hedges used to hedge exposure to changes in the fair value of a recognised asset or liability, (b) cash flow hedges used to hedge exposure to variability in cash flows associated with a recognised asset or liability or a highly probable forecast transaction, and (c) hedges of a net investment in a foreign operation.

In 2010 the Group applied cash flow hedge accounting for hedging floating fuel price risks in highly probable forecast purchase transactions and for hedging net investments in US$ and Euro foreign operations. The Group applied fair value hedge accounting for the fair value interest rate risk on £200m of the Group's fixed rate bonds.

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

Hedging activities continued

The movement on derivative financial instruments is detailed below:

	Interest rate swaps £m	Foreign exchange forward contracts £m	Fuel swaps £m	Total £m
Net liability at 1 January 2010	**(24.2)**	**(7.4)**	**(6.4)**	**(38.0)**
Cash settlements	**22.4**	**2.0**	**2.4**	**26.8**
Revaluation through income statement	**0.4**	**–**	**0.2**	**0.6**
Revaluation through other comprehensive income	**–**	**–**	**21.1**	**21.1**
Exchange differences	**0.1**	**(4.6)**	**2.0**	**(2.5)**
Net (liability)/asset at 31 December 2010	**(1.3)**	**(10.0)**	**19.3**	**8.0**

	Interest rate swaps £m	Foreign exchange forward contracts £m	Fuel swaps £m	Total £m
Net liability at 1 January 2009	(30.2)	(25.2)	(79.2)	(134.6)
Cash settlements	15.0	15.1	56.7	86.8
Revaluation through income statement	0.1	–	–	0.1
Revaluation through other comprehensive income	(11.5)	(0.1)	11.8	0.2
Exchange differences	2.4	2.8	4.3	9.5
Net liability at 31 December 2009	(24.2)	(7.4)	(6.4)	(38.0)

The movement on the hedging reserve is detailed below:

	2010 £m	2009 £m
At 1 January	**0.8**	(58.4)
Transferred to income statement – operating costs	**2.3**	54.0
Transferred to income statement – net finance costs	**–**	28.0
Revaluation	**21.1**	0.2
Tax on revaluation	**(6.0)**	(0.1)
Tax on transfers to income statement	**(0.6)**	(22.9)
At 31 December	**17.6**	0.8

Hedge of net investments in foreign entities

The Group uses foreign currency borrowings and derivative financial instruments to hedge the net investment in material foreign currency net assets of the Group and are used to reduce the exposure to foreign exchange rate movements. At 31 December 2010 the Group had designated a total of €275m of synthetic debt in the form of foreign exchange derivatives as a net investment hedge of €275m of the net assets of the Spanish subsidiary. No ineffectiveness was recognised in relation to this hedge. The foreign exchange derivatives have a maturity date of 20 January 2011 and will be rolled forward as appropriate to maintain a desirable level of hedging. In addition the Group had synthetic debt of US$165m in the form of foreign exchange swaps and cross currency interest rate swaps to hedge the net investments of US$165m of US$ denominated net assets. No ineffectiveness was recognised in relation to this hedge. The foreign exchange swaps have a maturity date of 20 January 2011, the cross currency swap has a maturity date of 31 May 2011. Contracts will be rolled or replaced as appropriate to maintain a suitable level of hedging in line with the Group's risk management objectives. The portion of the gain or loss on the hedging instruments that is determined to be an effective hedge is recognised directly in translation reserves and, to this extent, offsets any gains or losses on translation of the net investments in the subsidiaries. During the year the Group also hedged a variable amount of Canadian Dollar net investments. No such hedges were in place as at 31 December 2010.

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

Fuel price hedges

The Group has a number of fuel price swaps in place to hedge the different types of fuel used in each division. Ultra low sulphur diesel is used in the UK Bus, UK Coach and European Coach & Bus divisions and gasoil is used in the UK Rail division, both are hedged by swaps in the same type of fuel. Diesel used in the North American division is hedged using the more liquid heating oil market. The timing of the swap cash flows match underlying fuel purchases from 2011 through to 2013. There was no significant element of hedge ineffectiveness requiring the recognition in the income statement.

During the year £21.1m of fair value gains (2009: £0.2m) have been transferred to the hedging reserve due to movements in market fuel prices. Fair value gains of £2.4m (2009: £54.0m) have been transferred from the hedging reserve to the income statement following settlement of fuel trades, of which £0.8m was recognised in the hedging reserve at 1 January 2010 and the remainder was generated during the year due to the movement in market fuel prices.

Fuel price swaps can be analysed as follows:

	31 December 2010 Fair value £m	31 December 2009 Fair value £m	31 December 2010 Volume million litres	31 December 2009 Volume million litres
Hedge fuel price swaps				
Sterling denominated fuel swaps – UK Bus, UK Coach and UK Rail	**2.9**	1.0	**83.7**	62.2
US dollar denominated fuel swaps – North American Bus	**1.3**	(0.6)	**64.9**	66.1
Euro denominated fuel swaps – European Coach & Bus	**7.9**	(5.7)	**80.0**	88.0
Fuel price swaps included in current assets/(liabilities)	**12.1**	(5.3)	**228.6**	216.3
Sterling denominated fuel swaps – UK Bus, UK Coach and UK Rail	**2.6**	(0.4)	**63.6**	65.9
US dollar denominated fuel swaps – North American Bus	**1.3**	(2.0)	**20.8**	39.7
Euro denominated fuel swaps – European Coach & Bus	**3.3**	2.3	**75.0**	80.0
Fuel price swaps included in non-current assets/(liabilities)	**7.2**	(0.1)	**159.4**	185.6
Total hedge fuel price swaps	**19.3**	(5.4)	**388.0**	401.9
Non-hedge fuel price swaps				
Sterling denominated fuel swaps – UK Rail (current)	**–**	(0.6)	**–**	5.5
Sterling denominated fuel swaps – UK Rail (non-current)	**–**	(0.4)	**–**	5.5
Total non-hedge fuel price swaps	**–**	(1.0)	**–**	11.0
Total fuel price swaps	**19.3**	(6.4)	**388.0**	412.9

Interest rate swaps at fair value through profit or loss

On 14 January 2010 the Group terminated all outstanding Euro interest rate swaps resulting in a net cash outflow of £20.9m for their fair value and accrued interest outstanding. This followed the issue of the Group's £350m ten year Sterling bond and subsequent repayment of the Group's €270m loan on 15 January 2010.

The Group continued to account for two US$100m denominated interest rate swaps at fair value through profit or loss until their maturity in September 2010. The Group accounted for their fair market value gain of £0.2m in 2010 through the income statement.

In July 2010 the Group entered into four £50m denominated interest rate swaps to hedge interest rate risk on a total of £200m of the Group's Sterling bonds. These interest rate swaps all pay floating interest (LIBOR + a margin) semi-annually, receive fixed interest annually with maturities matching the Group's Sterling bonds (two swaps with total notional value £100m mature in January 2017, two swaps with notional value £100m mature June 2020) and are designated as a fair value hedge of the interest rate risk on £200m of these bonds. These swaps are measured at fair value through profit or loss, with any gains or losses being taken immediately to the income statement to offset any fair value gains or losses due to changes in the risk free interest rate on the hedged portion of the bonds. As at 31 December 2010 a total fair value loss of £1.3m was recognised in the income statement in relation to these swaps. This is offset by a fair value gain of £1.1m on the underlying hedged item, in this case changes in fair value on the £200m of the Group's bonds due to changes in the risk free interest rate.

32 Called-up share capital

	2010 £m	2009 £m
At 31 December:		
Authorised:		
800,000,000 (2009: 800,000,000) ordinary shares of 5p each[1]	**40.0**	40.0
Issued called-up and fully paid:		
511,726,026 (2009: 511,726,026) ordinary shares of 5p each	**25.6**	25.6

Movement in ordinary shares during the year:	£m	Number of shares
At 1 January 2009	7.7	154,687,284
Rights Issue[2]	17.9	357,038,742
At 1 January 2010 and at 31 December 2010	**25.6**	**511,726,026**

1 At the Annual General Meeting of the Company held on 6 May 2009, the authorised share capital of the Company was increased from £10m to £13m by the creation of 60 million ordinary shares of a nominal value of 5 pence each. At an Extraordinary General Meeting of the Company held on 27 November 2009, the authorised share capital of the Company was increased from £13m to £40m by the creation of 540 million ordinary shares of a nominal value of 5 pence each.

2 On 11 November 2009, the Company announced a Rights Issue, which was approved by shareholders on 27 November 2009, on the basis of seven new ordinary shares for every three ordinary shares held at 105 pence per share, all with a nominal value of 5 pence each. The Company raised proceeds of approximately £355m, net of issue costs of approximately £20m.

The total number of share options exercised in the year by employees of the Group was 1,301,553 (2009: 378,588) of which nil exercises were satisfied by newly issued shares (2009: nil) and 1,301,553 (2009: 378,588) exercises were satisfied by transferring shares from the National Express Employee Benefit Trust.

Own shares

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

Treasury shares include 1,668,688 (2009: 1,668,688) ordinary shares in the Company. No additional shares have been added during the year as treasury shares within equity for future issue under the Group’s share schemes or cancellation. No shares were cancelled during the year (2009: nil). The market value of these shares at 31 December 2010 was £4.2m (2009: £3.2m).

Own shares include 477,914 (2009: 1,176,633) ordinary shares in the Company that have been purchased by the Trustees of the National Express Employee Benefit Trust (the “Trust”). During the year, the Trust purchased 714,597 (2009: 746,489) shares and 1,301,553 (2009: 378,588) shares were used to satisfy options granted under a number of the Company’s share schemes. The market value of these shares at 31 December 2010 was £1.2m (2009: £2.3m). The dividends payable on these shares have been waived.

33 Other reserves

	Merger reserve £m	**Hedging reserve £m**	**Translation reserve £m**	**Total £m**
At 1 January 2010	**15.4**	**0.8**	**99.9**	**116.1**
Hedge movements, net of tax	**–**	**16.8**	**–**	**16.8**
Exchange differences, net of tax	**–**	**–**	**(7.8)**	**(7.8)**
At 31 December 2010	**15.4**	**17.6**	**92.1**	**125.1**

	Merger reserve £m	Hedging reserve £m	Translation reserve £m	Total £m
At 1 January 2009	15.4	(58.4)	176.7	133.7
Hedge movements, net of tax	–	59.2	–	59.2
Exchange differences, net of tax	–	–	(76.8)	(76.8)
At 31 December 2009	15.4	0.8	99.9	116.1

The nature and purpose of the other reserves are as follows:

- The merger reserve includes the premium on shares issued to satisfy the purchase of Prism Rail PLC in 2000. The reserve is not distributable.
- The hedging reserve records the movements on designated hedging items, offset by any movements recognised directly in equity on underlying hedged items.
- The translation reserve records exchange differences arising from the translation of the accounts of foreign currency denominated subsidiaries offset by the movements on loans and derivatives used to hedge the net investment in foreign subsidiaries.

34 Pensions and other post-employment benefits

(a) Summary of pension benefits and assumptions

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

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

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)

The valuations conducted for financial reporting purposes are based on the triennial actuarial valuations. A summary of the latest triennial actuarial valuations, and assumptions made, is as follows.

	UK Bus		UK Coach	UK Rail
Date of actuarial valuation	Tayside 31 March 2008	Travel West Midlands 31 March 2007	5 April 2007	31 December 2007
Actuarial method used	Attained age*	Attained age*	Projected unit	Projected unit
Rate of investment returns per annum	7.8%	5.4%–6.4%	4.7%–5.5%	5.8%–7.6%
Increase in earnings per annum	5.2%	4.6%	4.0%	4.2%
Scheme assets taken at market value	£40.5m	£374.0m	£39.8m	£355.1m
Funding level	92%	93%	77%	103%–109%

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

The range of funding levels and scheme assets for UK Rail reflects the range of funding levels and assets in the various sections of the RPS relating to the franchises which the Group operated at 31 December 2010. The plans do not provide medical benefits.

34 Pensions and other post-employment benefits continued

(a) Summary of pension benefits and assumptions continued

The most recent triennial valuations are then updated by independent professionally qualified actuaries for financial reporting purposes, in accordance with IAS 19. The main actuarial assumptions underlying the IAS 19 valuations are:

	2010 UK Bus	2010 UK Coach	2010 UK Rail	2009 UK Bus	2009 UK Coach	2009 UK Rail
Rate of increase in salaries	**3.9%**	**3.9%**	**3.9%**	4.5%	4.5%	4.5%
Rate of increase of pensions	**3.5%**	**3.5%**	**3.5%**	3.5%	3.5%	3.5%
Discount rate	**5.4%**	**5.4%**	**5.4%**	5.75%	5.75%	5.75%
Inflation assumption (RPI)	**3.5%**	**3.5%**	**3.5%**	3.5%	3.5%	3.5%
Inflation assumption (CPI)	**2.9%**	**2.9%**	**2.9%**			
Expected rates of return on scheme assets						
Equities	**7.7%**	**7.7%**	**7.7%**	8.0%	8.0%	8.0%
Bonds	**4.2%**	**4.2%**	**4.2%**	4.5%	4.5%	4.5%
Properties	**6.0%**	**6.0%**	**6.0%**	6.3%	6.3%	6.3%
Other	**1.25%**	**1.25%**	**1.25%**	1.25%	1.25%	1.25%
Post-retirement mortality in years:						
Current pensioners at 65 – male	**19.4**	**21.9**		19.4	21.9	
Current pensioners at 65 – male, pension under £8,500 pa or pensionable pay under £30,000 pa			**19.8**			19.8
Current pensioners at 65 – male – others			**21.5**			21.5
Current pensioners at 65 – female	**22.2**	**24.8**		22.2	24.8	
Current pensioners at 65 – female, pension under £3,000 pa or pensionable pay under £30,000 pa			**21.7**			21.7
Current pensioners at 65 – female – others			**22.7**			22.7
Future pensioners at 65 – male	**20.4**	**23.0**		20.4	23.0	
Future pensioners at 65 – male, pension under £8,500 pa or pensionable pay under £30,000 pa			**22.2**			22.2
Future pensioners at 65 – male – others			**23.7**			23.7
Future pensioners at 65 – female	**23.1**	**25.8**		23.1	25.8	
Future pensioners at 65 – female, pension under £3,000 pa or pensionable pay under £30,000 pa			**23.2**			23.2
Future pensioners at 65 – female – others			**24.2**			24.2

The demographic assumptions reflect those included in the most recent triennial valuation. For the UK Rail scheme, mortality assumptions are based on the recent experience of the scheme with an allowance for future improvements in mortality as follows:

Age	Year	Under 85	85–105	Over 105
Males and females	2008–2012	3.0% pa	3.0% pa tapering to 0.6% pa	0.6% pa
Males	2013 onwards	1.5% pa	1.5% pa tapering to 0.3% pa	0.3% pa
Females	2013 onwards	1.0% pa	1.0% pa tapering to 0.2% pa	0.2% pa

The Directors regard the assumption around the discount rate to be the key assumption in the IAS 19 valuation, and the following table provides an approximate sensitivity analysis of the impact of a 0.1% change in the discount rate assumption.

	UK Bus £m	UK Coach £m	UK Rail £m
Defined benefit pension (liability) at 31 December 2010	**(5.3)**	**–**	**(3.7)**
Effect of a 0.1% increase in the discount rate	**7.2**	**1.3**	**–**
Current service (cost) for the year ended 31 December 2010	**(4.4)**	**(0.8)**	**(10.9)**
Effect of a 0.1% increase in the discount rate	**0.1**	**–**	**0.2**

Scheme assets are stated at their market values at the respective balance sheet dates. The expected rate of return on scheme assets is determined based on market returns on each category of scheme assets.

34 Pensions and other post-employment benefits continued

(b) Accounting for the Railways Pension Scheme

The majority of employees of the UK Rail companies are members of the appropriate section of the RPS, a funded defined benefit scheme. The RPS is a shared cost scheme, which means that costs are formally shared 60% employer and 40% employee. To date, the Group has experienced eleven changes of UK Rail franchise ownership where the current owner has funded the scheme during the franchise term and the pension deficit at franchise exit has transferred to the new owner, without cash settlement. However, although the Group's past experience has proven otherwise, our legal advisors have opined that in certain situations, the liability for the deficit on the relevant sections of the RPS could theoretically crystallise for funding by an individual TOC at the end of the franchise. By entering into the franchise contract, the TOC becomes the designated employer for the term of the contract and under the rules of the RPS must fund its share of the pension liability in accordance with the schedule of contributions agreed with the Scheme trustees and actuaries and for which there is no funding cap set out in the franchise contract.

To comply with IAS 19, the Group is required to account for its legal obligation under the formal terms of the RPS and its constructive obligation that arises under the terms of each franchise agreement.

In determining the appropriate accounting policy for the RPS to ensure that the Group's accounts present fairly its financial position, financial performance and cash flows, management has consulted with TOC industry peers and has concluded that the Group's constructive but not its legal RPS defined benefit obligations should be accounted for in accordance with IAS 19. This accounting policy, which in all other respects is consistent with that set out in this note for the Group's other defined benefit schemes, means that the Group's accounts reflect that element of the deficits anticipated to be settled by the Group during the franchise term and will prevent gains arising on transfer of the existing RPS deficits to a new owner at franchise exit.

In calculating the Group's constructive obligations in respect of the RPS, the Group has calculated the total pension deficits in each of the RPS sections in accordance with IAS 19 and the assumptions set out above. These deficits are reduced by a 'franchise adjustment' which is that portion of the deficit projected to exist at the end of the franchise and which the Group will not be required to fund. The franchise adjustment, which has been calculated by the Group's actuaries, is offset against the present value of the RPS liabilities so as to fairly present the financial performance, position and cash flows of the Group's obligations.

The franchise adjustment decreased from £81.7m at 31 December 2009 to £72.4m at 31 December 2010. The decrease is caused by interest on the franchise adjustment of £4.7m and net actuarial movements of £14.0m. In the prior year, the franchise adjustment increased by £53.5m from £28.2m at 1 January 2009 to £81.7m at 31 December 2009. The increase was caused by interest on the franchise adjustment of £1.7m and net actuarial movements of £51.8m.

If the Group had accounted for its legal obligation in respect of the RPS instead of the constructive obligation, the following adjustments would have been made to the financial information:

	2010 £m	2009 £m
Balance sheet		
Defined benefit pension deficit	**(72.4)**	(81.7)
Deferred tax asset	**15.0**	18.2
Intangible asset	**1.5**	2.0
Net reduction in net assets	**(55.9)**	(61.5)
Statement of comprehensive income		
Actuarial gains/(losses)	**14.0**	(51.8)
Tax on actuarial gains and losses	**(3.7)**	14.5
Net decrease in actuarial gains/(losses)	**10.3**	(37.3)
Income statement		
Interest on franchise adjustment	**(4.7)**	(1.7)
Intangible asset amortisation	**(0.5)**	(0.5)
Deferred tax credit	**0.6**	–
Net decrease in income	**(4.6)**	(2.2)

34 Pensions and other post-employment benefits continued

(c) Financial results for pension benefits

The amounts charged to the Group income statement and Group statement of comprehensive income for the years ended 31 December 2010 and 2009 are set out in the following tables.

Group income statement	UK Bus 2010 £m	UK Coach 2010 £m	UK Rail 2010 £m	Total 2010 £m
Amounts (charged)/credited to Group operating profit/(loss):				
Current service cost	**(4.4)**	**(0.8)**	**(10.9)**	**(16.1)**
Curtailment gain (included within exceptional items)	**–**	**2.3**	**–**	**2.3**
Expected return on pension scheme assets	**24.2**	**3.2**	**12.9**	**40.3**
Interest on pension liabilities	**(25.1)**	**(3.2)**	**(15.0)**	**(43.3)**
Interest on franchise adjustment	**–**	**–**	**4.7**	**4.7**
Total (charge)/credit to income statement	**(5.3)**	**1.5**	**(8.3)**	**(12.1)**
Actual return on plan assets	**45.5**	**5.5**	**19.0**	**70.0**

Group statement of comprehensive income	UK Bus 2010 £m	UK Coach 2010 £m	UK Rail 2010 £m	Total 2010 £m
Actual return less expected return on pension scheme assets	**21.3**	**2.3**	**6.1**	**29.7**
Other actuarial gains and losses	**16.8**	**(2.3)**	**(9.9)**	**4.6**
Actuarial gains/(losses)	**38.1**	**–**	**(3.8)**	**34.3**

Group income statement	UK Bus 2009 £m	UK Coach 2009 £m	UK Rail 2009 £m	Total 2009 £m
Amounts (charged)/credited to normalised operating profit:				
Current service cost	(3.2)	(0.7)	(15.2)	(19.1)
Expected return on pension scheme assets	20.4	2.8	19.5	42.7
Interest on pension liabilities	(22.6)	(2.7)	(20.3)	(45.6)
Interest on franchise adjustment	–	–	1.7	1.7
Total charge to income statement	(5.4)	(0.6)	(14.3)	(20.3)
Actual return on plan assets	51.7	6.6	42.7	101.0

Group statement of comprehensive income	UK Bus 2009 £m	UK Coach 2009 £m	UK Rail 2009 £m	Total 2009 £m
Actual return less expected return on pension scheme assets	31.3	3.8	23.2	58.3
Other actuarial gains and losses	(86.6)	(11.3)	12.5	(85.4)
Adjustment for unrecognised surplus	9.0	–	–	9.0
Actuarial (losses)/gains	(46.3)	(7.5)	35.7	(18.1)

34 Pensions and other post-employment benefits continued

(c) Financial results for pension benefits continued

The amounts recognised in the balance sheet at 31 December are:

As at 31 December 2010	UK Bus 2010 £m	UK Coach 2010 £m	UK Rail 2010 £m	Other 2010 £m	Total 2010 £m
Equities	197.6	29.3	303.7	–	530.6
Bonds	147.5	28.7	13.8	–	190.0
Property	79.2	–	0.2	–	79.4
Other	5.2	1.6	0.6	–	7.4
Fair value of scheme assets	429.5	59.6	318.3	–	807.4
Present value of scheme liabilities	(434.8)	(59.6)	(445.2)	(1.4)	(941.0)
Franchise adjustment	–	–	72.4	–	72.4
Defined benefit obligation	(434.8)	(59.6)	(372.8)	(1.4)	(868.6)
Members' share of deficit	–	–	50.8	–	50.8
Defined benefit pension deficit	(5.3)	–	(3.7)	(1.4)	(10.4)

As at 31 December 2009	UK Bus 2009 £m	UK Coach 2009 £m	UK Rail 2009 £m	Other 2009 £m	Total 2009 £m
Equities	183.1	25.7	234.4	–	443.2
Bonds	137.5	24.3	25.0	–	186.8
Property	74.3	–	25.0	–	99.3
Other	5.0	1.6	–	–	6.6
Fair value of scheme assets	399.9	51.6	284.4	–	735.9
Present value of scheme liabilities	(446.3)	(56.8)	(423.7)	(1.4)	(928.2)
Franchise adjustment	–	–	81.7	–	81.7
Defined benefit obligation	(446.3)	(56.8)	(342.0)	(1.4)	(846.5)
Members' share of deficit	–	–	55.7	–	55.7
Defined benefit pension deficit	(46.4)	(5.2)	(1.9)	(1.4)	(54.9)

The movement in the present value of the defined benefit obligation in the year is as stated below. For UK Rail, the RPS is a shared cost scheme, which means that costs are formally shared 60% employer and 40% employee.

The Group's defined benefit obligation comprises £867.2m (2009: £845.1m) (including the members' share of the deficit) arising from plans that are wholly or partly funded and £1.4m (2009: £1.4m) from unfunded plans.

	UK Bus £m	UK Coach £m	UK Rail £m	Other £m	Total £m
Defined benefit obligation at 1 January 2010	(446.3)	(56.8)	(342.0)	(1.4)	(846.5)
Current service cost	(4.4)	(0.8)	(10.9)	–	(16.1)
Benefits paid	25.6	1.5	14.5	–	41.6
Contributions by employees	(1.4)	(0.3)	(6.5)	–	(8.2)
Finance charge	(25.1)	(3.2)	(15.0)	–	(43.3)
Curtailment gain	–	2.3	–	–	2.3
Interest on franchise adjustment	–	–	4.7	–	4.7
Members' share of movement on liabilities	–	–	(7.7)	–	(7.7)
Actuarial gain/(loss) recognised in statement of comprehensive income	16.8	(2.3)	(9.9)	–	4.6
Defined benefit obligation at 31 December 2010	(434.8)	(59.6)	(372.8)	(1.4)	(868.6)

34 Pensions and other post-employment benefits continued

(c) Financial results for pension benefits continued

	UK Bus £m	UK Coach £m	UK Rail £m	Other £m	Total £m
Defined benefit obligation at 1 January 2009	(357.4)	(43.3)	(526.7)	(1.5)	(928.9)
Current service cost	(3.2)	(0.7)	(15.2)	–	(19.1)
Franchise exit	–	–	268.1	–	268.1
Benefits paid	24.9	1.4	23.7	–	50.0
Contributions by employees	(1.4)	(0.3)	(10.5)	–	(12.2)
Finance charge	(22.6)	(2.7)	(20.3)	–	(45.6)
Other movements	–	0.1	–	0.1	0.2
Interest on franchise adjustment	–	–	1.7	–	1.7
Members' share of movement on liabilities	–	–	(75.3)	–	(75.3)
Actuarial (loss)/gain recognised in statement of comprehensive income	(86.6)	(11.3)	12.5	–	(85.4)
Defined benefit obligation at 31 December 2009	(446.3)	(56.8)	(342.0)	(1.4)	(846.5)

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

	UK Bus £m	**UK Coach £m**	**UK Rail £m**	**Total £m**
Fair value of scheme assets at 1 January 2010	**399.9**	**51.6**	**284.4**	**735.9**
Expected return on plan assets	**24.2**	**3.2**	**12.9**	**40.3**
Cash contributions – Employer	**8.3**	**3.7**	**10.2**	**22.2**
Cash contributions – Employee	**1.4**	**0.3**	**6.5**	**8.2**
Benefits paid	**(25.6)**	**(1.5)**	**(14.5)**	**(41.6)**
Members' share of return on assets	**–**	**–**	**12.7**	**12.7**
Actuarial gain recognised in statement of comprehensive income	**21.3**	**2.3**	**6.1**	**29.7**
Fair value of scheme assets at 31 December 2010	**429.5**	**59.6**	**318.3**	**807.4**

	UK Bus £m	UK Coach £m	UK Rail £m	Total £m
Fair value of scheme assets at 1 January 2009	362.8	42.1	444.7	849.6
Expected return on plan assets	20.4	2.8	19.5	42.7
Franchise exit	–	–	(268.1)	(268.1)
Cash contributions – Employer	8.9	4.1	15.4	28.4
Cash contributions – Employee	1.4	0.3	10.5	12.2
Benefits paid	(24.9)	(1.4)	(23.7)	(50.0)
Membership movements	–	(0.1)	–	(0.1)
Members' share of return on assets	–	–	62.9	62.9
Actuarial gain recognised in statement of comprehensive income	31.3	3.8	23.2	58.3
Fair value of scheme assets at 31 December 2009	399.9	51.6	284.4	735.9

34 Pensions and other post-employment benefits continued

(c) Financial results for pension benefits continued

The Group expects to contribute £19.0m to its defined benefit pension plans in 2011.

History of experience gains and losses:	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
UK Bus					
Fair value of scheme assets	**429.5**	399.9	362.8	412.0	406.0
Present value of defined benefit obligation	**(434.8)**	(446.3)	(357.4)	(412.4)	(421.8)
Restriction on surplus	**–**	–	(9.0)	(4.7)	(1.5)
Deficit in the scheme	**(5.3)**	(46.4)	(3.6)	(5.1)	(17.3)
Experience adjustments arising on liabilities	**(0.1)**	0.2	(3.3)	(4.6)	(3.0)
Experience adjustments arising on assets	**21.3**	31.3	(62.8)	(5.2)	7.5
UK Coach					
Fair value of scheme assets	**59.6**	51.6	42.1	43.7	39.9
Present value of defined benefit obligation	**(59.6)**	(56.8)	(43.3)	(48.6)	(52.6)
Deficit in the scheme	**–**	(5.2)	(1.2)	(4.9)	(12.7)
Experience adjustments arising on liabilities	**2.7**	–	–	(2.2)	(1.6)
Experience adjustments arising on assets	**2.3**	3.8	(7.8)	(0.6)	–
UK Rail					
Fair value of scheme assets	**318.3**	284.4	444.7	620.3	743.4
Present value of defined benefit obligation	**(372.8)**	(342.0)	(526.7)	(653.1)	(808.2)
Members' share of deficit	**50.8**	55.7	43.3	14.0	43.7
Deficit in the scheme	**(3.7)**	(1.9)	(38.7)	(18.8)	(21.1)
Experience adjustments arising on liabilities	**12.2**	(1.1)	16.9	(5.3)	(25.5)
Experience adjustments arising on assets	**6.1**	23.2	(121.4)	3.2	32.6
Other					
Fair value of scheme assets	**–**	–	–	–	–
Present value of defined benefit obligation	**(1.4)**	(1.4)	(1.5)	(1.0)	(1.7)
Deficit in the scheme	**(1.4)**	(1.4)	(1.5)	(1.0)	(1.7)
Experience adjustments arising on liabilities	**–**	–	–	–	–

The cumulative amount of actuarial gains and losses recognised in the statement of comprehensive income since 1 January 2004 is £10.6m loss (2009: £44.9m loss). The Directors are unable to determine how much of the pension scheme deficit recognised on transition to IFRSs and taken directly to equity of £51.9m is attributable to actuarial gains and losses since inception of those pension schemes. Consequently the Directors are unable to determine the amount of actuarial gains and losses that would have been recognised in the statement of comprehensive income before 1 January 2004.

35 Commitments and contingencies

Operating lease commitments

The Group's total operating lease commitments are as follows:

		2010 £m	2009 £m
Future minimum rentals payable under non-cancellable operating leases:			
Within one year:	Land and buildings	**82.4**	96.4
	Plant and equipment	**158.0**	135.5
		240.4	231.9
After one year but not more than five years:	Land and buildings	**46.7**	56.4
	Plant and equipment	**75.7**	67.0
		122.4	123.4
More than five years:	Land and buildings	**33.8**	40.6
	Plant and equipment	**5.8**	13.0
		39.6	53.6
		402.4	408.9

Operating lease commitments

The majority of the Group's commitments arise in the UK Rail division. Trains division companies have contracts with Network Rail Infrastructure Limited for access to the railway infrastructure (tracks, stations and depots). They also have contracts under which rolling stock is leased. The TOCs' obligations to fulfil these commitments exist only as part of their franchise agreement. The table below reflects the commitments up to the current franchise end dates unless an extension or new franchise agreement has been signed. The commitments are based on charges advised by the Rail Regulator for the period starting on 1 April 2009. Commitments for future minimum rental payments under these contracts are shown below:

		Land and buildings		Plant and equipment	
UK Rail division commitments		2010 £m	2009 £m	2010 £m	2009 £m
Future minimum rentals payable under non-cancellable operating leases:					
Within one year:	Fixed track access	**47.8**	56.7	**–**	–
	Rolling stock	**–**	–	**145.1**	125.6
	Other	**21.1**	24.7	**1.1**	1.8
		68.9	81.4	**146.2**	127.4
After one year but not more than five years:	Fixed track access	**13.4**	15.6	**–**	–
	Rolling stock	**–**	–	**31.6**	34.6
	Other	**6.8**	7.3	**1.0**	0.6
		20.2	22.9	**32.6**	35.2
		89.1	104.3	**178.8**	162.6

Fixed track access agreements have an average remaining life of 1.1 years (2009: 1.4 years), other land and buildings have an average duration of 1.2 years (2009: 1.4 years). Rolling stock agreements have an average life of 1.0 years (2009: 1.4 years) and other plant and equipment 1.9 years (2009: 1.4 years).

35 Commitments and contingencies continued

Outside of the UK Rail division the Group has entered into operating leases on certain properties, public service vehicles and various items of plant and equipment. Commitments for future minimum rental payments under cancellable operating leases are shown below:

	Land and buildings		Public service vehicles		Other	
Other divisions' commitments	**2010 £m**	2009 £m	**2010 £m**	2009 £m	**2010 £m**	2009 £m
Within one year	**13.5**	15.0	**10.9**	8.0	**0.9**	0.1
After one year but not more than five years	**26.5**	33.5	**41.5**	31.6	**1.6**	0.2
More than five years	**33.8**	40.6	**5.8**	13.0	**–**	–
	73.8	89.1	**58.2**	52.6	**2.5**	0.3

The average remaining life of operating lease commitments in the other divisions is 4.1 years (2009: 5.6 years) for land and buildings, 3.8 years (2009: 4.2 years) for public service vehicles and 2.7 years (2009: 2.3 years) for other plant and equipment.

Operating lease agreements where the Group is the lessor

The Group receives rent on properties as follows:

	2010 £m	2009 £m
Future minimum rentals receivable under non-cancellable operating leases:		
Within one year	**4.1**	4.6
After one year but not more than five years	**1.4**	1.3
More than five years	**–**	–
	5.5	5.9

The leases have an average unexpired duration of 1.5 years (2009: 1.4 years).

Finance lease commitments

The Group has finance leases for public service vehicles and various items of plant and equipment. These leases have terms of renewal but no purchase options and escalation clauses. Renewals are at the option of the specific entity that holds the lease.

	2010		2009	
	Minimum payments £m	**Present value of payments £m**	Minimum payments £m	Present value of payments £m
Within one year	**28.2**	**27.8**	20.6	17.9
After one year but not more than five years	**83.1**	**73.5**	52.5	46.7
More than five years	**38.5**	**30.3**	12.0	11.0
Total minimum lease payments	**149.8**	**131.6**	85.1	75.6
Less future financing charges	**(18.2)**	**–**	(9.5)	–
Present value of minimum lease payments	**131.6**	**131.6**	75.6	75.6

Capital commitments

	2010 £m	2009 £m
Contracted	**31.1**	17.1

The Group is committed to vehicle purchases and various land and buildings improvements.

Contingent liabilities

Bonds and letters of credit

In the ordinary course of business, the Group is required to issue counter-indemnities in support of its operations. As at 31 December 2010, there were UK Rail performance bonds of £25.8m (2009: £25.8m) and UK Rail season ticket bonds of £85.0m (2009: £84.4m). The Group has other performance bonds which include the £17.9m (2009: £17.0m) performance bond in respect of Inter-Capital and Regional Rail Limited, performance bonds in respect of businesses in the US of £100.2m (2009: £76.8m) and the rest of Europe of £25.6m (2009: £25.4m). Letters of credit have been issued to support insurance retentions of £39.4m (2009: £59.8m).

36 Related party transactions

	Amount of transactions		Amounts due from related parties		Amounts due to related parties	
	2010 £m	2009 £m	**2010 £m**	2009 £m	**2010 £m**	2009 £m
Associates						
ICRRL	**8.7**	8.6	**–**	–	**(18.2)**	(26.9)
Spain associates	**1.6**	1.9	**0.8**	1.3	**(1.1)**	(1.5)
Total associates	**10.3**	10.5	**0.8**	1.3	**(19.3)**	(28.4)
Trade investments						
Spain trade investments	**4.2**	3.5	**0.9**	1.1	**(0.3)**	(0.7)
Property transactions						
Stock Transportation	**0.5**	1.5	**–**	–	**–**	–
Spain	**5.0**	4.8	**0.4**	0.4	**(0.4)**	(0.3)
Durham School Services	**0.1**	0.4	**–**	–	**–**	–
Total other related parties	**9.8**	10.2	**1.3**	1.5	**(0.7)**	(1.0)
Total	**20.1**	20.7	**2.1**	2.8	**(20.0)**	(29.4)

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

A provision of £0.4m (2009: £0.6m) has been booked against amounts due from European Coach & Bus associates, which are presented net.

Property transactions

Brian Stock was appointed as Chief Executive of the Group's North American operations in October 2004. Stock Transportation Limited, a school bus operator in North America, was acquired in July 2002. As part of the Sale and Purchase Agreement, the Group entered into leases for eight properties at market rents and on standard terms and conditions. The rental payments of £0.5m (2009: £0.4m) are made to Stock Properties Limited and Stock Realty Limited, of which Brian Stock is a related party. In addition, in 2009 Stock Transportation Limited sold a property for £1.0m to Stock GP Limited, of which Brian Stock is a related party, and rents this property from Stock Realty Limited for £0.1m in 2010 (2009: £0.1m). This transaction was approved by the Board of National Express Group PLC. Brian Stock ceased to be Chief Executive of the Group's North American operations on 31 December 2009 but he remained as a consultant to the business during 2010.

A number of Spain companies have leased properties from companies related to the Cosmen family. Jorge Cosmen is a Non-Executive Director of the Group and was appointed as Deputy Chairman in October 2008. These leases were in place before the Group's acquisition of ALSA and are for appropriate market rates.

Compensation of key management personnel of the Group

	2010 £m	2009 £m
Total compensation paid to key management personnel (note 7)	**4.7**	2.3

Directors' interests in employee share plans are disclosed in the Directors' Remuneration Report.

37 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.

(a) Reconciliation of Group profit/(loss) 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

(b) Analysis of changes in net debt

	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, bonds, 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) as disclosed in note 28.

37 Cash flow statement continued

(b) Analysis of changes in net debt continued

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.

	At 1 January 2009 £m	Cash flow £m	Acquisitions/ disposals £m	Exchange differences £m	Other movements £m	At 31 December 2009 £m
Cash	52.0	9.5	–	(3.2)	–	58.3
Overnight deposits	3.5	8.7	–	(0.2)	–	12.0
Other short-term deposits	50.4	(14.9)	–	–	–	35.5
Cash and cash equivalents	105.9	3.3	–	(3.4)	–	105.8
Other debt receivables	0.9	(0.1)	–	–	–	0.8
Borrowings:						
Loan notes	(0.8)	0.8	–	–	–	–
Bank loans	(1,150.8)	448.9	–	19.8	(5.6)	(687.7)
Finance lease obligations	(133.9)	50.4	–	7.9	–	(75.6)
Other debt payable	(1.1)	(0.1)	–	–	–	(1.2)
Total borrowings	(1,286.6)	500.0	–	27.7	(5.6)	(764.5)
Net debt	(1,179.8)	503.2	–	24.3	(5.6)	(657.9)

(c) Reconciliation of net cash flow to movement in net debt

	2010 £m	2009 £m
Increase in cash and cash equivalents in the year	**23.9**	3.3
Cash inflow from movement in other debt receivables	**(0.1)**	(0.1)
Cash outflow from movement in debt and finance leases	**94.8**	500.0
Change in net debt resulting from cash flows	**118.6**	503.2
Change in net debt resulting from acquisitions and disposals	**0.1**	–
Change in net debt resulting from non-cash movements	**(71.2)**	18.7
Movement in net debt in the year	**47.5**	521.9
Opening net debt	**(657.9)**	(1,179.8)
Net debt	**(610.4)**	(657.9)

38 Post balance sheet events

There were no post balance sheet events.

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

We have audited the parent Company financial statements of National Express Group PLC for the year ended 31 December 2010 which comprise the Parent Company Balance Sheet and the related notes 1 to 20. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 68, the Directors are responsible for the preparation of the parent Company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the parent Company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2010;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the parent Company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the Group financial statements of National Express Group PLC for the year ended 31 December 2010.

Alison Baker (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
24 February 2011

Company Balance Sheet
At 31 December 2010

	Note	2010 £m	2009 £m
Fixed assets			
Tangible assets	4	**–**	0.5
Financial assets – Investments	5	**766.0**	743.0
		766.0	743.5
Current assets			
Debtors	7	**1,448.8**	1,519.5
Financial assets – Derivative financial instruments	6	**4.2**	0.3
Cash at bank and in hand	8	**8.0**	11.3
		1,461.0	1,531.1
Creditors: amounts falling due within one year	9	**(985.1)**	(1,197.7)
Financial liabilities – Derivative financial instruments	6	**(10.3)**	(24.5)
Net current assets		**465.6**	308.9
Total assets less current liabilities		**1,231.6**	1,052.4
Creditors: amounts falling due after more than one year	10	**(565.6)**	(445.8)
Financial liabilities – Derivative financial instruments	6	**(5.1)**	(7.4)
Provisions for liabilities and charges	11	**(25.1)**	(32.0)
Deferred tax liability	12	**–**	(3.7)
Net assets		**635.8**	563.5
Shareholders' equity			
Called-up share capital	14	**25.6**	25.6
Share premium account	15	**532.7**	533.2
Capital redemption reserve	15	**0.2**	0.2
Own shares	15	**(14.1)**	(14.6)
Profit and loss account	15	**91.4**	19.1
Shareholders' equity		**635.8**	563.5

D Finch Group Chief Executive
J K Maiden Group Finance Director
24 February 2011

Notes to the Company Accounts

1 Accounting policies

Basis of preparation

The separate accounts of the parent Company are presented as required by the Companies Act 2006. The accounts have been prepared under the historic cost convention, except for the recognition of derivative financial instruments and available for sale investments detailed below, and in accordance with applicable accounting standards in the United Kingdom.

In applying these policies management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the accounts and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

No profit and loss account is presented by the Company as permitted by Section 408 of the Companies Act 2006.

The retained profit of the Company for the year is £70.6m (2009: £87.1m loss).

Leases

Leases of tangible fixed assets where substantially all the risks and rewards of ownership of the asset have passed to the Company are classified as finance leases and the assets are capitalised in the balance sheet as plant and equipment. Finance leases are capitalised at the present value of the minimum lease payments. The capital element of future obligations under hire purchase contracts and finance leases is included as a liability in the balance sheet. The interest element of rental obligations is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding. Assets acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

Leases of assets where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Rentals paid under operating leases are charged to the profit and loss account on a straight-line basis over the term of the lease. Incentives received under operating leases and initial direct costs in negotiating the lease are amortised to the profit and loss account on a straight-line basis over the term of the lease, or to the first review if shorter.

Tangible fixed assets

Tangible fixed assets are stated at historic cost less accumulated depreciation and any impairment. Tangible fixed assets are depreciated on a straight-line basis over their estimated useful lives as follows:

Plant and equipment – 3 to 5 years

The carrying value of fixed assets is reviewed for impairment if events or changes in circumstances indicate that the current carrying value may not be recoverable, and are written down immediately to their recoverable amount. Repairs and maintenance are charged to the profit and loss account during the financial period in which they are incurred.

Investments in subsidiaries

Investments are held at historic cost less any provision for impairment.

Available for sale investments

Available for sale financial assets are non-derivative financial assets that are designated as such, or that are not classified as a loan or receivable, held to maturity or at fair value through profit or loss. After initial recognition these assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or the investment is determined to be impaired, at which time the previously reported cumulative gain or loss is included in the income statement.

Interest bearing loans and borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of issue costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Hedge accounting is adopted where derivatives such as fixed to floating interest rate swaps are held as fair value hedges against fixed interest rate borrowings. Under fair value hedge accounting, fixed interest rate borrowings are revalued at each balance sheet date by the change in fair value attributable to the interest rate being hedged.

1 Accounting policies continued

Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Company expects a provision to be reimbursed the reimbursement is recognised as a separate asset but only when reimbursement is virtually certain.

Pensions

The Company participates in both the National Express Group multi-employer funded defined benefit scheme and a defined contribution scheme. The Company is unable to identify its share of the underlying assets and liabilities of the multi-employer scheme on a consistent and reasonable basis, and therefore has accounted for the scheme as if it were a defined contribution scheme under the requirements of FRS 17, 'Retirement Benefits'.

Share-based payment

In accordance with the transition provisions, FRS 20 has been applied to all grants after 7 November 2002 that were unvested as of 1 January 2005.

The Company awards equity-settled share-based payment to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant by an external valuer using a stochastic model. Non-market-based performance-related vesting conditions are not taken into account when estimating the fair value; instead those non-market conditions are taken into account in calculating the current best estimate of the number of shares that will eventually vest and at each balance sheet date before vesting. The cumulative expense is calculated based on that estimate. Market-based performance conditions are taken into account when determining the fair value and at each balance sheet date before vesting, the cumulative expense is calculated irrespective of whether or not the market conditions are satisfied, provided that all other performance conditions are met.

Deferred tax

Deferred tax is recognised in respect of all material timing differences that have originated, but not reversed, by the balance sheet date. Deferred tax is measured on a non-discounted basis at tax rates that are expected to apply in the periods in which the timing differences reverse based on tax rates and laws enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised where it is more likely than not that there will be suitable taxable profits from which the future reversal of underlying timing differences can be deducted.

Foreign currencies

Foreign currency assets and liabilities are translated into sterling at the rates of exchange ruling at the year end. Foreign currency transactions arising during the year are translated into Sterling at the rate of exchange ruling on the date of the transaction. Any exchange differences so arising are dealt with through the profit and loss account.

Derivative financial instruments

The Company uses derivative financial instruments such as foreign currency contracts and interest rate swaps to hedge its risks associated with foreign currency and interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value and subsequently remeasured to fair value for the reported balance sheet. The fair value of forward exchange contracts and interest rate swaps is calculated by reference to market exchange rates and interest rates at the period end.

In relation to cash flow hedges which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity, and the ineffective portion in the profit and loss account. The gains or losses deferred in equity in this way are recycled through the profit and loss account in the same period in which the hedged underlying transaction or firm commitment is recognised in the profit and loss account.

For derivatives that do not qualify for hedge accounting, including the foreign currency contracts, gains or losses are taken directly to the profit and loss account in the period.

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

The Company has taken advantage of the exemption under FRS 29 for parent company accounts. The disclosures are included within the consolidated accounts.

2 Exchange rates

The most significant exchange rates to the pound for the Company are as follows:

	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

3 Directors' emoluments

Detailed information concerning Directors' emoluments, shareholdings and options is shown in the Directors' Remuneration Report.

4 Tangible fixed assets

	Plant and equipment £m
Cost:	
At 1 January 2010	2.7
Disposals	(0.7)
At 31 December 2010	**2.0**
Depreciation:	
At 1 January 2010	2.2
Charge for the year	0.2
Disposals	(0.4)
At 31 December 2010	**2.0**
Net book value:	
At 31 December 2010	**–**
At 31 December 2009	0.5

Tangible fixed assets held under finance lease agreements are analysed as follows:

	2010 £m	2009 £m
Plant and equipment		
– cost	**0.2**	0.2
– depreciation	**(0.2)**	(0.2)
	–	–

Leased assets and assets under hire purchase contracts are pledged as security for the related finance lease and hire purchase liabilities.

5 Financial assets: investments

	Investments in subsidiaries £m	Available for sale investments £m	Total £m
Cost or valuation:			
At 1 January and at 31 December 2010	**1,271.9**	**–**	**1,271.9**
Provisions:			
At 1 January 2010	**(528.9)**	**–**	**(528.9)**
Release	**23.0**	**–**	**23.0**
At 31 December 2010	**(505.9)**	**–**	**(505.9)**
Net carrying amount:			
At 31 December 2010	**766.0**	**–**	**766.0**
At 31 December 2009	743.0	–	743.0

The information provided below is given for the Company's principal subsidiaries. A full list of subsidiaries and investments will be annexed to the next Annual Return to Companies House. The principal country of operation in respect of the companies below is the country in which they are incorporated.

National Express Group PLC is the beneficial owner of all the equity share capital, either itself or through subsidiary undertakings, of the companies, unless indicated otherwise. The Group's train passenger services in the UK are operated through franchises awarded by DfT Rail, as delegated by the UK Government.

The following holdings are 100% held directly by the Company:

Incorporated in England and Wales	
National Express Holdings Limited	Holding company for UK Coach operating companies
National Express Group Holdings Limited	Holding company for US operating companies
National Express Overseas Limited	Holding company for discontinued Australian business
National Express Trains Limited	Holding company for UK Rail operating companies
National Express Transport Holdings Limited	Holding company for UK Bus and Canadian operating companies
National Express European Holdings Limited	Holding company for Spanish operating companies

Incorporated in Guernsey	
National Express Guernsey Limited	Insurance captive

Other investments include:

Name	Country of registration	Class of share	Proportion held %
Inter-Capital and Regional Rail Limited (ICRRL)	England and Wales	Ordinary shares	40.0
Prepayment Cards Limited	England and Wales	Ordinary shares	23.5

Financial statements

6 Derivatives

	2010 £m	2009 £m
Interest rate swaps	3.8	–
Foreign exchange forward contracts	0.4	0.3
Financial assets due under one year	4.2	0.3
Interest rate swaps	(5.1)	–
Foreign exchange forward contracts	–	(7.4)
Financial liabilities due over one year	(5.1)	(7.4)
Interest rate swaps	–	(24.2)
Foreign exchange forward contracts	(10.3)	(0.3)
Financial liabilities due under one year	(10.3)	(24.5)

Full details of the Group's financial risk management objectives and policies can be found in note 30 of the consolidated accounts. As the holding company for the Group, the Company faces similar risks over foreign currency and interest rate movements.

The Company has taken advantage of the exemption under FRS 29 for parent company accounts. The disclosures are included within the consolidated accounts.

7 Debtors

	2010 £m	2009 £m
Trade debtors	0.2	0.2
Amounts owed by subsidiary undertakings	1,415.1	1,504.2
Corporation tax recoverable	31.0	12.5
Deferred tax asset (see note 12)	1.6	–
Other debtors	0.3	1.6
Prepayments and accrued income	0.6	1.0
	1,448.8	1,519.5

Included within prepayments is £nil (2009: £0.4m) which is recoverable after more than one year.

8 Cash at bank and in hand

	2010 £m	2009 £m
Other short-term deposits	6.0	11.3
Cash at bank	2.0	–
	8.0	11.3

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Company, and earn interest at the respective short-term deposit rates. The fair value of cash equals the carrying value.

9 Creditors: amounts falling due within one year

	2010 £m	2009 £m
Bank overdraft	152.4	180.4
Bank loans	35.3	239.3
Trade creditors	6.8	8.6
Amounts owed to subsidiary undertakings	753.1	747.0
Accruals and deferred income	9.9	16.4
Other creditors	27.6	6.0
	985.1	1,197.7

Trade creditors are non-interest bearing and are normally settled on 30 day terms and other creditors are non-interest bearing and have an average term of six months.

10 Creditors: amounts falling due after more than one year

	2010 £m	2009 £m
Bank loans	–	445.8
Bonds	565.6	–
	565.6	445.8

11 Provisions for liabilities and charges

	Insurance claims[1] £m	Eurostar onerous contract[2] £m	Other £m	Total £m
At 1 January 2010	5.1	26.9	–	32.0
Charged to profit and loss account	1.4	–	2.4	3.8
Utilised in the year	(1.5)	(8.7)	(0.5)	(10.7)
At 31 December 2010	5.0	18.2	1.9	25.1

1 The insurance claims provision arises from estimated exposures at the year end, the majority of which will be utilised in the next five years and comprise provisions for existing claims arising in the UK and North America.

2 A provision was recognised in 2006 for the Company's onerous contract for Eurostar with ICRRL. £8.7m was paid to ICRRL during the year. £9.0m will be paid in 2011, with the remainder to be settled in 2012.

12 Deferred tax

The major components of the provision for deferred taxation are as follows:

	2010 £m	2009 £m
Accelerated capital allowances	0.3	(0.1)
Other timing differences	0.5	(3.6)
Losses carried forward	0.8	–
Net deferred tax asset/(liability)	1.6	(3.7)

The reconciliation of deferred tax balances is as follows:

	£m
Deferred tax liability at 1 January 2010	(3.7)
Credited to profit and loss	5.3
Deferred tax asset at 31 December 2010	1.6

Timing differences associated with Group investments

No deferred tax (2009: £nil) is recognised on the unremitted earnings of subsidiaries and associates, as no dividends have been accrued as receivable, and no binding agreement to distribute the past earnings in future has been entered into by the subsidiaries.

Unrecognised tax losses

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit against future taxable profits is probable. Deferred tax assets that the company has not recognised in the accounts amount to £4.7m (2009: £nil), which arise where the company does not expect to generate sufficient suitable future profits. A deferred tax asset of £1.6m has been recognised in respect of deductible temporary differences carried forward in the company as the Group expects there to be sufficient taxable profits in that jurisdiction against which the assets could be utilised.

13 Interest-bearing loans and borrowings

The effective interest rates at the balance sheet date were as follows:

	2010 £m	Maturity	Effective interest rate	2009 £m	Maturity	Effective interest rate
Current						
Bank overdraft	**152.4**	**On Demand**	**LIBOR +1%**	180.4	On demand	BASE + 1.0%
Euro bank loans unhedged	**–**			239.3	2010	EURIBOR + 2.0%
Sterling bank loans	**35.3**	**2014**	**LIBOR +1.45%**	–		
Bank loans	**35.3**			239.3		
Total current	**187.7**			419.7		
Non-current						
7 year Sterling Bond	**345.0**	**January 2017**	**6.54%**	–		
10 Year Sterling Bond	**220.6**	**June 2020**	**6.85%**	–		
Bonds	**565.6**			–		
Sterling bank loans	**–**			445.8	June 2011	LIBOR + 1.5%
Bank loans	**–**			445.8		
Total non-current	**565.6**			445.8		

Details of the Company's interest rate management strategy and interest rate swaps are included in note 30 and note 31 of the consolidated accounts.

14 Called-up share capital

	2010 £m	2009 £m
At 31 December:		
Authorised:		
800,000,000 (2009: 800,000,000) ordinary shares of 5p each[1]	**40.0**	40.0
Issued called-up and fully paid:		
511,726,026 (2009: 511,726,026) ordinary shares of 5p each	**25.6**	25.6

Movement in ordinary shares during the year	£m	Number of shares
At 1 January 2009	7.7	154,687,284
Rights Issue[2]	17.9	357,038,742
At 1 January 2010 and 31 December 2010	25.6	511,726,026

1 At the Annual General Meeting of the Company held on 6 May 2009, the authorised share capital of the Company was increased from £10m to £13m by the creation of 60 million ordinary shares of a nominal value of 5 pence each. At an Extraordinary General Meeting of the Company held on 27 November 2009, the authorised share capital of the Company was increased from £13m to £40m by the creation of 540 million ordinary shares of a nominal value of 5 pence each.

2 On 11 November 2009, the Company announced a Rights Issue, which was approved by shareholders on 27 November 2009, on the basis of seven new ordinary shares for every three ordinary shares held at 105 pence per share, all with a nominal value of 5 pence each. The Company raised proceeds of approximately £355m, net of issue costs of approximately £20m.

The total number of share options exercised in the year by employees of the Group was 1,301,553 (2009: 378,588) of which nil exercises were satisfied by newly issued shares (2009: nil). and 1,301,553 (2009: 378,588) exercises were satisfied by transferring shares from the National Express Employee Benefit Trust.

15 Shareholders' funds and statement of changes in shareholders' equity

	Share capital £m	Share premium £m	Capital redemption reserve £m	Own shares £m	Profit and loss account £m	Total £m
At 1 January 2010	**25.6**	**533.2**	**0.2**	**(14.6)**	**19.1**	**563.5**
Costs of Rights Issue	**–**	**(0.5)**	**–**		**–**	**(0.5)**
Shares purchased	**–**	**–**	**–**	**(1.7)**	**–**	**(1.7)**
Shares utilised	**–**	**–**	**–**	**2.2**	**(2.2)**	**–**
Share-based payments	**–**	**–**	**–**	**–**	**3.9**	**3.9**
Profit for the year	**–**	**–**	**–**	**–**	**70.6**	**70.6**
At 31 December 2010	**25.6**	**532.7**	**0.2**	**(14.1)**	**91.4**	**635.8**

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

Treasury shares include 1,668,688 (2009: 1,668,688) ordinary shares in the Company. No additional shares have been added as treasury shares within equity for future issue under the Group's share schemes or cancellation. No shares were cancelled during the year (2009: nil). The market value of these shares at 31 December 2010 was £4.2m (2009: £3.2m).

Own shares include 477,914 (2009: 1,176,633) ordinary shares in the Company that have been purchased by the Trustees of the National Express Employee Benefit Trust (the "Trust"). During the year, the Trust purchased 714,597 (2009: 746,489) shares and 1,301,553 (2009: 378,588) shares were used to satisfy options granted under a number of the Company's share schemes. The market value of these shares at 31 December 2010 was £1.2m (2009: £2.3m). The dividends payable on these shares have been waived in 2009.

	Share capital £m	Share premium £m	Capital redemption reserve £m	Own shares £m	Hedging reserve £m	Profit and loss account £m	Total £m
At 1 January 2009	7.7	195.7	0.2	(15.2)	(11.9)	121.8	298.3
Shares issued	17.9	336.7	–	–	–	–	354.6
Shares purchased	–	–	–	(1.8)	–	–	(1.8)
Shares sold	–	–	–	1.3	–	(1.0)	0.3
Reclaim VAT on historic share issue costs	–	0.8	–	–	–	–	0.8
Shares utilised	–	–	–	1.1	–	(1.1)	–
Share-based payments	–	–	–	–	–	1.9	1.9
Tax on share-based payments credited to reserves	–	–	–	–	–	(0.2)	(0.2)
Hedge movements	–	–	–	–	11.9	–	11.9
Dividends	–	–	–	–	–	(15.2)	(15.2)
Loss for the year	–	–	–	–	–	(87.1)	(87.1)
At 31 December 2009	25.6	533.2	0.2	(14.6)	–	19.1	563.5

16 Retirement benefits

The Company participates in both the National Express Group Staff Pension Fund (a multi-employer funded defined benefit scheme) and the WM Pension Scheme (a defined contribution scheme). The Company is unable to identify its share of the underlying assets and liabilities of the multi-employer scheme on a consistent and reasonable basis, and therefore has accounted for the scheme as if it were a defined contribution scheme under the requirements of FRS 17, 'Retirement Benefits'. Contributions to this scheme are determined by independent professionally qualified actuaries. The details of the latest actuarial valuation are detailed in note 34 to the consolidated accounts.

The pension charge for the year amounted to £3.5m (2009: £3.1m).

17 Share-based payment

During the year ended 31 December 2010, the Company had the following share-based payment arrangements, which are described in note 7(b) to the consolidated accounts.

For the following disclosure, share options with a nil exercise price have been disclosed separately to avoid distorting the weighted average exercise prices. The number of share options in existence during the year was as follows:

	2010		2009	
	Number of share options	**Weighted average exercise price (p)**	Number of share options[2]	Weighted average exercise price[2] (p)
Options without a nil exercise price:				
At 1 January	**30,759**	**376**	35,299	381
Granted during the year	**–**	**–**	–	–
Lapsed during the year	**(1,600)**	**479**	(4,540)	420
Group transfers during the year	**–**	**–**	–	–
Exercised during the year	**(2,435)**	**210**	–	–
Outstanding at 31 December[1]	**26,724**	**386**	30,759	376
Exercisable at 31 December	**20,045**	**357**	22,480	338
Options with a nil exercise price:				
At 1 January	**1,897,258**	**nil**	812,210	nil
Granted during the year	**1,651,323**	**nil**	1,495,767	nil
Lapsed during the year	**(105,321)**	**nil**	(280,186)	nil
Group transfers during the year	**–**	**nil**	–	nil
Exercised during the year	**(327,295)**	**nil**	(130,533)	nil
Outstanding at 31 December	**3,115,965**	**nil**	1,897,258	nil
Exercisable at 31 December	**–**		–	
Total outstanding at 31 December	**3,142,689**		1,928,017	
Total exercisable at 31 December	**20,045**		22,480	

1 Included within this balance are options over 5,774 (2009: 5,774) shares for which no expense has been recognised in accordance with the transitional provisions of FRS 20, as the options were granted before 7 November 2002. Although there has been subsequent modification to the options, no FRS 20 charge has been recognised as the amounts are not material.

2 Movement in allocations prior to 11 November 2009 and the corresponding weighted average exercise price have been adjusted to reflect the bonus element of the Rights Issue. Details of the Rights Issue are provided in note 32 of the consolidated accounts.

The options outstanding at 31 December 2010 had exercise prices that were between 207 pence and 568 pence (2009: between 207 pence and 479 pence) excluding options with a nil exercise price. The range of exercise prices for options was as follows:

Exercise price (p)	2010	2009
0–300	**6,142**	6,142
300-600	**20,582**	24,617
	26,724	30,759

The options have a weighted average contractual life of one year (2009: one year). Options were exercised throughout the year and the weighted average share price at exercise was 232 pence (2009: 341 pence).

17 Share-based payment continued

The weighted average fair value of the remaining share options granted during the year was calculated using a stochastic model, with the following assumptions and inputs:

	Share options with nil exercise price	
	2010	2009
Risk free interest rate	**1.8%–3.0%**	2.0%
Expected volatility	**52.7%**	48.4%
Peer group volatility	**49.6%–50.8%**	49.9%
Expected option life in years	**3 years**	3 years
Expected dividend yield	**0%**	2.7%
Weighted average share price at grant date	**229p**	91p–210p
Weighted average exercise price at grant date	**Nil**	nil
Weighted average fair value of options at grant date	**202p**	91p–194p

Experience to date has shown that approximately 15% (2009: 15%) of options are exercised early, principally due to leavers.

This has been incorporated into the calculation of the expected option life for the share options without nil exercise price.

Expected volatility in the table above was determined from historic volatility over the last nine years, adjusted for one-off events that were not considered to be reflective of the volatility of the share price going forward. The expected dividend yield represents the dividends declared in the 12 months preceding the date of the grant divided by the average share price in the month preceding the date of the grant.

For share options granted during the year under the LTIP, the TSR targets have been reflected in the calculation of the fair value of the options above.

18 Commitments and contingencies

Operating lease commitments

The Company has entered into operating leases on certain properties. Annual commitments under non-cancellable operating leases are as follows:

	Land and buildings	
	2010 £m	2009 £m
Operating leases which expire:		
Within one year	**0.1**	0.2
Within two to five years	**0.3**	0.5

Contingent liabilities

(a) Guarantees

The Company has guaranteed credit facilities totalling £129m (2009: £56.6m) of certain subsidiaries.

(b) Bonds and letters of credit

In the ordinary course of business, the Group is required to issue counter-indemnities in support of its operations. As at 31 December 2010, there were UK Rail performance bonds of £25.8m (2009: £25.8m) and UK Rail season ticket bonds of £85.0m (2009: £84.4m). The Group has other performance bonds which include the £17.9m (2009: £17.0m) performance bond in respect of Inter-Capital and Regional Rail Limited, performance bonds in respect of businesses in the US of £100.2m (2009: £76.8m) and the rest of Europe of £25.6m (2009: £25.4m). Letters of credit have been issued to support insurance retentions of £39.4m (2009: £59.8m).

19 Related party transactions

The Company has taken advantage of the exemption in paragraph 3c of FRS 8, 'Related party disclosures' from disclosing transactions with wholly owned subsidiaries.

20 Post balance sheet events

There were no post balance sheet events.

Shareholder information

Shareholder electronic communications

By registering for electronic communications you can help us to reduce print, paper and postage costs. Log on to www.shareview.co.uk if you would like to:

- register your e-mail so that you are able to access future shareholder information, including the annual report and accounts, electronically;
- check the balance of your shareholding;
- set up a dividend mandate online;
- change your registered postal address or your dividend mandate details; or
- submit your vote online prior to a general meeting.

To sign up for the first time you should click on 'Register' and follow the simple instructions – you will need your shareholder reference number from your share certificate or dividend voucher or any other correspondence sent to you by Equiniti Limited.

Dividends paid direct to your bank account

Having dividends paid direct to your bank account has the following advantages:

- avoids the risk of cheques being lost and incurring a replacement fee;
- saves you time in presenting the cheque for payment; and
- the dividend is credited to your account on the payment date.

The tax voucher is sent to your registered address at the same time as the dividend is credited to your account. To set up a new dividend mandate please log on to www.shareview.co.uk or contact the Registrar, Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA. Shareholder helpline number: 0871 384 2152* or +44 121 415 7047 from overseas.

* Calls to this number cost 8p per minute from a BT landline, other providers' costs may vary. Lines open 8.30am to 5.30pm, Monday to Friday.

Share dealing service

A telephone and internet share dealing service, which provides a simple way to buy and sell shares, is available through our Registrar, Equiniti. For further information log on to www.shareview.co.uk/dealing or telephone 0845 603 7037* or +44 121 415 7560 from overseas.

* Calls to this number are charged by BT at the local rate.

Company website

The company website at www.nationalexpressgroup.com has information about the Group, including press releases, share price data and copies of the half year and annual report and accounts as well as corporate responsibility reporting. The company no longer publishes the half year results in hard copy. These will now only be available via the website.

ShareGift

ShareGift is an independent charity share donation scheme administered by the Orr Mackintosh Foundation (registered charity number 1052686). Those shareholders who hold only a small number of shares, the value of which makes it uneconomic to sell them, can donate the shares to ShareGift who will sell them and donate the proceeds to a wide range of charities. Further information about ShareGift can be obtained from its website at www.sharegift.org and a ShareGift transfer form can be downloaded from www.nationalexpressgroup.com.

Unclaimed assets register

The Company participates in the Unclaimed Assets Register ("UAR") which provides a search facility for shareholdings and other financial assets that may have been forgotten. For further information contact UAR, PO Box 9501, Nottingham NG80 1WD.
Tel: 0870 241 1713 or visit www.uar.co.uk.

Dividends and financial calendar

Final dividend ex dividend date	20 April 2011
Final dividend record date	26 April 2011
Annual General Meeting	10 May 2011
Final dividend payment date	13 May 2011
Half year results announced	28 July 2011
Interim dividend ex dividend date	7 September 2011
Interim dividend record date	9 September 2011
Interim dividend payment date	23 September 2011

Corporate information

Secretary and registered office
A J McDonald
National Express Group PLC
Birmingham Coach Station
Mill Lane, Birmingham B5 6DD
Tel: +44 (0)8450 130130
Fax: +44 (0)121 666 6498

www.nationalexpressgroup.com

Registered number
2590560

Auditor
Ernst & Young LLP
1 More London Place
London
SE1 2AF

Registrar
Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

Shareholder helpline: 0871 384 2152*
or +44 121 415 7047 from overseas.

* Calls to this number cost 8p per minute from a BT landline, other telephone providers' costs may vary. Lines open 8.30am to 5.30pm, Monday to Friday.

Principal banker
HSBC Bank plc
Canada Square
London
E14 5HQ

Corporate solicitors
Ashurst LLP
Broadwalk House
5 Appold Street
London
EC2A 2HA

Financial advisors
Merrill Lynch International
2 King Edward Street
London
EC1A 1HQ

Stockbrokers
Merrill Lynch International
2 King Edward Street
London
EC1A 1HQ

Morgan Stanley
25 Cabot Square
Canary Wharf
London
E14 4QA

Glossary

Code	The UK Corporate Governance Code published by the Financial Reporting Council in July 2010
Combined Code	The Combined Code on Corporate Governance published by the Financial Reporting Council in 2008
CPI	Consumer Price Index
CR	Corporate Responsibility
The Company	National Express Group PLC
DfT	Department for Transport
EBT	Employee Benefit Trust
EBIT	Earnings Before Interest and Tax
EBITDA	is 'Earnings Before Interest and Tax plus Depreciation and Amortisation'. It is calculated by taking normalised operating profit and adding depreciation, fixed asset grant amortisation, normalised profit on disposal of non-current assets and share-based payments.
EPS	Earnings Per Share – the profit for the year attributable to shareholders, divided by the weighted average number of shares in issue, excluding those held by the Employee Benefit Trust and shares held in treasury which are treated as cancelled.
ETR	Effective tax rate
EU	European Union
EURIBOR	Euro Interbank Offered Rate
Gearing ratio	For debt financing purposes is calculated as net debt, adjusted to reflect any cash which is restricted in use, divided by EBITDA.
The Group	The Company and its subsidiaries
IAS	International Accounting Standards
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
KPI	Key Performance Indicator
LCR	London and Continental Railway Ltd
LIBOR	London Interbank Offered Rate
LTIP	Long Term Incentive Plan
NAPF	National Association of Pension Funds
Net capital expenditure	is the increase in net debt arising on the purchase of property, plant and equipment and intangible assets less proceeds from disposals of property, plant and equipment. It excludes capital expenditure arising from UK rail franchise entry and exits and discontinued operations, which are included in these headings. Growth capital expenditure is calculated as investment in fleet for new contracts and concessions, after deducting fleet released from contracts and concessions lost and fleet re-used in new contracts and concessions.
Net debt	is defined as cash and cash equivalents (cash overnight deposits, other short-term deposits), and other debt receivables, offset by borrowings (loan notes, bank loans and finance lease obligations) and other debt payable.
Net interest expense	is finance costs less finance income.
NXEA	National Express East Anglia
NXEC	National Express East Coast

Normalised diluted earnings per share	Earnings per share, excluding the profit or loss on sale of businesses, exceptional profit or loss on the disposal of non current assets, intangible asset amortisation, exceptional items and tax relief on qualifying exceptional items.
Normalised operating profit	are the statutory results excluding profit or loss on the sale of businesses, exceptional profit or loss on sale of non-current assets, intangible asset amortisation, exceptional items and tax relief thereon, for continuing operations. The Board believes that the normalised operating profit gives a better indication of the underlying performance of the Group.
Normalised results	are defined as the statutory results before the following, as appropriate: profit or loss on the sale of businesses, exceptional profit or loss on the disposal of non-current assets, intangible asset amortisation, exceptional items and tax relief on qualifying exceptional items.
Operating cash flow	is intended to be the cash flow equivalent to normalised operating profit. Operating cash flow is normalised operating profit plus depreciation, movements in working capital and proceeds from disposals of property, plant and equipment, less finance lease additions, purchase of property plant and equipment and purchase of intangible assets.
RCF	Revolving Credit Facility
Return on capital employed	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.
RPS	Railway Pension Scheme
RREV	Research Recommendation and Electronic Voting – a corporate governance advisory service
SPAD	Signal Passed at Danger
TfL	Transport for London
Underlying revenue	compares the current year with the prior year on a consistent basis, after adjusting for the impact of currency, acquisitions, disposals and rail franchises no longer operated.
TOC	Train Operating Company
TSR	Total Shareholder Return – the growth in value of a shareholding over a specified period assuming that dividends are reinvested to purchase additional shares.
UK GAAP	UK Generally Accepted Accounting Principles
ULSD	Ultra low sulphur diesel

Cautionary statement

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

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

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Five year summary

Year ended 31 December	IFRS 2010 £m	IFRS 2009 £m	IFRS 2008 £m	IFRS 2007 £m	IFRS 2006 £m
Revenue	**2,125.9**	2,711.1	2,767.0	2,612.3	2,525.5
Normalised* operating profit	**204.2**	159.8	253.9	210.4	184.8
Group operating (loss)/profit	**85.9**	(0.6)	167.8	161.7	141.6
Profit/(loss) before tax	**40.2**	(83.5)	109.9	149.3	104.1
Statistics					
Basic earnings/(loss) per share[1]	**12.0**	(17.6p)	40.4p	35.9p	26.3p
Normalised* diluted earnings per share[1]	**23.5**	30.4p	48.6p	43.6p	39.7p
Dividends per share	**–**	–	22.72p	37.96p	34.75p
Net (debt)/funds					
Cash at bank and in hand	**128.8**	105.8	105.9	157.2	143.6
Other debt receivable	**0.7**	0.8	0.9	–	–
Loan notes	**–**	–	(0.8)	(0.8)	(0.8)
Bonds	**(565.6)**	–	–	–	–
Bank and other loans	**(39.8)**	(687.7)	(1,150.8)	(947.4)	(478.1)
Fair value of bond hedging derivatives	**(1.1)**	–	–	–	–
Bank overdrafts	**–**	–	–	–	–
Finance lease obligations	**(131.6)**	(75.6)	(133.9)	(119.8)	(103.1)
Other debt payable	**(1.8)**	(1.2)	(1.1)	–	–
Net debt	**(610.4)**	(657.9)	(1,179.8)	(910.8)	(438.4)
Net assets	**939.8**	842.3	585.4	437.0	345.5
Capital employed	**1,550.2**	1,500.2	1,765.2	1,347.8	783.9
Return on capital (pre-tax)**	**13.2%**	10.7%	14.4%	15.6%	23.6%
Return on equity					
Normalised* profit for the year	**121.3**	93.2	144.6	128.9	116.9
Intangible amortisation (post tax)	**(40.0)**	(40.6)	(39.5)	(22.1)	(19.6)
Post-tax return (before exceptional items and discontinued operations)	**81.3**	52.6	105.1	106.8	97.3
Total equity	**939.8**	842.3	585.4	437.0	345.5
Return on equity (before exceptional items and discontinued operations, post-tax)	**8.7%**	6.2%	18.0%	24.4%	28.2%

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

** Normailised operating profit/capital employed.

1 Prior year earnings per share figures have been restated for the effect of the 2009 Rights Issue.

National Express Group PLC
National Express House
Mill Lane
Digbeth
Birmingham B5 6DD
Tel: +44 (0) 8450 130130
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