national express

Press release

Thursday 25 February 2010

National Express Group PLC
Full Year Results for the year ended 31 December 2009

Resilient performance and foundations laid for the future

National Express Group PLC, a leading international public transport group, operates bus and coach services across the UK, Spain and North America, and rail services in the UK.

John Devaney, National Express Group Chairman, said:

"In 2009 National Express faced many challenges and resolved its major issues – reducing debt, ending our rail losses, navigating takeover interest, progressing our refinancing and recruiting a new Chief Executive to take us forward.

"Whilst 2010 will be another challenging year in a difficult economic environment, we are focused on delivering margin improvement through cost reduction, continuing strong cash generation, and building on the foundations that we have laid in 2009. With significant scope to improve our business, especially in UK Bus and North America, while building on our successes in Spain and UK Coach, we will drive forward our performance and deliver value for our shareholders."

Delivering key milestones

- Group successfully deleveraged – net debt reduced by £521.9 million to £657.9 million (2008: £1,179.8m)
- Incremental cash generation of over £200 million delivered in 2009, well ahead of £100 million target set in February 2009
- Costs cut by £50 million per annum, ahead of £40 million target
- Successful £375 million rights issue completed in December 2009
- Refinancing of reduced debt well underway; successful launch of heavily over-subscribed debut £350 million 7-year Sterling bond issue in January 2010
- Completed exit from East Coast rail franchise; remaining two profitable rail franchises retained until 2011
- Strong profit growth delivered in UK Coach; resilient performance in Spain
- Appointed new Group Chief Executive, Dean Finch, to drive forward strategy of margin improvement, cash generation and selective, value-adding growth.

Financial performance

	2009	2008
Revenue	£2,711.1m	£2,767.0m
Normalised* profit before taxation from continuing operations	£116.2m	£202.4m
Normalised basic earnings per share	30.5p	48.9p
Operating cash flow**	£281.3m	£152.3m
Statutory profit/(loss)	(£52.7m)	£119.7m
Full year dividend	-	10.0p

Outlook

- Stabilised business, despite continuing challenging economic conditions
- Continued focus on cost reduction and cash generation to drive performance – full year benefit of £50 million cost saving programme, together with new efficiency savings and £24 million reduction in fuel costs
- Spain and UK Coach to build on 2009 performance
- Clear actions to improve margins in UK Bus and North America; North America recovery programme refocused on cost saving and areas of greatest value impact

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Notes:
**Normalised results are the statutory results excluding profit or loss on the sale of business, exceptional profit or loss on sale of non-current assets and charges for goodwill impairment, intangible asset amortisation, exceptional items and tax relief thereon.*

***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.*

There will be a presentation for investors and analysts at 0900 on 25 February 2010 at Bank of America Merrill Lynch, 2 King Edward Street, London EC1A 1HQ. A webcast will be available at www.nationalexpressgroup.com

Chairman's Review

2009 in overview
2009 was a challenging year for National Express. The Group faced a succession of difficult issues - the global recession; the exit from the East Coast rail franchise; the departure of our Chief Executive; the protracted period during which we dealt with a series of potential bidders for the Group; and finally the demanding and complex refinancing we completed at the end of the year.

Against all this, we have delivered some positive results. We reduced costs by £50 million on an annualised basis, secured incremental cash generation of over £200 million to drive down debt, resolved the East Coast rail position, and capped the year with a strongly supported equity rights issue, overall delivering £520 million of debt reduction. This was followed by a successful bond issue. Together these have delivered an improved capital structure and, as a result, National Express ended 2009 in a far stronger position than it began the year.

Throughout all this, our businesses on the whole delivered a creditable performance. The UK Coach business improved profitability by over 25%, despite fewer passengers travelling. Spain's performance was resilient, reducing costs and securing new and extended contracts, despite a tough domestic economy and high unemployment. Our retained UK Rail franchises improved profitability and established record operational performance levels.

Normalised continuing profit before tax this year, at £116.2 million, was £86.2 million lower than 2008. Whilst this is a substantial fall, the majority of this reduction was a result of the performance of the loss-making East Coast rail franchise. Adjusted to exclude just the East Coast normalised operating result from both years, this profit before tax measure would have been £142.5 million in 2009 compared to £172.4 million in 2008.

The East Coast issue has been resolved with a smooth handover of the franchise to government. We are now focused on driving forward the strong performance of Spain and UK Coach, whilst improving margins in North America school bus and UK Bus.

Our robust business model
National Express is essentially a road passenger transport business, while retaining a good capability in rail, operating in three main geographical markets: the UK, Spain and North America. Our competition is primarily modal, with our customers choosing between our bus and coach services, versus car, plane or train.

In both the UK and Spain, we are a market leader in long distance coach and commuter bus operations. In Spain, Alsa is the largest private operator. It manages 163 regional and long distance concessionary franchises, as well as urban bus services in 24 Spanish cities. These are regulated and supported by long-term concession agreements that provide exclusive rights to operate routes. Alsa has a diversified portfolio, an internationally recognised brand and a flexible operating structure that provides critical financial resilience.

This strength is mirrored in the UK Coach business, National Express. With 70% unprompted brand recognition, National Express is the only scheduled national coach operator in the country - and the largest in Europe. Operating in a highly deregulated market, the UK Coach business benefits from its sheer scale; from the breadth and interconnectivity of its national route network, serving over 1,000 domestic destinations, and from its flexible, outsourced operational model.

Our National Express West Midlands brand operates the largest single urban bus network in the UK outside of London. In a competitive, deregulated market, our UK Bus business enjoys considerable benefits of scale. For example, operating reliable bus services requires major infrastructure investment in depots and maintenance facilities. Our West Midlands network serves a target population where over 90% live within 250 metres of a bus stop.

In North America, National Express operates solely in the school bus market. One of only two operators with true continental geographic coverage, this is a market based on 3 to 5 year contracts, backed by local public school boards, and, despite strong competition, once a contract has been won, the operator faces almost no revenue risk.

National Express has also built strong operational skills in UK Rail, the most deregulated railway system in Europe. However, 2009 demonstrated the volatile nature of the current franchising system, where the franchisee is required to guarantee an agreed level of service supply, irrespective of customer demand, with little ability to flex costs to respond to changes in customer travel patterns in the early years of the contract. With East Coast now handed back, National Express can focus on excellence in delivery of its two remaining rail franchises, East Anglia and c2c, until their expected contract termination in 2011.

Safety is our top priority. In 2009, both the UK and Spain reduced vehicle accident rates.

Our businesses give us a combination of core strengths on which to build – significant contracted revenues from public sector customers, long term exclusive concessions and significant customer recognition. We deliver excellent customer service, cost effectively and efficiently. Our position relative to our peers, having less exposure to volatile rail markets, provides a platform to drive future shareholder value.

Our markets in 2009

Our performance in 2009 was against the backdrop of very difficult markets. The two main drivers of transport businesses are economic growth (GDP) and employment. The decline in GDP in 2009, 3.2% in the UK and 3.6% in Spain, led to a reduction in discretionary and business travel, impacting long distance coach and rail operations.

Employment-based travel to work is a major driver for our urban bus and commuter rail operations. Rising unemployment in the West Midlands impacted UK Bus, though commuter rail operations saw unemployment have less of an impact on performance than might have been predicted.

In Spain, several years of strong economic growth came to a halt late in 2008; by the end of 2009, official unemployment had risen to almost 20%. This has impacted the regional coach business, where migrant labour is a key passenger group, while urban operations were better protected by our concession agreements.

Forecasts of limited recovery of GDP in 2010 should progressively help passenger volumes in Coach operations. However, with unemployment a lagging indicator to economic recovery, all of our businesses have therefore responded to manage an environment where productivity growth, efficiency improvements and cost cutting are the norm. In 2009, cost reduction has been a major driver to limit the adverse impact of the recession on margins, with £50 million of annual savings delivered across the Group by the year-end. In both Spain and the UK, cost management has come to the fore, as we have sought to adapt services to meet the changing patterns of customer demand. Spain was particularly successful at reducing operating kilometres, by over 5% year on year. Compared to many sectors of both economies, however, the bus and coach sectors offer a relatively high level of revenue stability.

Delivering key milestones
Although the overall financial performance of the Group was disappointing after a record 2008, 2009 was a year when we made real progress in resolving many of the difficult challenges which emerged as the recession unfolded. These included the departure of our previous Chief Executive in June 2009 - successfully replaced by Dean Finch in February 2010 - and a series of takeover approaches for the Group.

However, the most significant of the issues to be resolved were the impact of the East Coast rail franchise and the Group's high level of debt.

Limiting the impact of the East Coast rail franchise
When National Express won and began operating the East Coast main line rail franchise in 2007, it was expected that passenger revenue would increase by around 10% a year, based on increasing passenger numbers and fare yield. With the arrival of recession, this assumption proved unrealistic. Up to November 2009, annual passenger revenue on the franchise actually declined by 2%.

Therefore, despite significant improvements in service delivery and punctuality, our East Coast franchise rapidly moved into a significant loss as 2009 progressed, exacerbated by increasing premia payments to the UK government – and it became clear that the loss could extend for the life of the franchise. After extensive and difficult discussions with the UK government, we handed back the franchise, in an orderly manner, on 13 November 2009. The Group provided £40 million in cash support to cover operating losses on the franchise and paid £31.4 million in a performance bond to the government. We retained our two other profitable rail franchises. We also provided certainty to shareholders and funding partners.

£56.3 million of the year on year fall in the Group's normalised continuing profit before taxation can be attributed to the East Coast franchise. Excluding East Coast, the remaining businesses achieved a more resilient outcome to 2009.

Reducing debt and improving the capital structure
Prior to 2008, National Express had increased its debt markedly to invest in developing the business through acquisitive growth.

The change in the global financial environment late in 2008 had a particularly detrimental effect on the Group. National Express suffered from restricted banking covenant headroom and limited funding maturity. Entering 2009 with nearly £1.2 billion of net bank debt required significant management attention to ensure the Group remained compliant with its debt covenants, whilst driving a programme of 'self-help' measures.

Much of this came from reducing investment and managing our working capital better. But savings also, necessarily, included the passing of the dividend. Such a decision was difficult for the Board, particularly in a year which saw our share price fall significantly. However, by year end, we had delivered over £200 million of incremental cash generation from this self-help programme, more than double the target we had set 12 months earlier of £100 million. Given the longer term cash generative nature and earnings potential of the Group's operations, the Board expects to resume a progressive dividend policy once the economic outlook is clearer and refinancing has been completed.

In November 2009, shareholders backed our successful rights issue. By the end of 2009, net debt had been reduced by £521.9 million to £657.9 million – with £357.9 million raised from shareholders and £164.0 million from organic cash generation and 'self-help' measures.

With our debt gearing ratio reduced to 2.5 times by the end of 2009 - from 3.5 times a year before - our capital structure is improved, our debt level reduced and our debt covenant headroom more flexible. This was reflected in a successful £350m, 7-year Sterling bond issue by the Group in January 2010, which was heavily oversubscribed. This bond issue has allowed us to pay down significant debt due in 2010 and 2011.

Focusing on business performance
We believe that our actions have drawn a line under a difficult year, establishing a platform to deliver long-term benefit to our shareholders. We believe we can demonstrate:

- an ability to manage our ongoing operations effectively, despite challenging trading conditions, and to deliver resilient underlying performance;
- a strong operational capability across the Group to deliver excellent customer service, minimise costs and take advantage of new business opportunities; and
- a focus on driving the inherent cash generation qualities of each business to improve shareholder value.

In 2009, our ongoing businesses benefited from the leading market position we have in almost all of the markets in which we operate. Our UK Coach business, for example, carried over 18 million passengers in the year. However, it was the business operating model which helped us deliver so strongly, with a flexible cost structure that sees the majority of services outsourced to third-party operators. This has proved to be adaptable and resilient during the recession, with costs adjusted to meet changing customer demand. Normalised operating profit for the UK Coach business increased from £27.0 million in 2008 to £34.3 million in 2009.

In Spain, we benefited from scale and flexibility in our domestic bus and coach services, as well as from organic growth in North Africa. Effective cost management resulted in a limited profit decline in 2009. Despite the severity of the recession, our Spanish business still produced a normalised operating profit of £76.5 million, compared to £83.3 million in 2008.

Success in other parts of the Group was more limited. Normalised operating profits in the UK Bus business were down from £40.0 million in 2008 to £20.8 million. While predicted increases in fuel and pension costs, together with significant higher regional unemployment, have impacted the business - as well as the loss of profits from the sale of the Travel London operation - progress was made reducing overhead costs and operating mileage. Delivering improvements to UK Bus will be high on our list of priorities for 2010.

In North America, 2009 was a disappointing year, with normalised operating profit down to £25.3 million from £32.5 million in 2008, despite currency translation benefits. We remain confident that our investment programme will help us to reduce costs and improve revenue, but the benefits are coming through more slowly than we had hoped. Recent changes to the senior management team are aimed at steadily restoring profitability in the business from 2010 onwards, while refocusing our business recovery project on the areas of greatest benefit.

Delivering a simple, effective strategy
With the major issues impacting the Group’s structure and performance now resolved, we developed a strong interim strategy, ahead of the arrival of our new Chief Executive, Dean Finch, who joined the company in February 2010. Building on the simple strengths of a public transport business, it is a ‘back-to-basics’ approach, designed to deliver greater shareholder value from increased focus on the Group’s core businesses. This strategy is focused on:

- Maximising cash generation;
- Delivering greater cost savings to drive margins; and
- Protecting and growing revenue selectively.

Maximising cash generation
Our business is naturally cash generative and, throughout 2009, we have sought to strengthen our balance sheet by focusing on cash generation to reduce debt – in 2009 we improved operating cash generation from £152.3 million in 2008 to £281.3 million. We continue to target deleveraging to further increase the Group's financial flexibility by improving operating cash flow and disposing of non-core assets where values are appropriate.

Delivering cost savings
In 2009, our cost saving programmes delivered £50 million of annualised savings. We successfully reduced operating mileage by 3 to 5% in the UK and Spain, in response to lower passenger traffic. We made initial progress in reducing the proportion of revenue we spend on driver wages in North America, saving over $7 million in 2009. Going forward, we want to achieve 'best in class' operating cost delivery in each business. This will particularly target margin improvement in UK Bus and North America.

Selective growth
We are focused on achieving organic growth in existing markets and on developing business in new markets where we can create value. In 2009, Alsa won a 15 year contract to operate urban bus services in the Moroccan city of Agadir. National Express coaches saw a 12% increase in passengers travelling to major events, despite the recession. Going forward, the Group's core bus and coach operations are well placed, reputationally and financially, to access profitable growth as national economies recover from recession.

Delivering great customer service
National Express is a service business – and we will not prosper if we fail to deliver the service that our customers expect.

Despite the state of the economy, we have continued to deliver service improvements. The UK Coach business opened the Birmingham Coach Station on time and ready for Christmas travellers. This £15 million investment symbolises the style of modern coach travel that we now offer with its leather seats and onboard Wi-Fi. We have transformed a run-down bus terminus into a flagship that air travellers could envy. It will also become home to our new corporate head office during 2010, with associated cost savings from closing our current office in London.

Our new customer ticketing lounge at Stansted Airport has supported a return to year on year growth in airport coach routes, and in the UK Bus business, new partnerships are allowing the Group to develop tailored plans with local authorities to match changing customer demand. In UK Rail, both of our remaining franchises have delivered record service levels, including the best-ever punctuality performance by a UK train operating company.

In Spain, we continue to expand web ticketing as customer buying patterns change, and have introduced more premium coaches and Wi-Fi capability. In North America, we provided a school board customer in Illinois with a new bus routing solution which reduced buses by 33 percent, mileage by 29 percent and total route hours by 23 percent.

We will continue to offer outstanding and improved service to all our customers.

Looking ahead
We expect 2010 to be another challenging year. Low price inflation will leave limited scope to grow fare yields, and all our businesses will continue to focus on cost reduction to manage limited or zero passenger volume growth. This, together with lower fuel costs and selective revenue growth opportunities, is expected to improve overall margin and should enable us to drive shareholder value.

While 2009 was dominated by the need to resolve major issues in the Group's capital structure and business portfolio, we believe that in 2010 we will be able to focus on operational improvement and building on the foundations that we have laid. National Express has many strengths and there is significant scope for improvement in some areas of our business, including UK Bus and our North American businesses.

Dean Finch inherits a senior management team that has worked exceptionally hard to put the Group on a sound footing, and a workforce of over 40,000 committed individuals, whose combined efforts will enable him – and the Group – to assess and drive forward opportunities.

John Devaney
Chairman
25 February 2010

Divisional Reviews

Spain

Revenue for Spain was £546.8 million (2008: £483.1m) and normalised operating profit was £76.5 million (2008: £83.3m). In local currency, revenue was €612.9 million (2008: €608.5m) and normalised operating profit was €85.7 million (2008: €105.0m).

2009 saw a 8% reduction in Sterling profitability in our Alsa business in Spain. In a challenging economic environment, this was a creditable performance by a robust business.

After many years of rapid economic growth, Spain has been impacted by the global recession. Spain is not expected to emerge from recession until the end of 2010 and unemployment is close to 20%. The recession has impacted our Alsa business, particularly in discretionary and leisure travel, with underlying revenue 5% lower.

Nevertheless, as the largest private bus and coach operator in Spain, Alsa has the resources, scale and management expertise to continue to prosper in a more challenging economic environment. In line with Group strategy, the Spanish business was successful at maximising cash generation in 2009, delivering greater cost savings and both protecting and selectively growing revenue.

Alsa's strength across long distance, regional and urban travel was key to protecting performance in 2009. Long distance was hardest hit, with underlying revenue 8% lower than 2008. By contrast, urban operations saw underlying revenue remain flat. Revenue on regional concessions was mixed dependant on local economic conditions, with Asturias and Andalucia hardest hit.

Operating in a stable regulatory framework allows Alsa to plan for the long term, whilst retaining short-term flexibility in service supply. During 2009, 80% of the country's regional concessions were extended to periods between 2019 and 2034, benefiting the majority of Alsa's routes and allowing plans to be made for further long-term investment in services and fleet. None of the Group's Spanish concessions is due for renewal until 2012/2013.

Competition from high speed rail continued on the Barcelona and Leon corridors to Madrid. However, these represent only 5% of Alsa's revenues. The next high speed development is on corridors where Alsa has less exposure and the implementation of new EU rules from July 2010 will see rail ticket prices set without subsidy.

Alsa has continued to invest in service improvements with a 25% increase in its premium class services which provide higher margins. By contrast, for value-seeking customers, a 'Friendly Fare' offer was launched to mitigate the effects of the recession. Buying tickets was made much easier - web sales grew rapidly, three million passenger journeys were made using reservations sent by text message and we started selling tickets through 8,000 bank cash machines; all supported by Alsa's first TV advertising campaign.

Alsa was very successful at managing down costs in 2009. €20 million of annualised cost savings were delivered in total, including people, procurement and fleet savings. During the year, a 5% reduction in kilometres operated was achieved, as Alsa adapted to reduced demand. All of this has been achieved while improving safety – there was a 15% reduction in the total number of accidents – and increasing customer satisfaction scores.

Selective organic growth continues despite the recession. Non-regulated business, such as school and company transport, grew, as did the event business. 2009 also benefited from the first full year of the Bilbao urban business acquisition.

Alsa operations in Morocco continued to grow and now account for 5% of the division's profitability. Alsa has provided urban bus services in Marrakech since 1999 and in December won a similar contract for the city of Agadir, expected to add €16 million of revenue from 2011. Morocco is a stable and attractive market with significant growth potential, as a result of an increasing population and improving economic outlook.

Alsa's experience both within and outside Spain is also proving attractive to potential partners and customers. Over time, more urban bus services in Spain are expected to be outsourced. New business opportunities - for example, growth in urban tramways – will provide new tendering opportunities. Alsa Rail already manages a tramway in Málaga and helps manage the Madrid Light Railway. Transport development in the Middle East and changes to regulation across much of Europe are also expected to create new opportunities.

While 2010 promises to provide another difficult economic backdrop, Alsa will continue to adapt to its markets, drive cost efficiency while benefiting from cheaper fuel hedges, and explore new growth opportunities.

North America

Revenue for North America was £444.5 million (2008: £372.5m) and normalised operating profit was £25.3 million (2008: £32.5m). In local currency, revenue was US$695.0 million (2008: $690.5m) and normalised operating profit was $39.6 million (2008: $60.3m).

North America delivered modest revenue growth in the year, with underlying revenue up nearly 2%, and once again achieved good contract retention at over 90%. However, overall, this was not a strong year, with operating profit declining from £32.5 million in 2008 to £25.3 million in 2009.

We won 19 new contracts in 2009, worth $30 million annually, gaining over 500 additional routes. But we also lost, or resigned due to poor margin levels, 24 contracts, reducing our overall network by over 500 routes. Competition was strong and we had to balance achieving sensible contract margins with retaining market share. The 2009 bid season was also characterised by increased interest in outsourcing of contracts by school boards who currently operate in-house – however, there was very little actual conversion.

Profit in local currency terms was significantly lower than 2008, primarily due to higher fuel costs and continued double running costs and infrastructure investment associated with having parallel centralised and distributed field service costs, as part of our transformation project.

A thorough review of the project has identified changes to its scope which will allow greater focus on cost efficiency and value-adding aspects going forward. This recovery programme will allow us to remove some short-term cost increases, where non-driver wage costs, together with facility and infrastructure costs rose by $13 million in 2009. The programme will help us to deliver greater efficiency, and the changes in scope will allow double running costs to be eliminated from 2010. We are targeting a $40 million reduction in the overall cost base by 2011, compared to 2009 performance.

2009 profitability was also negatively impacted by higher fuel costs, reflecting global market conditions at the time of hedging in 2008. This added $9 million on a constant volume basis. Investment in depreciation and leasing added $5 million, reflecting recent investments. However, we have made some significant cost improvements, such as in the management of driver wages, our largest single cost area. 2009 saw a $7m improvement in costs on a constant volume basis.

We remain convinced of the attractions of this market, with pressures on education budgets promoting outsourcing; currently only one third of buses are outsourced. Children continue to go to school, despite the recession. Medium term contracts provide suppliers with protection from revenue risk. As school boards convert to outsourcing, the market can grow, offsetting margin pressures in the existing market.

During 2010, our performance will improve as a result of the actions we have taken and further initiatives currently being assessed. Firstly, our recovery programme has been targeted on the most effective delivery areas. Secondly, we have made senior management changes, driving a greater operational focus. We are in the process of consolidating all centralised operations and management in Chicago, closing two existing centres. We are committed to restoring margins, while further improving services for our customers.

UK Coach

Revenue for UK Coach was £242.9 million (2008: £244.7m) and normalised operating profit was £34.3 million (2008: £27.0m)

In Coach, the benefits of a strong national network, flexible coach supply model and value for money brand positioning were clearly demonstrated in challenging market conditions as we delivered a record profit from the business. The recession cut back on discretionary journeys, and we also saw increased competition from rail, due to new high speed capacity to the North West.

In response, the Coach business delivered strong customer service consistent with its brand values, and used effective and innovative marketing to promote our superior frequency and network coverage through our multi-channel sales distribution. Whilst web sales continue to grow, our ability to service traditional ticket office custom remains a key advantage.

Following a reduction in demand for air travel, new investment in customer facilities at Stansted Airport has radically altered our presence, actively managing passenger recruitment on services to London and securing a return to revenue growth. At the same time, with new competition on South Coast routes to London, National Express services have been expanded, driving over 18% growth in revenue on these routes.

As a result of these successes, Coach passenger volumes declined by just 2% in 2009, while underlying passenger revenue increased by 1% on 2008.

Our coach supply model, where 80% of services are run by third party operators, proved very flexible in meeting changing demand.The Coach cost saving programme delivered a substantial improvement; savings were achieved in scheduled coach hire, with fewer duplicate coaches operated, and operating mileage reduced by 4%.

Alongside the National Express brand, our other coach businesses also achieved success. Airlinks secured a new 5 year contract at Gatwick Airport. Eurolines, our partnership with Alsa and other European operators, benefited from increased patronage, with the progressive opening up of European markets likely to benefit in the future. Our Events business saw increased demand to Wembley and festivals. However, reduced private hire and engineering work impacted the Kings Ferry and rail replacement businesses respectively.

As a result of a resilient revenue performance and strong cost management, the UK Coach business delivered a 27% increase in normalised operating profit to £34.3 million (2008: £27.0m) on continuing revenue of £242.9 million (2008: £244.7m).

UK Bus

Revenue for UK Bus was £293.9 million (2008: £341.0m) and normalised operating profit was £20.8 million (2008: £40.0m)

In UK Bus, rising unemployment – nearly 10% in the West Midlands - led to a 3% reduction in passenger journeys. Despite this difficult backdrop, underlying revenue rose 2%, benefiting from stronger passenger yields. Total UK Bus revenue of £293.9 million was lower than 2008 (£341.0m) due to the sale of London bus operations, which impacted by £46.6 million.

As forecast, cost pressures during the year were significant. Fuel costs rose by £4.5 million and pensions costs by £3.5m. Increased labour costs reflected a previous three-year pay deal, agreed during a better economic climate. The Travel London disposal accounted for a £2.3 million reduction in UK Bus normalised operating profit, to £20.8 million (2008: £40.0m).

Nevertheless, the business retains its key strengths. As market leader in the West Midlands, we have a strong network, offering a high frequency, value for money service to our customers. Our strong branded ticketing encourages customer loyalty, whilst multi-operator ticketing supports a competitive market place. We recently renewed our 3 year concessionary fares scheme on similar terms. In Dundee, a new management team has consolidated our position, improving reliability and operational efficiency, although revenue has been impacted by the economic downturn.

Cost control programmes have made initial progress. Improved staffing should drive better productivity. Alongside this, we have reduced mileage operated by 3%, more readily matching consumer demand for services which has been affected by higher unemployment. A review is underway to assess our operational footprint. Fares have been held unchanged to support incremental passenger growth and fuel hedges for 2010 are at a lower cost. We are targeting a further £9 million reduction in operating costs. We continue to work closely with our regional partners to deliver 'Safer Travel' for customers in urban areas.

We are also supporting the review of the bus industry by the Competition Commission, following the referral by the Office of Fair Trading in January 2010. We believe that our markets are effective and competitive, with over 30 operators overlapping with our West Midlands network and over 60% of our passengers travelling on routes served by other operators. We expect the Commission to report in 2011.

UK Rail

Revenue for the UK Rail division was £1,190.5 million (2008: £1,332.5m) and normalised operating profit was £12.0million (2008: £81.3m).

The operation of our UK Rail business in 2009 was dominated by the return of the East Coast mainline franchise to the Department for Transport (DfT) in November. The losses on this franchise had a major impact on the financial performance of the rail division, with revenue 11% lower and normalised operating profit down 85%.

East Coast
Under National Express's management, the East Coast franchise moved from the bottom to the top of Network Rail's long distance operational performance league. However, the franchise premia which we had bid to operate the franchise became unsustainable as 2009 unfolded and the recession impacted passenger travel.

Discussions with the DfT during 2009 to enable us to continue to operate the franchise were unsuccessful. Consequently, the Group handed it back to the DfT on 13 November 2009, meeting all commitments to that point and ensuring an orderly handover to the government operated successor.

East Anglia and c2c

The headlines for the Rail division do not tell the whole story. Our two remaining rail franchises – c2c and National Express East Anglia (NXEA) - delivered a strong operational and financial performance, demonstrating that the Group remains an accomplished railway operator. The rail division also benefited from claims from previous train operating companies (TOCs), albeit at a reduced level from 2008.

The c2c franchise provides services between London and south Essex. Its moving annual average performance (PPM) reached 96.3% - the highest ever for any mainland UK TOC and above the benchmark Swiss Federal Railways. This reflected high levels of reliability and the commitment of our staff. During severe weather in December 2009 and January 2010, we ran a full, scheduled service every day, at 94.6% punctuality.

Underlying revenue in c2c grew nearly 4% in 2009, with less impact than feared from job losses in London's financial services industry, and aggressive marketing of off-peak leisure travel, up 12% year on year.

NXEA also delivered its best ever operating performance. Growth in underlying revenue slowed to 1%. However, the franchise benefits from 80% revenue support from the DfT and saw growth from Olympic Park construction. Cost savings helped improve profitability.

The franchise continues to invest through a DfT-funded programme to ease congestion during rush-hour periods. But, despite delivering all 52 operational criteria, the DfT has decided not to extend the NXEA franchise.

Our rail future

We will operate NXEA and c2c to their normal termination in 2011, after which the Group will cease to have any active rail franchise. The Group will focus its future growth on its bus and coach operations. However, at a time when some rail franchisees are struggling to deliver good customer service, the Group has demonstrated its superior operational capability in rail and we would not discount future selective and carefully risk-assessed involvement in rail.

Financial Review

Revenue

Group revenue declined by 2.0% to £2,711.1 million (2008: £2,767.0m). Underlying revenue in most businesses increased year on year; however, the disposal of Travel London, the return of the East Coast franchise, changes to rail access charges and premia presentation, and foreign exchange changes distort the reported revenue comparison.

Normalised profit

Normalised Group operating profit declined to £159.8 million (2008: £253.9m). Wage cost inflation was reduced, although increased pension costs impacted the UK, particularly in Bus. Fuel costs rose by 16% to £244.6 million (2008: £211.4m), reflecting the higher cost of hedges taken out in pre-recessionary oil markets – this cost is expected to fall by £24 million in 2010. The depreciation charge rose to £108.0 million (2008: £96.0 million), reflecting higher investment prior to 2009.

£m	**2009**	**2008**
Revenue	2,711.1	2,767.0
Operating costs	(2,551.3)	(2,513.1)
Group operating profit	**159.8**	**253.9**
Net finance costs	(43.5)	(51.5)
Share of results from associates	(0.1)	-
Normalised profit before tax	**116.2**	**202.4**

Despite the recession, most businesses demonstrated good resilience in normalised operating profit terms. Overseas businesses benefitted by £17.6 million from translation gains due to the weakening of Sterling. Of the £94.1 million reduction in normalised operating profit in 2009, the East Coast rail franchise accounted for £56.3 million and UK Bus £19.2 million.

Normalised net finance costs reduced in 2009 to £43.5 million (2008: £51.5m), as 'self help' measures reduced Group debt and market interest rates fell. Normalised profit before tax reduced by 43% to £116.2 million (2008: £202.4m), in line with the Group's expectations.

The Group's effective tax rate on normalised profit was 19.8% (2008: 25.8%). This benefited from successful resolution of an outstanding tax issue in the UK. The resultant normalised basic earnings per share were 30.5 pence (2008: 48.9p).

East Coast

National Express East Coast (NXEC) made a normalised operating loss of £26.3 million in the first half of 2009, compared with a profit of £30.0 million in the whole of 2008. The second half operating loss of £21.4 million was provided for as an exceptional onerous contract loss. The Group funded these losses through a £40 million subordinated loan to NXEC, the maximum payable under the franchise agreement. The Group also provided, within exceptional items, for a £31.4 million performance bond, paid in November 2009, and a £12.0 million non-cash write-off related to bid mobilisation and other costs. The total exceptional charge for the East Coast onerous contract and termination was £64.8 million.

At 31 December 2009, the Group was owed £25.7 million by the new operator for assets transferred, now subject to adjudication by reporting accountants.

Exceptional items
The recession brought with it the need to resolve a number of key issues. Exceptional operating items in 2009 totalled £100.0 million (2008: £30.9m). In addition to the East Coast charge, this comprised £14.2 million in respect of North America transformation programme costs, relating to non-capital expense incurred in the implementation of the project; £9.7 million for restructuring to deliver cost savings of £50 million on an annualised basis; £7.2 million in corporate activity and bid defence; and £4.1 million in relation to a change in the expected termination date of rail franchises.

A non-operating exceptional loss of £39.3 million (2008: £6.4m) comprised £19.9 million of finance costs to write-off interest rate hedges following the successful rights and bond issues in December 2009 and January 2010 and the repayment of the Euro debt taken out to purchase Continental Auto in 2007 (the cash flows associated with exiting these swaps will occur in 2010); £12.0 million for Associate operations, reflecting the Group's share of a claim on a contract held by its associate company ICRRL with LCR (this contract was declared an onerous contract in 2006; negotiation of the claim continues); and £7.4 million on asset disposals, primarily the sale of Travel London in June 2009.

Goodwill impairment and intangible amortisation
The charge for intangible asset amortisation in 2009 was £60.4 million (2008: £55.2m), primarily relating to contracts, software and similar assets previously acquired in Spain. The Group's principal capitalised goodwill is in Spain and North America. This was tested for impairment in 2009; however, no such impairment was identified, although continued non-impairment in North America is dependant on delivering the expected margin recovery in future years.

Net of tax credits on exceptional items and intangible amortisation, the Group made a statutory loss for the year of £52.7 million (2008: profit £119.7m). The basic loss per share was 17.6 pence (2008: earnings 40.4p).

Cash management
Despite a difficult year in profitability for the Group, its performance in cash management was excellent. At the beginning of 2009, the Group set out to deliver:

- Strong cash management, to reduce the Group's debt;
- A stronger balance sheet and appropriate capital structure.

During 2009, the Group has built on the strong cash generative qualities of its businesses, through cash collection, limiting investment to match reduced passenger demand and taking other 'self help' measures to reduce cash usage. As a result of this action, the Group delivered normalised operating cash flow of £281.3 million in 2009 (2008: £152.3m). In 2009 we delivered:

- 176% conversion of normalised operating profit into normalised operating cash;
- Over £200 million of incremental cash generation, compared with a target of £100 million set 12 months ago;
- A reduction in the Group's year end debt gearing ratio to 2.5 times (2008: 3.5x).

Normalised operating cash generation in 2009 included a £63.9m reduction in working capital (2008: increase £83.3m). This reflects both a sustainable improvement in the management of working capital – for example, through an improved customer collection process in North America – and temporary benefits – due to seasonality and a social security deferment scheme in Spain. Capital expenditure was significantly curtailed in 2009 at £51.9 million (2008: £114.8m), representing just 48% of depreciation (2008: 120%). With

declining passenger volumes in the UK and Spain, less fleet investment was required, whilst in North America capital expenditure was reduced and some fleet acquisition leased.

£m	2009	2008
Normalised operating profit	159.8	253.9
Depreciation	108.0	96.0
Grant amortisation, profit on disposal and share-based payments	1.5	0.5
EBITDA	269.3	350.4
Net capital expenditure	(51.9)	(114.8)
Working capital improvement	63.9	(83.3)
Operating cash flow	281.3	152.3

Debt reduction

Normalised operating cash flow was applied to pay non-operating cash flows - including net interest of £48.8 million (2008: £50.7m) and exceptional cash flow of £74.3 million (2008: £27.9m) – to give a free cash flow of £125.5 million, significantly ahead of prior year (2008: £47.4m). Net of the proceeds from asset disposals, including Travel London, and a reduced dividend, net funds flow for the Group was an inflow of £497.6 million (2008: outflow £31.0m), benefiting from the proceeds of the rights issue in December 2009.

£m	2009	2008
Normalised operating cash flow	281.3	152.3
Discontinued operations	5.5	(10.5)
UK rail franchise entry and exit	(32.3)	(2.0)
Exceptional cash flow	(74.3)	(27.9)
Payment to associates	(8.0)	(8.4)
Net interest	(48.8)	(50.7)
Dividends paid to minority interests	(0.5)	(0.4)
Taxation	2.6	(5.0)
Free cash flow	125.5	47.4
Financial investments and shares	(0.7)	(1.3)
Acquisitions and disposals	30.1	(17.5)
Equity issuance	357.9	
Dividends	(15.2)	(59.6)
Net funds flow	497.6	(31.0)

Net debt reduced by £521.9 million, including a £24.3 million foreign exchange gain, during the year to £657.9 million (2008: £1,179.8m). Of this, £357.9 million came from shareholders and £164.0 million from internal cash generation. This underlines the success of the debt reduction programme in 2009. As a result, the Group's key debt ratios returned to more typical levels and favourable compared to the Group's banking covenants:

- Debt gearing ratio: 2.5 times (2008: 3.5x; covenant not to exceed 3.5x)
- Interest cover ratio: 6.5 times (2008: 5.9x; covenant not to be less than 3.5x).

Treasury Management

Excellent progress has been made in the last 12 months in refinancing the Group's maturing debt. Following successful renegotiation of elements of the Group's banking covenants in June 2009, the success of the rights issue in December 2009 was followed by a heavily over-subscribed £350 million debut Sterling bond issue in January 2010. The bond has a coupon of 6.25% fixed for its 7 year term, which would step up to 7.5% if the Group had not obtained and maintained two investment grade credit ratings by January 2011. The Group expects to obtain credit ratings during 2010.

The rights issue and bond allowed the repayment of the Group's €540 million Euro loan facility, which had been due to mature in September 2010. The Group's debt facilities now comprise the £350 million bond, maturing in 2017, and an £800 million revolving credit facility (RCF) with the Group's banking partners which matures in June 2011. It is anticipated that the RCF will be replaced with a smaller facility comprising bond debt and/or bank debt during 2010.

At 31 December 2009, the Group maintained significant debt financing headroom, with cash and undrawn committed financing facilities of £409.0 million (2008: £200.0m)

Further details of the Group's treasury management policies are set out in the Annual Report and Accounts.

Pensions

The Group's principal defined benefit pension schemes are all in the UK. These schemes saw an increase in the combined deficit under IAS19 at 31 December 2009 to £54.9 million (2008: £45.0m). The deficit exposure in the UK Rail business (under the Railways Pension Scheme) reduced markedly to a deficit of £1.9 million (2008: £38.7m) on liabilities of £423.7 million (2008: £554.9m), given the earlier exit from the Group's rail franchises.

The deficit in UK Coach (under the National Express Group Staff Pension Plan) increased slightly to £5.2 million (2008: £1.2m) on liabilities of £56.8 million (2008: £43.3m), as improved investment values offset a rise in liabilities due to a lower discount rate. On a similar basis, the deficit in UK Bus (under the West Midlands Passenger Transport Authority Pension Fund and the Tayside Transport Superannuation Fund) increased to £46.4 million (2008: £3.6m) on liabilities of £446.3 million (2008: £357.4m).

It is expected that the Bus & Coach deficits on a scheme valuation basis would be higher than under IAS19. Triennial valuations of the two largest schemes are due in 2010 and current cash contributions to each scheme will be reviewed at that time. In 2009 the combined deficit funding contribution was £6.2 million. Both schemes are closed to new entrants.

Cautionary statement

This Operating and Financial Review is intended to focus on matters which are relevant to the interests of shareholders of the Company. The purpose of the OFR 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.

Definitions

Normalised results are the statutory results excluding profit or loss on the sale of business, exceptional profit or loss on sale of non-current assets and charges for goodwill impairment, intangible asset amortisation, exceptional items and tax relief thereon.

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

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

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

Net interest expense is finance costs less finance income.

Net capital expenditure is the increase in net debt arising on the purchase of property, plant and equipment and intangible assets less proceeds from disposals of property, plant and equipment. It excludes capital expenditure arising from UK rail franchise entry and exits and discontinued operations, which are included in these headings.

NATIONAL EXPRESS GROUP PLC
GROUP INCOME STATEMENT
For the year ended 31 December 2009

	Note	**Total before goodwill impairment, intangible amortisation and exceptional items 2009 £m**	**Goodwill impairment, intangible amortisation and exceptional items 2009 £m**	**Total 2009 £m**	Total before goodwill impairment, intangible amortisation and exceptional items 2008 £m	Goodwill impairment, intangible amortisation and exceptional items 2008 £m	Total 2008 £m
Continuing operations							
Revenue	3	**2,711.1**	**–**	**2,711.1**	2,767.0	–	2,767.0
Operating costs before goodwill impairment, intangible amortisation and exceptional items		**(2,551.3)**	**–**	**(2,551.3)**	(2,513.1)	–	(2,513.1)
Intangible amortisation	3	**–**	**(60.4)**	**(60.4)**	–	(55.2)	(55.2)
Exceptional items	3	**–**	**(100.0)**	**(100.0)**	–	(30.9)	(30.9)
Total operating costs		**(2,551.3)**	**(160.4)**	**(2,711.7)**	(2,513.1)	(86.1)	(2,599.2)
Group operating profit	3	**159.8**	**(160.4)**	**(0.6)**	253.9	(86.1)	167.8
(Loss)/profit on disposal of non-current assets		**–**	**(7.4)**	**(7.4)**	–	5.1	5.1
(Loss)/profit from operations		**159.8**	**(167.8)**	**(8.0)**	253.9	(81.0)	172.9
Share of post tax results from associates and joint ventures accounted for using the equity method		**(0.1)**	**(12.0)**	**(12.1)**	–	–	–
Finance income	4	**9.6**	**–**	**9.6**	17.4	–	17.4
Finance costs	4	**(53.1)**	**(19.9)**	**(73.0)**	(68.9)	(11.5)	(80.4)
(Loss)/profit before tax		**116.2**	**(199.7)**	**(83.5)**	202.4	(92.5)	109.9
Tax (charge)/credit	5	**(23.0)**	**45.6**	**22.6**	(52.3)	75.5	23.2
(Loss)/profit after tax for the year from continuing operations		**93.2**	**(154.1)**	**(60.9)**	150.1	(17.0)	133.1
Profit/(loss) for the year from discontinued operations		**–**	**8.2**	**8.2**	(5.5)	(7.9)	(13.4)
(Loss)/profit for the year		**93.2**	**(145.9)**	**(52.7)**	144.6	(24.9)	119.7
(Loss)/profit attributable to equity shareholders		**92.4**	**(145.9)**	**(53.5)**	143.7	(24.9)	118.8
Profit attributable to minority interests		**0.8**	**–**	**0.8**	0.9	–	0.9
		93.2	**(145.9)**	**(52.7)**	144.6	(24.9)	119.7
Earnings per share:							
– basic earnings per share	7			**(17.6p)**			40.4p
– diluted earnings per share	7			**(17.6p)**			40.1p
Normalised earnings per share:							
– basic earnings per share	7	**30.5p**			48.9p		
– diluted earnings per share	7	**30.4p**			48.6p		
Earnings per share from continuing operations:							
– basic earnings per share	7			**(20.3p)**			45.0p
– diluted earnings per share	7			**(20.3p)**			44.7p

NATIONAL EXPRESS GROUP PLC
GROUP BALANCE SHEET
At 31 December 2009

	Note	2009 £m	2008 £m
Non-current assets			
Intangible assets		**1,349.9**	1,519.6
Property, plant and equipment		**672.6**	841.5
Financial assets – Available for sale		**7.7**	9.2
– Derivative financial instruments		**3.3**	1.5
Investments accounted for using the equity method		**6.7**	7.9
Other receivables		**4.0**	7.0
Deferred tax asset		**35.2**	20.0
		2,079.4	2,406.7
Current assets			
Inventories		**16.4**	24.4
Trade and other receivables		**226.7**	332.3
Financial assets – Derivative financial instruments		**5.9**	2.5
Current tax assets		**3.7**	4.0
Cash and cash equivalents	9	**105.8**	105.9
		358.5	469.1
Assets in disposal group classified as held for sale		**–**	0.7
Total assets		**2,437.9**	2,876.5
Non-current liabilities			
Financial liabilities – Borrowings		**(506.1)**	(1,215.0)
– Derivative financial instruments		**(11.2)**	(59.3)
Deferred tax liability		**(99.0)**	(124.9)
Other non-current liabilities		**(21.6)**	(20.7)
Defined benefit pension liability	8	**(54.9)**	(45.0)
Provisions		**(22.0)**	(39.0)
		(714.8)	(1,503.9)
Current liabilities			
Trade and other payables		**(467.0)**	(557.3)
Financial liabilities – Borrowings		**(258.4)**	(71.6)
– Derivative financial instruments		**(36.0)**	(79.3)
Current tax liabilities		**(56.8)**	(32.5)
Provisions		**(62.6)**	(44.3)
		(880.8)	(785.0)
Liabilities directly associated with disposal group assets classified as held for sale		**–**	(2.2)
Total liabilities		**(1,595.6)**	(2,291.1)
Net assets		**842.3**	585.4
Shareholders' equity			
Called up share capital		**25.6**	7.7
Share premium account		**533.2**	195.7
Capital redemption reserve		**0.2**	0.2
Own shares		**(14.6)**	(15.2)
Other reserves		**116.1**	133.7
Retained earnings		**175.8**	257.2
Total shareholders' equity		**836.3**	579.3
Minority interest in equity		**6.0**	6.1
Total equity		**842.3**	585.4

NATIONAL EXPRESS GROUP PLC
GROUP STATEMENT OF CASH FLOWS
For the year ended 31 December 2009

	Note	2009 £m	2008 £m
Cash generated from operations	10	**218.0**	218.2
Tax received/(paid)		**2.6**	(5.0)
Net cash from operating activities		**220.6**	213.2
Cash flows from investing activities			
Payments to acquire businesses, net of cash acquired		**–**	(11.4)
Deferred consideration for businesses acquired and disposed		**0.7**	(0.3)
Purchase of property, plant and equipment		**(81.2)**	(124.4)
Proceeds from disposal of property, plant and equipment		**35.1**	33.7
Payments to acquire intangible assets		**(5.8)**	(8.2)
Receipts from disposal of available for sale investments		**1.0**	–
Receipts from disposal of businesses, net of cash disposed		**28.4**	5.4
Receipts/(payments) in respect of discontinued operations		**5.5**	(6.1)
Dividends received from associates		**0.6**	–
Interest received		**9.6**	17.4
Net cash used in investing activities		**(6.1)**	(93.9)
Cash flows from financing activities			
Proceeds from issue of ordinary shares		**357.9**	0.4
Proceeds from sale of treasury shares		**0.3**	–
Purchase of treasury shares		**(1.8)**	(1.7)
Reclaim of VAT on historical share issue costs		**0.8**	–
Interest paid		**(52.8)**	(66.5)
Finance lease principal payments		**(50.4)**	(32.8)
Net loans (repaid)/advanced		**(434.4)**	14.0
Payments for the maturity of foreign currency swaps		**(15.1)**	(33.0)
Dividends paid to minority interests		**(0.5)**	(0.4)
Dividends paid to shareholders of the Company		**(15.2)**	(59.6)
Net cash used in financing activities		**(211.2)**	(179.6)
Increase/(decrease) in cash and cash equivalents		**3.3**	(60.3)
Opening cash and cash equivalents		**105.9**	157.2
Increase/(decrease) in cash and cash equivalents		**3.3**	(60.3)
Foreign exchange		**(3.4)**	9.0
Closing cash and cash equivalents	9	**105.8**	105.9

NATIONAL EXPRESS GROUP PLC
GROUP STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2009

	Note	2009 £m	2008 £m
(Loss)/profit for the year		**(52.7)**	119.7
Other comprehensive income:			
Exchange differences on retranslation of foreign operations		**(121.3)**	413.7
Exchange differences on retranslation of foreign currency borrowings		**42.6**	(264.2)
Exchange differences on retranslation of minority interests		**(0.4)**	1.3
Actuarial losses on defined benefit pension plans		**(18.1)**	(24.8)
Gain/(loss) on cash flow hedges taken to equity		**0.2**	(79.4)
Transfers to the income statement on cash flow hedges		**82.0**	(9.2)
Tax on exchange differences		**1.9**	17.6
Deferred tax on actuarial losses		**5.4**	7.0
Deferred tax on cash flow hedges		**(23.0)**	24.8
Other comprehensive income for the year net of tax		**(30.7)**	86.8
Total comprehensive income for the year		**(83.4)**	206.5
Total comprehensive income attributable to:			
Equity shareholders		**(83.8)**	204.3
Minority interests		**0.4**	2.2
		(83.4)	206.5

NATIONAL EXPRESS GROUP PLC
GROUP STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2009

	Share capital £m	Share premium £m	Capital redemption reserve £m	Own shares £m	Other reserves £m	Retained earnings £m	Total £m	Minority 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 minority 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**

	Share capital £m	Share premium £m	Capital redemption reserve £m	Own shares £m	Other reserves £m	Retained earnings £m	Total £m	Minority interests £m	Total equity £m
At 1 January 2008	7.7	195.3	0.2	(16.3)	30.4	215.8	433.1	3.9	437.0
Shares issued	–	0.4	–	–	–	–	0.4	–	0.4
Shares purchased	–	–	–	(1.7)	–	–	(1.7)	–	(1.7)
Own shares released to satisfy employee share schemes	–	–	–	2.8	–	(2.8)	–	–	–
Total comprehensive income	–	–	–	–	103.3	101.0	204.3	2.2	206.5
Share-based payments	–	–	–	–	–	4.4	4.4	–	4.4
Tax on share-based payments	–	–	–	–	–	(1.6)	(1.6)	–	(1.6)
Dividends	–	–	–	–	–	(59.6)	(59.6)	–	(59.6)
Acquisition of minority interest	–	–	–	–	–	–	–	0.4	0.4
Dividends paid to minority interest	–	–	–	–	–	–	–	(0.4)	(0.4)
At 31 December 2008	7.7	195.7	0.2	(15.2)	133.7	257.2	579.3	6.1	585.4

1. Basis of preparation

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

These results have been prepared using the accounting policies set out in the Group's 2009 statutory accounts.
Normalised results are defined as the statutory results before the following as appropriate: profit or loss on the sale of businesses, exceptional profit or loss on the sale of non-current assets and charges for goodwill impairment, intangible asset amortisation, exceptional items and tax relief on qualifying exceptional items.

2. Exchange rates

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

	2009 Closing rate	**2009 Average rate**	2008 Closing rate	2008 Average rate
US dollar	**1.62**	**1.56**	1.46	1.85
Canadian dollar	**1.70**	**1.78**	1.78	1.96
Euro	**1.13**	**1.12**	1.05	1.26

If the results for the year to 31 December 2008 had been retranslated at the average exchange rates for the year to 31 December 2009, North America would have achieved normalised operating profit of £38.5m on revenue of £435.7m, compared to normalised operating profit of £32.5m on revenue of £372.5m as reported, and Europe would have achieved a normalised operating profit of £93.6m on revenue of £542.7m, compared to normalised operating profit of £83.3m on revenue of £483.1m as reported.

3. Segmental analysis

Analysis by class and geography of business

	External revenue 2009 £m	**Inter-segment sales 2009 £m**	**Segment revenue 2009 £m**	External revenue 2008 £m	Inter-segment sales 2008 £m	Segment revenue 2008 £m
UK Bus	**293.4**	**0.5**	**293.9**	340.0	1.0	341.0
UK Coach	**235.9**	**7.0**	**242.9**	238.9	5.8	244.7
UK Rail	**1,190.5**	**–**	**1,190.5**	1,332.5	–	1,332.5
Inter-segment sales elimination	**–**	**(7.5)**	**(7.5)**	–	(6.8)	(6.8)
UK operations	**1,719.8**	**–**	**1,719.8**	1,911.4	–	1,911.4
North American Bus	**444.5**	**–**	**444.5**	372.5	–	372.5
European Coach & Bus	**546.8**	**–**	**546.8**	483.1	–	483.1
Revenue from continuing operations	**2,711.1**	**–**	**2,711.1**	2,767.0	–	2,767.0
Discontinued operations	**–**	**–**	**–**	5.1	–	5.1
Total revenue	**2,711.1**	**–**	**2,711.1**	2,772.1	–	2,772.1

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.

3 Segmental analysis continued

	Continuing			Discontinued	Continuing			Discontinued
	Normalised operating profit 2009 £m	**Goodwill impairment, intangible amortisation and exceptional items 2009 £m**	**Segment result 2009 £m**	**Segment result 2009 £m**	Normalised operating profit 2008 £m	Goodwill impairment, intangible amortisation and exceptional items 2008 £m	Segment result 2008 £m	Segment result 2008 £m
UK Bus	**20.8**	**(1.7)**	**19.1**		40.0	(3.5)	36.5	
UK Coach	**34.3**	**(2.9)**	**31.4**		27.0	(2.3)	24.7	
UK Rail	**12.0**	**(72.2)**	**(60.2)**		81.3	(13.2)	68.1	
UK operations	**67.1**	**(76.8)**	**(9.7)**		148.3	(19.0)	129.3	
North American Bus	**25.3**	**(18.6)**	**6.7**		32.5	(15.8)	16.7	
European Coach & Bus	**76.5**	**(57.8)**	**18.7**		83.3	(51.3)	32.0	
Central functions	**(9.1)**	**(7.2)**	**(16.3)**		(10.2)	–	(10.2)	
Result from continuing operations	**159.8**	**(160.4)**	**(0.6)**		253.9	(86.1)	167.8	
Result from discontinued operations			**–**	**7.3**			–	(12.8)
Total result			**(0.6)**	**7.3**			167.8	(12.8)
(Loss)/profit on disposal of non-current assets			**(7.4)**	**–**			5.1	–
(Loss)/profit from operations			**(8.0)**	**7.3**			172.9	(12.8)
Share of post tax results from associates and joint ventures			**(12.1)**				–	–
Net finance costs			**(63.4)**				(63.0)	–
(Loss)/profit before tax			**(83.5)**	**7.3**			109.9	(12.8)
Tax credit/(expense)			**22.6**	**0.9**			23.2	(0.6)
(Loss)/profit for the year			**(60.9)**	**8.2**			133.1	(13.4)

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

	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	**–**	**(7.3)**	**(7.3)**
Total	**60.4**	**92.7**	**153.1**

3 Segmental analysis continued
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 Spain. Business Transformation costs of £14.2m and restructuring costs of £1.5m were incurred in North America. 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.

4. Net finance costs

	Normalised 2009 £m	**Exceptional 2009 £m**	**Total 2009 £m**	Normalised 2008 £m	Exceptional 2008 £m	Total 2008 £m
Bank interest payable	**(45.2)**	**(19.9)**	**(65.1)**	(59.0)	(11.5)	(70.5)
Finance lease interest payable	**(4.7)**	**–**	**(4.7)**	(6.7)	–	(6.7)
Other interest payable	**(0.2)**	**–**	**(0.2)**	(0.1)	–	(0.1)
Unwind of provision discounting	**(3.0)**	**–**	**(3.0)**	(3.1)	–	(3.1)
Finance costs	**(53.1)**	**(19.9)**	**(73.0)**	(68.9)	(11.5)	(80.4)
Finance income: Bank interest receivable	**9.6**	**–**	**9.6**	17.4	–	17.4
Net finance costs	**(43.5)**	**(19.9)**	**(63.4)**	(51.5)	(11.5)	(63.0)

The 2009 exceptional charge of £17.9m (2008: £11.5m) relates 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 in exceptional charge relates to the residual unamortised loan fees as a result of the early repayment of the Euro loan facility in January 2010.

5. Taxation

	2009 £m	2008 £m
Current taxation:		
UK corporation tax	**1.1**	19.0
Overseas taxation	**9.6**	10.5
Current income tax charge	**10.7**	29.5
Adjustments with respect to prior years – UK & overseas	**12.5**	4.8
Total current income tax	**23.2**	34.3
Deferred taxation:		
Origination and reversal of temporary differences – continuing operations	**(37.0)**	(58.5)
Adjustments with respect to prior years – UK & overseas	**(9.7)**	1.6
Deferred tax credit	**(46.7)**	(56.9)
Total tax credit	**(23.5)**	(22.6)
The tax credit in the income statement is disclosed as follows:		
Income tax credit on continuing operations	**(22.6)**	(23.2)
Income tax (credit)/charge on discontinued operations	**(0.9)**	0.6
	(23.5)	(22.6)
The tax credit on continuing operations is disclosed as follows:		
Tax charge on profit before intangible asset amortisation and exceptional items	**23.0**	52.3
Tax credit on intangible asset amortisation and exceptional items	**(45.6)**	(75.5)
	(22.6)	(23.2)

6. Dividends paid and proposed

	2009 £m	2008 £m
Declared and paid during the year		
Ordinary final dividend for 2008 paid of 10.00p per share (2007: 26.40p per share)	**15.2**	40.2
Ordinary interim dividend for 2009 nil per share (2008: 12.72p per share)	**–**	19.4
	15.2	59.6
Proposed for approval (not recognised as a liability at 31 December)		
Ordinary final dividend for 2009 nil per share (2008: 10.00p per share)	**–**	15.2

7. Earnings per share

	2009	2008
Basic (loss)/earnings per share – continuing operations	**(20.3p)**	45.0p
Basic earnings/(loss) per share – discontinued operations	**2.7p**	(4.6p)
Basic (loss)/earnings per share – total	**(17.6p)**	40.4p
Normalised basic earnings per share	**30.5p**	48.9p
Diluted (loss)/earnings per share – continuing operations	**(20.3p)**	44.7p
Diluted earnings/(loss) per share – discontinued operations	**2.7p**	(4.6p)
Diluted (loss)/earnings per share – total	**(17.6p)**	40.1p
Normalised diluted earnings per share	**30.4p**	48.6p

Basic earnings per share is calculated by dividing the (loss)/earnings attributable to equity shareholders of £(53.5)m (2008: £118.8m) by the weighted average number of ordinary shares in issue during the year, excluding those held by employee share ownership trusts and those held as treasury shares which are both treated as cancelled.

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

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

	2009	2008 [i]
Basic weighted average shares	**303,385,680**	293,870,521
Adjustment for dilutive potential ordinary shares	**732,384**	2,073,568
Diluted weighted average shares	**304,118,064**	295,944,089

i Restated to reflect the bonus element of the Rights Issue.

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

7 Earnings per share continued

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

	2009			2008[i]		
	£m	**Basic EPS p**	**Diluted EPS p**	£m	Basic EPS p	Diluted EPS p
(Loss)/profit attributable to equity shareholders	**(53.5)**	**(17.6)**	**(17.6)**	118.8	40.4	40.1
(Profit)/loss from discontinued operations	**(8.2)**	**(2.7)**	**(2.7)**	13.4	4.6	4.6
(Loss)/profit from continuing operations attributable to equity shareholders	**(61.7)**	**(20.3)**	**(20.3)**	132.2	45.0	44.7
Intangible asset amortisation	**60.4**	**19.9**	**19.9**	55.2	18.8	18.7
Exceptional items	**100.0**	**33.0**	**32.9**	30.9	10.5	10.4
Profit/(loss) on disposal of non-current assets	**7.4**	**2.4**	**2.4**	(5.1)	(1.7)	(1.7)
Share of associates and joint ventures	**12.0**	**4.0**	**4.0**	–	–	–
Exceptional Finance cost	**19.9**	**6.5**	**6.5**	11.5	3.9	3.9
Tax relief on goodwill and exceptional items	**(45.6)**	**(15.0)**	**(15.0)**	(75.5)	(25.7)	(25.5)
Normalised profit from continuing operations	**92.4**	**30.5**	**30.4**	149.2	50.8	50.5
Normalised loss from discontinued operations	**–**	**–**	**–**	(5.5)	(1.9)	(1.9)
Normalised profit attributable to equity shareholders	**92.4**	**30.5**	**30.4**	143.7	48.9	48.6

i Restated to reflect the bonus element of the Rights Issue.

8. Pensions and other post-employment benefits

Summary of pension benefits and assumptions

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

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

The total pension cost for the year was £24.2m (2008: £23.5m), of which £3.9m (2008: £3.9m) relates to the defined contribution schemes.

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

	2009 £m	2008 £m
UK Bus	**(46.4)**	(3.6)
UK Coach	**(5.2)**	(1.2)
UK Rail	**(1.9)**	(38.7)
Other	**(1.4)**	(1.5)
Total	**(54.9)**	(45.0)

9. Net Debt

Net debt at 31 December 2009 comprises cash and cash equivalents of £105.8m (2008: £105.9m), other debt receivables of £0.8m (2008: £0.9m), current interest-bearing loans and borrowings of £258.4m (2008: £71.6m) and non-current interest bearing loans and borrowings of £506.1m (2008: £1,215.0m).

	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)**

Short term deposits included within liquid resources relate to term deposits repayable within three months. Changes in cash and cash equivalents arising from acquisitions and disposals in the year are disclosed separately on the face of the cash flow statement.

The £449.5m cash outflow (2008: £19.0m) within bank loans, loan notes, other debt payable and other debt receivable comprises of £15.1m (2008: £33.0m) of payments for the maturity of foreign currency swaps and £434.4m of net loans repaid (2008: £14.0m loans advanced) to the Group.

Other non-cash movements in net debt represent finance lease additions of £nil (2008: £15.8m) and £5.6m (2008: £1.6m) amortisation of loan arrangement fees.

10. Cash Flow statement

The net cash inflows from operating activities include outflows of £74.3m (2008: £27.6m) from continuing operations which are related to exceptional costs.

Reconciliation of Group profit before tax to cash generated from operations

Total Operations	**2009 £m**	2008 £m
Net cash inflow from operating activities		
(Loss)/profit before tax from continuing operations	**(83.5)**	109.9
Profit/(loss) before tax from discontinued operations	**7.3**	(12.8)
Net finance costs	**63.4**	63.0
Loss/(profit) on disposal of non-current assets (continuing operations)	**7.4**	(5.1)
Profit on disposal of non-current assets (discontinued operations)	**(7.3)**	–
Share of post tax results under the equity method	**12.1**	–
Depreciation of property, plant and equipment – continuing operations	**108.0**	96.0
Depreciation of property, plant and equipment – discontinued operations	**–**	0.3
Amortisation of leasehold property prepayment	**0.1**	0.1
Goodwill impairment	**–**	0.7
Intangible asset amortisation	**60.4**	55.2
Amortisation of fixed asset grants	**(2.0)**	(1.8)
Loss/(profit) on disposal of non-current assets (in operating profit)	**1.5**	(2.0)
Share-based payments – continuing operations	**1.9**	4.3
Share-based payments – discontinued operations	**–**	0.1
Decrease/(increase) in inventories	**6.3**	(1.0)
Decrease/(increase) in receivables	**116.3**	(0.2)
Decrease in payables	**(58.7)**	(69.4)
Decrease in provisions	**(15.2)**	(19.1)
Cash generated from operations	**218.0**	218.2

11. Financial information

The financial information set out above, which was approved by the Board on 25 February 2010, is derived from the full Group accounts for the year ended 31 December 2009 and does not constitute the full accounts within the meaning of section 434 of the Companies Act 2006. The Group accounts on which the auditors have given an unqualified report, which does not contain a statement under section 498 (2) or (3) of the Companies Act 2006 in respect of the accounts for 2009, will be delivered to the Registrar of Companies in due course.

The Annual Report will be posted to shareholders on 25 March 2010 and will also be available from the Company Secretary at 7 Triton Square, London, NW1 3HG. Copies are also available via www.nationalexpressgroup.com.