national express

Moving forward
Focusing on our core strengths

Who we are

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

Every year around 800 million journeys are made on our buses, trains, light rail services and coaches.

For more information on the Group visit www.nationalexpressgroup.com

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Dear shareholders

There can be no doubt that 2009 was a challenging year for National Express – for its people, its customers and, above all, its shareholders. We faced difficult decisions, some setbacks, a deep recession and significant uncertainty over the Group's future direction. Nevertheless, we were able to remove our loss-making business, stabilise profitability, successfully refinance much of our debt and draw a line under a difficult period for the Group.

With strong shareholder support, we have created a firm platform from which we can develop. We have an appropriate capital structure with good funding support, we retain robust market positions in our businesses from which to grow sustainably, we have a strong operational capability and cost focus from which to drive margins, and we have restored our cash generative ability.

Our new Chief Executive, Dean Finch, who joined us in February 2010, has a track record of delivery in the transport industry. He will lead our management team in implementing and refining our strategy – improving margins, driving cash and delivering selective, value-creating growth.

I would like to thank our team for facing and weathering the challenges of 2009 – a series of events that few would expect to meet in a single year. Each of our 41,000 employees has focused on the task at hand, delivering results in difficult market conditions, safely and with complete focus on pleasing our customers. I would also like to thank my Board colleagues for their leadership and resolute approach, particularly during a time of personnel change at the highest level.

But above all, I would like to thank you, our shareholders, for your continuing support. The success of the Rights Issue, and the subsequent oversubscribed bond issue to debtholders, demonstrate our stakeholders' commitment to the Group. I have no doubt that National Express is a robust company, with a strong future. Whilst the new year is bound to present new issues and markets will remain difficult, the Group can make good progress, building on the platform created from the challenges we successfully faced in 2009.

Yours sincerely,

John Devaney
Chairman

Group at a glance

Group

National Express operates in the UK, Spain, and North America. The Group employs 41,000 people and operates over 21,000 vehicles. Passengers make more than 800 million journeys on our services every year.

Revenue
£2,711.1m

Normalised* operating profit
£159.8m

Employees
41,000

Spain

ALSA
Continental Auto

Our Spanish business, ALSA, operates long distance, regional and urban bus and coach services across Spain and in Marrakech, 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 service, the business also operates service stations and other transport-related businesses, such as fuel distribution.

Revenue
£546.8m

Normalised* operating profit
£76.5m

Employees
6,100

North America

Durham School Services
Stock Transportation

Our business in North America is focused solely on student transportation and operates in 29 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.

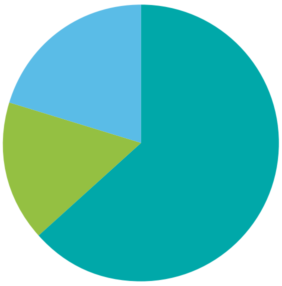
Centralised shared services delivered from the Illinois head office support local operational delivery.

Revenue
£444.5m

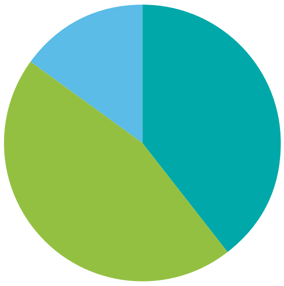
Normalised* operating profit
£25.3m

Employees
21,400

Group revenue by market



Group normalised* operating profit by market



* 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.

UK

UK Coach

National Express Coaches
Eurolines
The Kings Ferry
Airlinks

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 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 65 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 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. These franchises have delivered market-leading operational performance and will be managed by the Group until their return in 2011.

UK Coach

Revenue
£242.9m

Normalised* operating profit
£34.3m

Employees
1,600

UK Bus

Revenue
£293.9m

Normalised* operating profit
£20.8m

Employees
5,800

UK Rail

Revenue
£1,190.5m

Normalised* operating profit
£12.0m

Employees
6,100

Performance at a glance

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.

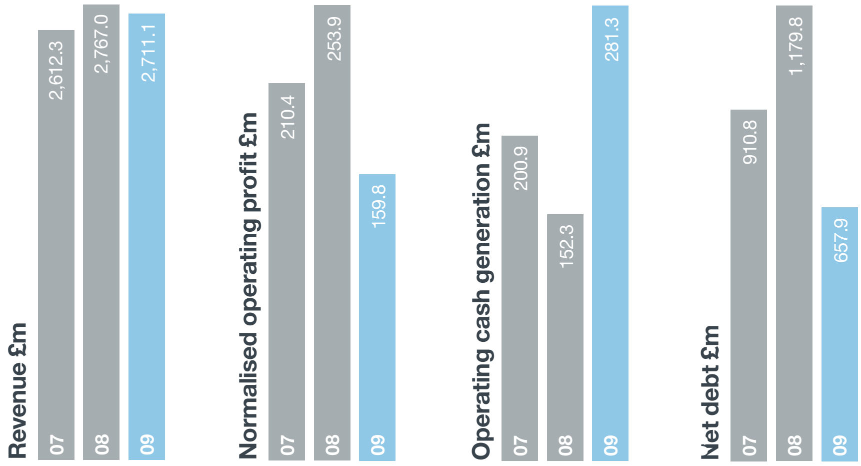
Whilst 2010 will be another challenging year in a difficult economic environment, we are focused on delivering margin improvement through cost reduction, continuing strong cash generation, and building on the foundations that we have laid in 2009. With significant scope to improve our business, especially 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.

Revenue

£2,711.1m

Normalised operating profit

£159.8m



Highlights of the year

- 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 seven 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

Operating cash generation

£281.3m

Net debt reduced by

£521.9m

Chairman's review

In 2009, National Express successfully resolved some major issues in the Group's capital structure and its business portfolio, while continuing to operate profitably. In 2010, we will be able to focus on operational improvement and build on the foundations that we have laid.

"We believe that our actions have drawn a line under a difficult year, establishing a platform to deliver long-term benefit to our shareholders by providing excellent customer service, cost effectively and efficiently."

John Devaney

Engineering excellence

Acocks Green bus depot in Birmingham was the first public transport garage in Britain to receive a Roadworthiness Award for engineering excellence from the Freight Transport Association.

"£50m of annual savings delivered across the Group."

A perfect match

An ALSA Supra bus provided the transport when the England football team visited Seville for a friendly match against the reigning European champions Spain.

Efficient and reliable

Fleet Operations in North America launched a Preventative Maintenance Excellence (PMx) programme to improve the efficiency and reliability of its fleet. All technicians now have a PMx certification.

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 3-5 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.

Extra capacity

National Express East Anglia announced it was adding 188 carriages to provide 11,000 extra seats on its services to and from London Liverpool Street. This includes 30 new trains on the Stansted Express and West Anglia services.

Keeping customers satisfied

Customer satisfaction scores for UK Bus hit 77% – an all-time high. Overall satisfaction scores for UK Coach were up from 81% to 87%, with driver performance a major factor.

Chairman's review continued

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.

"Delivered over £200m of incremental cash generation."

Supra service

ALSA started running a new Supra Class service between Seville and Granada. The service has 38 seats and offers passengers more room. The ticket includes a personalised luggage service, papers and magazines, headset, Wi-Fi and catering.

Better access

ALSA provided access lifts for people with disabilities on 16 of its buses on the Madrid to Granada service.

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 £350 million, seven 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.

"Net debt reduced by £522m."

Midland Metro powering down

Power consumption was down 5% on 2008 levels following a series of energy-saving measures by the Midland Metro team. They included timers at tram stops and car parks, improved lighting and more efficient heating.

Record time

Two months after being named Britain's highest-performing train operator, c2c equalled the punctuality record set in 2008 by Swiss Federal Railways. With a moving annual average of 95.8% c2c set a new record Passenger Performance Measure for all UK franchised train operators.

One-stop ticket shop

National Express opened an 'all in one' sales desk in the arrivals hall at Stansted Airport, enabling passengers to buy coach and train tickets from a single location. Oyster Cards for the London transport network and tourist information are also available.

Just the ticket

ALSA became the first passenger transport company in Spain to sell tickets through the 8,000 La Caixa cashpoints, the country's largest ATM network. This almost doubles the number of points of sale available to ALSA passengers.

Chairman's review continued

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 3-5% 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 US$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.

Help for veterans

National Express provided a free coach service for more than 700 World War II veterans from around Britain to attend the 65th anniversary of D-Day at Westminster Abbey.

Customer service drive

National Express Corporation's Driver Operations in North America launched customer service training for drivers and monitors on its school buses. The training covered how to interact with students, parents and teachers as well as handling difficult situations.

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%, mileage by 29% and total route hours by 23%.

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

£15m

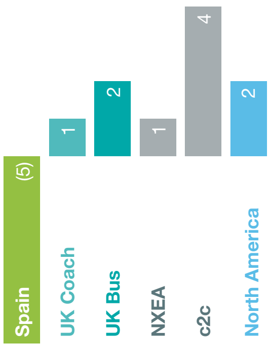
Flagship coach station opens

The new £15 million National Express Birmingham Coach Station was opened following a two-year redevelopment programme. England Football Manager Fabio Capello did the honours.

Key performance indicators

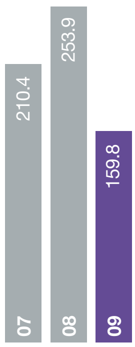
Financial

Underlying revenue growth %



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

Normalised operating profit £m



The Group seeks to maximise its conversion of revenue into profit. A key measure of this is normalised operating profit which equates to Group operating profit before goodwill impairment, intangible amortisation and exceptional items.

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.

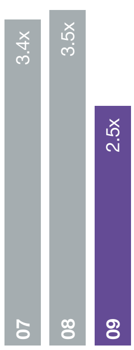
Normalised diluted earnings per share

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 to reduce debt, and to fund investment and shareholder dividends. Operating cash generation is a measure of the success of converting operating profit into cash.

Debt gearing ratio

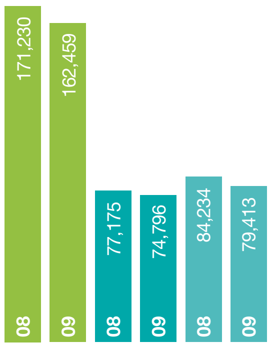


Debt gearing is a key indicator of a company's indebtedness driving towards a lower ratio. The debt gearing ratio of net debt to EBITDA is used to evaluate the capital structure of the Group, as well as ensure compliance with banking covenants.

Across the Group, we focus on a small number of key performance indicators (KPIs). These KPIs help us manage the business better and monitor our progress.

Non-financial

Mileage



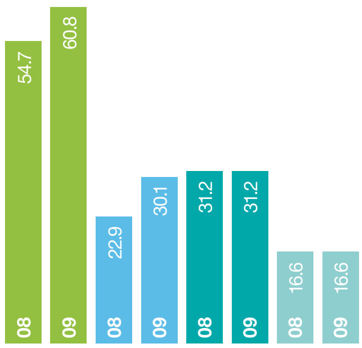
Spain

UK Bus (excludes Travel London)

UK Coach (excludes Rail Replacement)

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

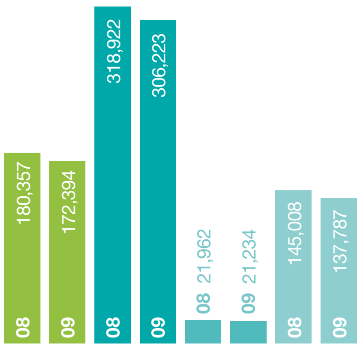
North America

UK Bus and 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 numbers 000s



Spain

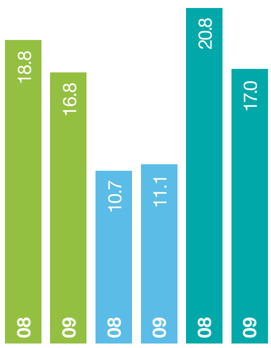
UK Bus (excludes Travel London)

UK Coach

UK Rail (excludes East Coast)

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

Preventable vehicle accidents (per million miles)



Spain

North America

UK Bus and 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)

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.

Divisional review

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).

Revenue

£546.8m

Normalised operating profit

£76.5m

Spanish concessions provide long-term stability

For many customers in Spain, the bus and coach market is an essential public service, even though many of its operators, like ALSA, are privately run. Bus and coach have a greater market share in Spain than in many countries, with rail travel less developed. ALSA leads the way, with the largest share of the privately operated coach market.

The concession system in Spain provides for long-term investment. Each concession is granted for a given route or area, on an exclusive basis, typically for up to 15 years. Prices are regulated and the stability of operation allows us to invest in improved services and fleet.

ALSA has 26 national, 137 regional and 24 urban concessions. During 2009, 61 of ALSA's regional concessions were extended by agreement, representing €92 million of annual revenue. With a strong track record of customer service and performance, ALSA routinely wins and renews concessions. Pressure on city council budgets may see future outsourcing to private operators, whilst deregulation in Europe drives greater interest in the Spanish model.

2009 saw an 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 León 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.

Divisional review
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: US$690.5m) and normalised operating profit was US$39.6 million (2008: US$60.3m).

Revenue
£444.5m
Normalised operating profit
£25.3m

Transforming our North American operations

Our transformation programme in North America has three core elements:

- centralisation – consolidating activities previously carried out in local field offices in order to harness efficiency and reduce cost;
- standardisation – adopting a single approach and process across North America to the way we do things, to share best practice and deliver a single solution to customers and employees alike; and
- optimisation – improving the way we utilise our fleet and reducing cost and investment needs.

The programme recognised that the decentralised approach of the business, which had been built up through many acquisitions, needed to change to drive better service and cost efficiency in a competitive market place. Several elements have already yielded benefits – duplication and activity has been removed from the 165 field locations; driver recruitment has been centralised, improving recruitment costs and retention rates; customer billing and payroll has been moved onto a single IT platform, driving improved reliability and cash collection; and maintenance depots have been consolidated.

But programmes of this nature have a degree of trial. And some of our pilot activities have shown that not all the hoped for benefits will be realisable. For example, the on-bus system to centralise despatch has proved too complex and has been stopped. And too much cost was being added at the centre to deliver the benefits. Refining our programme in this way will deliver a better result operationally and help achieve our goal of US$40 million of cost savings by 2011.

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 US$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 US$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 US$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 US$9 million on a constant volume basis. Investment in depreciation and leasing added US$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 US$7 million 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.

For more information on the Group visit www.nationalexpressgroup.com

Divisional review
UK Bus and Coach

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

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

UK Coach
Revenue
£242.9m
Normalised operating profit
£34.3m

UK Bus
Revenue
£293.9m
Normalised operating profit
£20.8m

Partnerships in UK Bus help develop new services

As a major bus operator, National Express West Midlands believes that partnerships with local stakeholders are vital to create the right environment to operate our business successfully. In the West Midlands, we work with the local integrated transport authority, Centro, and seven local authorities to promote public transport across the region. Since the first partnership was launched in 2007 in Walsall and North Birmingham, more formal partnerships have helped develop how services are provided – including in Dudley, Solihull and South Birmingham.

Partnerships involve a joint approach to planning bus services. Our commercial needs are placed alongside the community's social needs. Open sharing of customer travel patterns helps the company achieve change on specific routes and introduce new routes to fit changing customer needs – for example, to serve new hospitals. Services are tailored to areas of passenger growth and to minimise the impact of reducing underutilised services in a coordinated way. Decisions can be difficult – but partnerships make decision making smoother and more open, and allow for coordination of service improvements – this has included the introduction of new routes, real time information to passengers and smartcards. In the dynamic public transport market, working in partnership is key.

UK Coach

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 five-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

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 £3.5 million. 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 three-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.

Divisional review
UK Rail

Revenue
£1,190.5m
Normalised operating profit
£12.0m

UK Rail

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

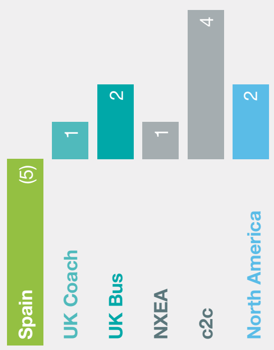
We will operate NXEA and c2c to their normal termination in 2011, after which the Group will cease to have any active rail franchise. The Group will focus its future growth on its bus and coach operations. However, at a time when some rail franchisees are struggling to deliver good customer service,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

Performance and 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.

Underlying revenue growth 2009 %



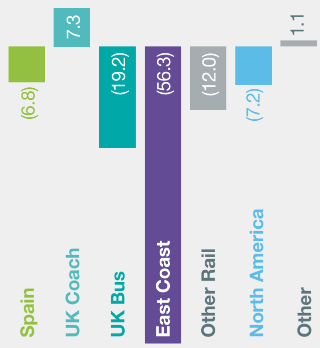
Normalised profit

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: £96.0m), reflecting higher investment prior to 2009.

	2009 £m	2008 £m
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 benefited 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.

Change in normalised operating profit 2009 v 2008 £m



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: 48.9 pence).

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.

Performance and financial review continued

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.

Exceptional charges 2009 £m

Operating	£100.0m
East Coast	64.8
N.America transformation	14.2
Restructuring	9.7
Corporate	7.2
Other Rail	4.1
Non-operating	**£39.3m**
Financial costs	19.9
Associates	12.0
Disposals	7.4

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 40.4 pence).

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; and
- 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; and
- a reduction in the Group's year-end debt gearing ratio to 2.5x (2008: 3.5x).

Incremental cash generation 2009 £m

Normalised operating cash generation in 2009 included a £63.9 million 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 acquisitions leased.

	2009 £m	**2008 £m**
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.

	2009 £m	2008 £m
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 and favourable levels compared to the Group's banking covenants:

- debt gearing ratio: 2.5x (2008: 3.5x; covenant not to exceed 3.5x); and
- interest cover ratio: 6.5x (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 oversubscribed £350 million debut Sterling bond issue in January 2010. The bond has a coupon of 6.25% fixed for its seven-year term, which would step up to 7.5% if the Group has 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).

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 and Coach deficits on a scheme valuation basis would be higher than under IAS 19. 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.

Principal risks and uncertainties

External risk	Potential impact	Mitigation
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).
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 this 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.
Competition The Group's businesses are exposed to competitive pressures from other modes of transport and other operators in the same mode of transport.	Competition creates pressure on areas including pricing and service, potentially impacting the results of the Group's operations and its financial condition.	The Group seeks to manage competitive risks through a combination of marketing, service quality and price.
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 impact profitability.	The Group seeks to mitigate risks of increases in fuel costs by entering into fuel swaps and purchase contracts.
Political and regulatory changes The Group's businesses are subject to numerous laws in the jurisdictions in which they operate regulating 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 businesses are fully understood and considered.

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 effect.

Internal risk	Potential impact	Mitigation actions
East Coast franchise Following the DfT's termination of the East Coast franchise in November 2009, the Secretary of State for Transport may seek to bring an action for damages against the Group. Additionally negotiations with East Coast Main Line Company Limited (ECML) with regard to the aggregate value of the separate assets and liabilities that were transferred from NXEC to ECML remain ongoing.	Should any claim made by the DfT prove successful or the outcome of the net asset settlement with ECML be lower than anticipated, then this could impact on the financial performance of the Group.	The Group has sought legal advice with regard to these matters. Based on this advice, the Group is not expected to have any further financial obligations to the DfT with regard to the East Coast franchise. Legal opinion with regard to the net asset settlement supports the Board's view that the Group is entitled to recover value for the assets transferred to ECML on handover of the East Coast franchise.
Inter-Capital Regional Rail Ltd The Group holds a 40% investment in ICRRL, which is contracted to provide services to Eurostar until 31 December 2010. In 2006 the Group designated this contract as onerous and recognised a provision of £25.7 million. The counterparty, LCR, has suggested that a further payment is due at the end of the contract.	Under the operation of the capped contribution mechanism in the contract, an additional 'wash up' payment may be due. This could increase the amount owing by the Group at 31 December 2009 to £32 million. An associated cash outflow could also occur in future years.	Management has obtained legal advice regarding this matter and is engaged in negotiations with LCR. At 31 December 2009 a provision of £27 million has been recorded with regard to this overall liability.
North American transformation The Group has invested heavily in transforming the North American business. The programme is intended to deliver cost savings and service improvements.	Double running investment costs have reduced the North American profit margin. There is a risk that the programme will not successfully deliver the systems platform and profit improvement planned.	The Group has put in place an assurance plan which continually monitors the delivery of the project and its targeted benefits. A number of revisions were made to both the programme and North America management at the end of 2009, in order to target and maximise results.
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 charge 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 cost to the Group.
Financial The Group is dependent on maintaining certain financial ratios in order to comply with its banking covenants.	In the event of any 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 has carried out a number of actions in recent months 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.

Corporate responsibility

For more information on the Group's corporate responsibility performance visit www.nationalexpressgroup.com/nx1/corporate

The need for developed countries to significantly reduce their carbon emissions is now widely acknowledged. This will require companies – and individuals – to adopt more sustainable approaches to their activities as we move to low-carbon economies.

National Express is a relatively simple business that already provides low-carbon transport solutions. There are huge net benefits which arise when customers choose our services instead of the car or plane, and we work hard to make public transport an ever more attractive option. The greater the number of people who use public transport – rather than less efficient modes – the greater the benefits to the environment. Sustainability is thus an integral part of our core business strategy of organic growth.

But the environment is not the only beneficiary.

Any organisation could test their sustainability by asking themselves the simple question: "If we stopped operating tomorrow, would it make a difference?".

As a public transport provider, the answer for National Express is that there would be serious negative impacts on the many millions of people who do not have access to cars, damaging the fabric of our society and our economy. To an extent we are a social service with environmental benefits.

The key corporate responsibility issues for our businesses are:

- safety;
- the environment;
- social inclusion;
- affordability; and
- our people.

Safety

First and foremost we are responsible for the safety of the people who use and deliver our services. Safety is absolutely key and is at the forefront of all our operations. We measure several safety indicators across our operations.

Preventable vehicle accident rates improved considerably in the UK (18% better) and in Spain (11% better) during 2009. In addition to local initiatives, a new driver competency management system and a warning system for low bridges, were among the factors leading the improvement. A small deterioration in performance was recorded in North America – though accident rates are at a very low level.

While lost time injuries to employees in the UK remained stable, there were increases in Spain and in North America, and specific injury reduction plans have been prepared to address the current trend.

In UK Rail, the incidence of Signals Passed at Danger fell by 7%. Compared with travelling by car, you are at least ten times safer on public transport.

Environment

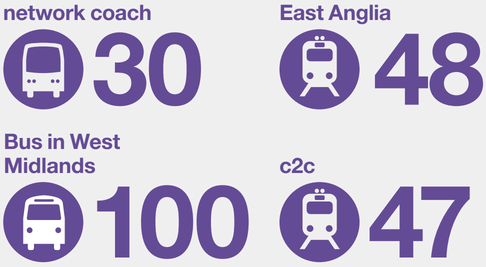
Governments around the world now recognise that we need to make dramatic reductions in the emissions of greenhouse gases. Emissions from transport are growing, and in the UK currently account for 21% of the country's carbon emissions. So addressing this is essential.

In our view, the transition to a low-carbon economy must see an increase in public transport. Coaches, for example, are the most environmentally friendly form of mass transit, with CO_2 emissions per passenger around 80% less than those of an average car – and even lower than the train.

Charity focus

The National Express Charity Panel was launched. Ten members of staff representing different areas of the business meet four times a year to allocate funding for charitable projects and events.

Greenhouse gas emissions
gCO_2 per passenger km (2009)



Mode	gCO_2 per passenger km
Scheduled or network coach	30
National Express East Anglia	48
Bus in West Midlands	100
c2c	47

Data from an independent assessment by Ecometrica, more information is available on www.nationalexpressgroup.com

2,475

Reducing emissions

After doubling its reduction of certified emissions by 1,650 tons of CO_2 in 2008, ALSA went one better by announcing it would certify a drop of 2,475 tons of CO_2 in 2009.

Emission figures for buses are higher than for coaches as they operate in slow city traffic. However they are still better than the average car and many more people could be accommodated on our buses with only a minimal CO_2 increase.

The irony for a company such as National Express, is that the more successful we are at growing our business and encouraging people to change their mode of transport, the greater our own emissions will become. Yet this is entirely consistent with the transition to a low carbon economy, as we explain in our vision for the future of transport 'More is Less' – which is available on the Group website.

Social inclusion

Public transport cannot only play a major part in tackling climate change, it can also improve the quality of people's lives, delivering huge benefits in terms of social inclusion. In the UK, for example, 24% of households do not have access to a car.

Our services are at the very heart of the communities they serve, often providing a lifeline for people who have no other means of getting around. We give people access to shopping and medical facilities, to education and to one another.

We also enable local economies to function by ensuring that millions of people can get to and from work.

Affordability

Public transport is only good public transport if people want to use it. It must be affordable and it must provide value for money. Last year, for example, 1.43 million National Express coach passengers travelled for £5 or less; and in the West Midlands, a monthly travelcard for buses will enable you to commute to work for less than £1 each way.

We are constantly working and investing to increase the appeal and use of public transport by making travel more convenient and more comfortable.

A balance must be struck, however, between making improvements to the provision and putting that provision beyond the reach of those that need it.

But value for money demands high levels of punctuality and safety as well as low prices. These are core corporate responsibility issues for National Express, but are moving targets, as customers' needs and expectations change. Providing real-time information is now an important priority. Ten years ago it wasn't.

People

Although 2009 was a difficult year for the Group, we continued to recognise the importance of investing in our people in order to build capability across the business.

In the UK, our operational training team and training centre have been recognised for the quality of the training they deliver by a range of safety and training organisations – some for the first time within our industry.

Almost 6,000 of our qualified drivers attended courses on customer care or defensive driving during 2009, and we also invested almost £100,000 in our vocational qualifications programme.

We seek to develop management talent from within the business, and in Birmingham alone more than 70 people began or completed the Diploma in Team Leading or the Diploma in First Line Management.

In North America, we have been providing customer service courses to our drivers, with training focused on how to handle difficult situations and how to interact effectively with students, customers and the public.

Our new centralised driver recruitment process, established in North America, has processed 16,225 applications and filled 2,633 driver and monitor positions during the year. Centralisation has improved the effectiveness of our recruitment, and also benefits our local managers.

In July, our Spanish business, ALSA, was recognised in the Merco Personas Ranking as one of the top 100 best companies to work for in Spain.

Policy issues

Having a workable, integrated, intelligent public transport system is essential, if people are to be enabled to reduce their personal carbon footprints, and for countries to achieve their emission targets.

Partnerships between national and local government, transport operators and town planners are key to removing the barriers to public transport use and positively encouraging uptake.

If we want consumers to use public transport more, it needs higher priority in public planning. That means dedicated priority measures: from extra bus lanes to intelligent traffic lights that recognise high-occupancy vehicles. It means better demand management, through schemes such as congestion charge zones. It also means working with city councils to create partnership schemes which recognise the needs of local populations and put these at the top of the agenda.

There are many possibilities. But to make all of this practical, we need a shared vision and policy agreement. Engagement in the national debate on such issues is an integral part of our corporate responsibility strategy: because we can't act alone.

Goals and progress

National Express sets specific goals and targets for its corporate responsibility performance – our non-financial KPIs are displayed on page 13 and are reported online at: **www.nationalexpressgroup.com**

Buses go green

National Express Corporation (NEC) received two NEXBUS Hybrid-Electric school buses. They are being tested in California and Kansas to assess their ability to reduce emissions, save fuels and cut maintenance costs.

Poetic tribute

ALSA published an anthology of the work of Spanish poet Angel González to commemorate the first anniversary of his death. The company freely distributed 10,000 copies of the book, called *Late Spring*, through its sales offices in Spain, on its website and among members of the Bus Plus loyalty programme.

Board of Directors

01 John Devaney

Chairman

John Devaney was appointed Chairman in April 2009. He 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 has recently been appointed as a Non-Executive Director of Cobham Plc and is currently Chairman of National Air Traffic Services Ltd and Tersus Energy Plc. Aged 63.

02 Dean Finch

Group Chief Executive

Dean Finch joined National Express as Group Chief Executive on 15 February 2010. Prior to joining National Express, Dean was Group Chief Executive of Tube Lines from June 2009. Before that Dean worked for over ten years in senior roles within FirstGroup plc. He joined FirstGroup plc 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. Aged 43.

03 Ray O'Toole

Chief Operating Officer

Ray O'Toole joined the Board in November 1999 as Chief Operating Officer. From January 2008, Ray became Chief Executive of all our UK operations. He has 30 years' operational experience in transport. He spent the early part of his career in various engineering management positions at Greater Manchester Passenger Transport Executive. Ray joined National Express from FirstGroup plc, where he was responsible for its operations in Yorkshire and the North West as both Divisional Director and Group Engineering Director. Aged 54.

04 Jez Maiden

Group Finance Director

Jez Maiden joined the Board in November 2008. He 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. Aged 48.

05 Jorge Cosmen

Deputy Chairman *ƒ

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. Aged 41.

06 Tim Score

Senior Independent Director +*#ƒ

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. Aged 49.

07 Roger Devlin

Non-Executive Director +#ƒ

Roger Devlin was appointed to the Board on 1 October 2007. Roger 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 private equity businesses on behalf of Permira and Isis, all active in the leisure and hospitality fields. He is also Chairman of Satellite Information Systems and Senior Independent Director of RPS Group Plc, Europe's leading environmental consultancy. Aged 52.

08 Sir Andrew Foster

Non-Executive Director +*ƒ

Sir Andrew was appointed to the Board in August 2004. He 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, Chairman of Commonwealth Games England and Chairman of the Commission on 2020 Public Services. He also holds several Non-Executive Directorships, including Nestor Health Care and PruHealth. Sir Andrew was recently appointed to lead an independent review into the government's Building Colleges for the Future programme, having led two previous reviews into further education and the future of athletics. Aged 65.

09 Miranda Curtis

Non-Executive Director #ƒ

Miranda Curtis was appointed to the Board in June 2008. She is an Executive Officer of Liberty Global Inc (Denver, Colorado), President of Liberty Global Japan and a director of Jupiter Telecommunications Limited (J:COM) in Tokyo. 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. 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. Aged 54.

10 Tony McDonald

Company Secretary

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. Aged 49.

+ Member of the Audit Committee
* Member of the Nomination Committee
# Member of the Remuneration Committee
ƒ Member of the Safety and Environment Committee

Directors' Report

The Directors are pleased to present their annual report and the audited financial statements for the year ended 31 December 2009.

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 into this report by reference:

- Chairman's Review on page 6.
- Performance and Financial Review on page 21.

Results and dividends

The loss on ordinary activities before tax from continuing operations for the year ended 31 December 2009 was £83.5 million (2008: profit of £109.9m) and a loss attributable to equity shareholders of £53.5 million (2008: profit of £118.8m) was transferred to reserves.

No final dividend will be paid for the year ended 31 December 2009 (2008: 10 pence). No interim dividend was paid during the year (2008: 12.72 pence).

Directors

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

John Devaney (appointed 2 April 2009)
Richard Bowker (resigned 10 July 2009)
Miranda Curtis
Jorge Cosmen
Roger Devlin
Sir Andrew Foster
Jez Maiden
Ray O'Toole
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 above provisions Sir Andrew Foster and Tim Score will retire by rotation at the 2010 Annual General Meeting and, being eligible, will offer themselves for re-election. Richard Bowker resigned as a Director of the Company on 10 July 2009. Dean Finch will stand for election at the 2010 Annual General Meeting following his appointment to the Board on 15 February 2010. The names and biographies of the current Directors appear on page 28. 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 page 42.

Directors' interests in contracts

Except as stated in note 36 on page 119, 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. Under 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.

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 UK businesses 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. 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 satisfaction is tracked through employee surveys. Following each survey the results are shared with all employees and comprehensive action plans are put in place in response to these. The last survey was held in 2008 and it is expected that a further survey will be undertaken in 2010.

Environmental policy

Information on the Group's environmental initiatives can be found in the Corporate Responsibility Review on page 26 and in the separate Corporate Responsibility Report which is published later in the year on the Company's website, www.nationalexpressgroup.com.

Charitable and political contributions

Charitable donations made during the year totalled £187,000 (2008: £366,000). 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 £11,000 (2008: £13,000).

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 2009 were 20 days (2008: 21 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 can be found in the Notes to the Consolidated Accounts on pages 104 to 107.

Major shareholdings

As at 25 February 2010 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
BlackRock Inc	24,089,268	4.72%	Indirect
Legal & General Group Plc	27,210,272	5.34%	Direct
UBS Investment Bank	27,897,072	5.47%	Direct
Elliott International LP Liverpool Ltd Partnership	56,070,110	10.99%	Direct
Prudential PLC	69,388,351	13.60%	Direct
European Express Enterprises Ltd	87,836,348	17.22%	Direct

* Using the total voting rights figure announced to the London Stock Exchange on 15 December 2009 of 510,057,338.

The holdings for European Express Enterprises Ltd are included in Jorge Cosmen's holdings which are shown on page 51 of the Directors' Remuneration Report.

Directors' Report continued

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).

During the year the Company announced a Rights Issue on the basis of seven new shares for every three shares held on 24 November 2009, at a subscription price of 105 pence per share. Further details of the Rights Issue are set out in note 32 to the Financial Statements on page 108.

At 31 December 2009, the Company's issued share capital consisted of a single class of ordinary shares with a nominal value of 5 pence. 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 general meeting 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.

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 2010 Annual General Meeting (AGM) to authorise the Directors to exercise all powers to allot 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 2009 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 2010 for its renewal. Further details are set out in the Notice of Meeting accompanying this document.

As at 25 February 2010 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 25 February 2010 held 0.22% 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 76. The Trustee may vote the shares held by the Trust at its discretion.

Annual General Meeting

The AGM will be held at 11.00am on 5 May 2010 at the Glaziers' Hall in London. At the meeting special resolutions will be proposed to authorise the Directors to issue shares without applying statutory pre-emption rights and to authorise the Company to make market purchases of its own shares. Following the implementation of the final provisions of the Companies Act 2006 and the Companies (Shareholders' Rights) Regulations 2009, special resolutions are also proposed to authorise the calling of general meetings (other than annual general meetings) on 14 clear days' notice and to make certain amendments to the Company's Articles of Association to bring them in line with the Companies Act 2006. 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, 7 Triton Square, London NW1 3HG.

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

Ray O’Toole has a provision in his service contract which provides 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 salary and benefits that the Director would have received during the notice period. 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 2010 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

It should be recognised that any consideration of the foreseeable future involves making a judgement, at a particular point in time, about future events which are inherently uncertain. Nevertheless, at the time of preparation of these accounts and after making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue operating for the foreseeable future. For this reason they continue 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 OFR.

Directors' Report continued

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; and
- state that the Company and the Group have complied with applicable accounting standards, subject to any material departures disclosed and explained in the accounts.

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 56 to 134, 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 OFR on page 6 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
25 February 2010

Corporate Governance Report

Statement of Compliance with the Combined Code

In the opinion of the Directors the Company, on an ongoing basis, complies with the provisions of Section 1 of the Combined Code on Corporate Governance revised in 2008 which is available online at www.frc.org.uk (the 'Code') save for the composition of the Nomination Committee (A.4.1). The Board considers that, as the representative of the Company's main shareholder, 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. Prior to the appointment of John Devaney on 2 April 2009 the other members of the Nomination Committee were Tim Score who was not considered independent whilst acting as Interim Chairman and Sir Andrew Foster who is considered independent.

During the year in question, as a result of Board members holding interim positions while the Board was without a Chairman and subsequently a Chief Executive the Company was non-compliant from time to time with those requirements of the Code in respect of Board composition and balance (A.2.1 and A.3.2), the Senior Independent Director (A.3.3), the composition of the Remuneration Committee (B.2.1) and the composition of the Audit Committee (C.3.1) as follows:

- Tim Score held the position of Interim Chairman and Senior Independent Director until 19 January 2009 when Roger Devlin was appointed as Senior Independent Director for the remainder of the period of Tim Score's interim chairmanship;
- prior to the appointment of John Devaney as Chairman on 2 April 2009, Tim Score held the position of Interim Chairman. Excluding the Interim Chairman, the Board comprised seven Directors of whom only three Non-Executive Directors (Miranda Curtis, Roger Devlin and Sir Andrew Foster) were considered by the Board to be independent. After John Devaney's appointment as Chairman, Tim Score was again considered independent when he resumed his role as Senior Independent Director on 2 April 2009;
- during the period of Tim Score's interim chairmanship, only two of the members of the Remuneration Committee, Roger Devlin and Miranda Curtis, were considered independent;
- following the resignation of Richard Bowker on 10 July 2009, John Devaney assumed the role of Executive Chairman until 15 February 2010, combining the roles of both Chairman and Chief Executive; and
- prior to John Devaney's appointment, the Company was in non-compliance with the requirement that the Audit Committee should be made up solely of independent Non-Executive Directors as Tim Score was both Chairman and a member of the Audit Committee.

Applying the principles of good governance

The Board of Directors, Chairman and Chief Executive

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.

As at the date of this Report the Board consists of the Chairman, three Executive and five Non-Executive Directors. A full list of the Directors with details of their biographies and Committee memberships is given on page 28. The offices of Chairman and Chief Executive were held separately until the resignation of Richard Bowker on 10 July 2009 when John Devaney was appointed Executive Chairman as described above. However he relinquished his executive responsibilities upon the appointment of Dean Finch as Chief Executive on 15 February 2010. The division of responsibilities between the roles of Chairman and Chief Executive is shown below.

Main responsibilities of the Chairman include:

- chairing and managing the business of the Board;
- together with the 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 Chief Executive include:

- 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.

Corporate Governance Report continued

Applying the principles of good governance continued

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 upon 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 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 normally meets at least eight times during the year. In 2009, given the exceptional challenges faced by the Company, the Board met 26 times. There is a formal schedule of matters reserved for the Board's decision, the main terms of which are shown on page 40. The attendance record of the Directors is shown below. 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 and its principal Committees

The following tables set 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.

The Board of Directors

	Meetings	
Name of Director	Attended	Possible
Richard Bowker[1] Chief Executive	11	11
Tim Score Senior Independent Director	26	26
John Devaney Chairman[2]	21	21
Executive Directors		
Jez Maiden	26	26
Ray O'Toole	26	26
Non-Executive Directors		
Jorge Cosmen[3] Deputy Chairman	16	26
Miranda Curtis	24	26
Roger Devlin	25	26
Sir Andrew Foster	26	26

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

1 Resigned from the Board on 10 July 2009.

2 Appointed to the Board on 2 April 2009. Appointed as Executive Chairman from 10 July 2009 to 15 February 2010.

3 Jorge Cosmen absented himself from Board and Committee meetings during the period in which the approach to the Company from the CVC consortium was being discussed.

Committees of the Board

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, their attendance and main duties are shown on pages 37 to 39. 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.

Audit Committee

Name of Director	Position	Meetings Attended	Meetings Possible
Tim Score	Chairman	3	3
Roger Devlin		3	3
Sir Andrew Foster		3	3

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 meets at least three times a year and met three times in 2009. 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 that were considered and discussed during 2009 included:

- a review of the 2009 internal and external audit plans;
- a review of proposed changes in the Group's internal audit structure to be implemented in 2010;
- a review of proposals for the North America transformation project;
- 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. 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 valuation, 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 the Rights Issue which was announced on 13 November 2009, a £350 million Sterling bond issue launched on 7 January 2010 and overseas financing structures and tax advisory/compliance services. These items the Committee believes would be impractical and costly to provide through another party.

Corporate Governance Report continued

Remuneration Committee

Name of Director	Position	Meetings Attended	Meetings Possible
Roger Devlin	Chairman	5	5
Miranda Curtis		5	5
Tim Score		5	5

The role of the Remuneration Committee

The Committee is responsible for determining broad policy for the remuneration of the Executive Directors (including the Chief Executive), the divisional Chief Executives, the Chairman of the Company and the Company Secretary. Within the terms of the agreed policy the Committee will determine the total individual remuneration package of each Executive Director including, where appropriate, bonuses, incentive payments, pension arrangements and share options. The Committee is responsible for selecting, appointing and setting the terms of reference for any remuneration consultants who advise the Committee. The Committee ensures that contractual terms on termination, and any payments made, are fair to the individual and the Company, that failure is not rewarded and the duty to mitigate loss is, where appropriate, fully recognised.

Further information on the activities of the Remuneration Committee is provided in the Directors' Remuneration Report on page 42.

Nomination Committee

Name of Director	Position	Meetings Attended	Meetings Possible
Tim Score	Chairman (resigned 2 April 2009)	3	3
John Devaney	Chairman (appointed 2 April 2009)	2	2
Sir Andrew Foster		5	5
Jorge Cosmen[1]		4	5

[1] Jorge Cosmen absented himself from Board and Committee meetings during the period in which the approach to the Company from the CVC consortium was being discussed.

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 AGM 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 40.

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.

Main activities during the year

During the year the Committee:

- considered who should act as Senior Independent Director during the term of Tim Score's interim Chairmanship;
- appointed search consultants to identify a shortlist for a permanent successor for the Chairman's position and made a recommendation for the formal appointment of John Devaney to the role of Chairman;
- considered the role specification for a new Chief Executive to replace Richard Bowker, appointed search consultants for the Chief Executive's position and interviewed candidates for this position, following which Dean Finch was recommended to the Board for appointment as Chief Executive.

Safety and Environment Committee

Name of Director	Position	Attended	Possible
Miranda Curtis	Chairman	4	4
Jorge Cosmen[1]		3	4
Roger Devlin		4	4
John Devaney (appointed 2 April 2009)		3	3
Sir Andrew Foster		4	4
Tim Score		4	4

1 Jorge Cosmen absented himself from Board and Committee meetings during the period in which the approach to the Company from the CVC consortium was being discussed.

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.

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.

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 and Safety policy;
- monitored the progress of implementation of the Group's Health and Safety Plan 2009-2011; and
- considered the strategic aims of the business in relation to risk and liability and efficiency of energy use.

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 an appropriate training course 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. It is anticipated that the next formal appraisal will be carried out in late 2010.

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 42 to 54.

Corporate Governance Report continued

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 34 and 55.

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 – a self assessment review takes place at each operating company to assess the integrity of the balance sheet and to challenge the effective operation of key financial and information systems controls within each material accounting cycle. This process is led by divisional Finance Directors and is closely monitored by Group finance and validated by the internal audit function.

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 quarterly 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 an outsourced Group internal audit function which works in conjunction with an in-house internal audit resource. The division of responsibilities between the in-house and outsourced functions is agreed as part of an annual internal audit plan. The internal audit function reports to management and the Audit Committee on the Group's financial and operational controls, and reviews, together with in-house internal audit functions, particularly in the UK business, the extent to which its recommendations have been implemented. After a review of the current provision of the internal audit function, a new structure will be implemented in 2010 whereby it is proposed to move the Group internal audit function in-house, retaining a third party internal audit service provider to deliver technical and specialist audits (eg for IT and treasury).

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 weakness 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 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 2009 no issues of significance were raised.

Share capital

Information about the share capital of the Company is included in the Directors' Report on page 32.

Relations with shareholders

Dialogue with institutional shareholders

The Board maintains regular dialogue with its institutional shareholders and fund managers through a variety of meetings and presentations throughout the year. Presentations are given by the Executive Directors following the full year and half year results to institutional investors, analysts and brokers which the Non-Executive Directors may attend. In addition, the Company's brokers provide confidential feedback to the Company on the views of the major institutions following the half year and final results. During 2009 the Company canvassed opinions of the major shareholders in advance of the Rights Issue which was announced in November 2009 and in respect of several approaches received by the Company for potential consolidations.

During the year written responses are given to correspondence received from shareholders. 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.

The Company's website, www.nationalexpressgroup.com, 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 Annual General Meeting

The AGM 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 AGM 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 AGM and related papers are sent to shareholders at least 20 working days before the meeting.

Directors' Remuneration Report

This report has been approved by the Board and the Remuneration Committee (the 'Committee'). Shareholders will be invited to approve the report at the 2010 Annual General Meeting.

Remuneration Committee

Composition of the Committee

The members of the Committee who served during the year, all of whom were independent Directors, were:

Roger Devlin (Chairman)
Miranda Curtis
Tim Score

Role of the 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.

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.

In 2009 the Chief Operating Officer provided guidance to the Committee on remuneration packages for senior executives employed by the Group (but not in respect of his own remuneration).

Activities of the Committee

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

- Executive Directors' and senior executives' salary levels and 2008 annual bonus awards and deferral;
- annual bonus scheme terms for 2009;
- review of the Non-Executives' fees;
- the total shareholder return comparator group used in the Long Term Incentive Plan's performance condition;
- 2009 award levels under the Company's share plans;
- recruitment package for the new Chief Executive;
- testing of performance conditions and vesting of Long Term Incentive Plan awards granted in 2006; and
- Long Term Incentive Plan entitlements upon redundancy.

The Committee's recommendations in 2009 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 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 Senior Independent Director. Non-Executive Directors are not eligible to receive pension entitlements or bonuses and may not participate in share option schemes. For 2009 the basic fee for acting as a Non-Executive Director was £44,000 a year. A fee of £7,000 is paid for chairing a Committee. An additional fee of £5,000 is paid to the Senior Independent Director.

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.

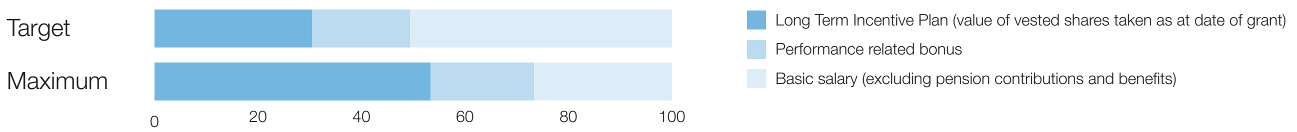
The objective of this policy is aligned with the recommendation of the Combined Code on Directors' remuneration. That is to provide a level of remuneration "to attract, retain and motivate Directors of the quality required to run the Company successfully, but avoid paying more than is necessary for this 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 Combined Code on Corporate Governance with regard to Directors' remuneration.

Remuneration policy is reviewed on an ongoing basis against the Committee's broad principles and in light of emerging best practice in corporate governance. For example, while not directly relevant to National Express, the Committee has also noted the key conclusions of the Financial Services Authority Code and Walker Review during the year and has concluded that National Express continues to take into account the principles of sound risk management when setting pay. As a result, the current remuneration structure is considered to remain appropriate in light of the good practice suggestions of the FSA. The Committee is to review further its current remuneration policy in light of any amendments to the 2008 Combined Code that may arise from the current consultation in relation to its current recommendations.

The Group operates a leadership and development programme which includes an appraisal system for Directors and senior management. The appraisal system uses 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.

Performance related versus fixed remuneration (%)



Fixed versus variable remuneration

A substantial proportion of the Executive Directors' pay is performance related. The chart above shows 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.

Directors' Remuneration Report continued

Elements of remuneration

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) 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 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. TSR operated as the sole performance measure in 2009 with the above policy to apply again from 2010
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

(i) Basic salary

The salary of individual Executive Directors is usually 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. In addition, due consideration is given to proposed pay increases and remuneration elsewhere in the Group. The comparator groups for the 2009 financial year were a group of transport sector companies with a median market capitalisation of £1,734 million and a group of companies from the FTSE Mid 250 drawn from all sectors with a median market capitalisation of £1,529 million which reflected that of National Express at the time of completing the review. For 2010 the comparator groups will be based on similar groups of transport/leisure and general sector companies drawn from the FTSE 250. In 2009 and 2010 there was no increase in the basic salary of the Executive Directors other than an adjustment to the salary of Jez Maiden to reflect additional responsibilities taken up on the resignation of Richard Bowker.

(ii) Performance related bonus

The maximum potential bonus payable to Executive Directors in 2009 was 75% of salary. 70% of the bonus payable was based on financial targets and 30% based on non-financial targets. The non-financial targets encompass customer, operational excellence and people objectives. Except at the discretion of the Committee, no bonus is payable unless the Group's normalised profit budget is achieved. 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. The definition of normalised profit is set out in the Glossary on page 138. In relation to the proportion of the bonus determined by performance against the Group profit budget, Executive Directors receive 50% of the bonus upon achieving budget and 100% upon achieving a stretch target which, for 2009, was 107% of budget. In terms of actual performance against the Group profit budget set for the financial year under review, the result was less than the budgeted profit before tax target. The targets set in relation to other financial and non-financial performance 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. Bonus entitlements, in respect of both financial and non-financial performance of the Executive Directors who were in post for the whole of 2009, were in the range of 11.25% to 30% of salary as at 31 December 2009, as set out on page 50.

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 will vest, 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 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.

Elements of remuneration continued

(ii) Performance related bonus continued

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

	Date of award	Cash award	Deferred shares award[1,3]	Adjustment for rights Issue[4]	Share award balance at 31 December 2009	Vesting date
Richard Bowker (resigned 10 July 2009)[2]	10.03.09	£116,675	57,745	53,403	–	–
Jez Maiden	10.03.09	£16,000	7,918	7,323	15,241	10.03.10
Ray O'Toole	10.03.09	£115,178	57,004	52,717	109,721	10.03.10

Notes

1 One half of the award was converted into deferred shares of the Company (at the average closing price for the Company's shares during the five business days from 3 March to 9 March 2009) at 213.90 pence per ordinary share of the Company.

2 Richard Bowker's deferred cash award and deferred shares award lapsed on his leaving date.

3 A dividend was paid on the shares held in respect of the interim dividend for 2009.

4 The number of Deferred Shares awarded was adjusted to incorporate the effect of the Rights Issue, effective 15 December 2009 by multiplying the original award by the HMRC approved 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.

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 and disability); and
- in the event of a variation of the share capital the Committee may make such adjustments to the awards as it considers appropriate.

In line with the Association of British Insurers' 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 the Committee takes due account of issues of general operational risk when structuring incentives.

With regard to quantum, operating with a lower maximum bonus opportunity at National Express in 2009 was felt an appropriate response to the economic and trading conditions prevalent at the start of 2009. However, in light of (i) improved trading prospects at the Group (ii) the fact that a maximum bonus opportunity of 100% of salary remains normal practice among FTSE 250 companies and among our benchmark peer groups (and, therefore, is important for the purposes of providing a market competitive incentive opportunity) and (iii) the 2010 annual bonus plan will be subject to both deferral and clawback provisions, the Committee is comfortable with reverting back to its normal policy of setting the annual bonus maximum at 100% of salary.

For 2010 bonus payments will be based on a similar structure but with the maximum potential bonus opportunity reverting to 100% of salary which was the Company's policy prior to 2009. However, in recognition of the higher bonus potential, the Committee considered it appropriate to toughen the targets at the top end of the performance range so that a maximum bonus can only be earned if a budget is outperformed by a significantly higher premium than was the case in 2009. Furthermore, 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 2010 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 2010 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. With regard to safety performance, the Committee will, in exceptional circumstances, continue to have the ability to scale back (to zero) bonus awards based on safety performance if it feels that there are sufficiently extenuating circumstances.

Directors' Remuneration Report continued

Elements of remuneration continued

(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 1x their annual 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 200 matching shares being awarded for each 60 National Express shares 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 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 National Express's long term performance since EPS is an important growth measure and driver and TSR improves shareholder alignment and is consistent with Company objectives of providing long-term returns to shareholders.

Elements of remuneration continued

(iv) Incentive scheme and share options continued

For awards made in 2007 and 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 138.

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

Prior to making an award in 2009, the Remuneration Committee reviewed the appropriateness of the EPS and TSR targets and based on the recommendation of Hewitt New Bridge Street that was put forward in light of prevailing economic conditions that made it difficult to set a robust range of EPS targets at National Express, awards were made subject to a single TSR performance condition with an earnings underpin. It was felt appropriate to apply relative TSR as the primary performance condition to the 2009 awards given the uncertainty of future earnings levels due to the continuing discussions with the Department for Transport on the East Coast rail franchise. In addition, given the intention of the Board to undertake a Rights Issue, TSR was felt to be a particularly important measure to ensure alignment of interest between the Executive Directors and shareholders. LTIP awards in 2010 will revert to using both EPS and TSR performance conditions.

Awards made in September 2009 will vest, subject to the earnings underpin 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

It is currently intended that the awards to be made in 2010 will revert back to an equal blend of EPS and TSR. The TSR condition will operate on a broadly consistent basis with the targets set in prior years (as noted above) with an appropriately weighted comparator group of transportation companies. The range of EPS targets will be set having due regard to analysts' forecasts and the Company's strategic plan with the range set being fully disclosed in next year's Directors' Remuneration Report.

Directors' Remuneration Report continued

Elements of remuneration continued

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 2009 (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 2009

Year of award	TSR element[1]	EPS element[1]	Total (max 100%)
2007	0%	0%	0%
2008	0%	0%	0%
2009	96.1%	–	96.1%

1 For 2007 and 2008 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

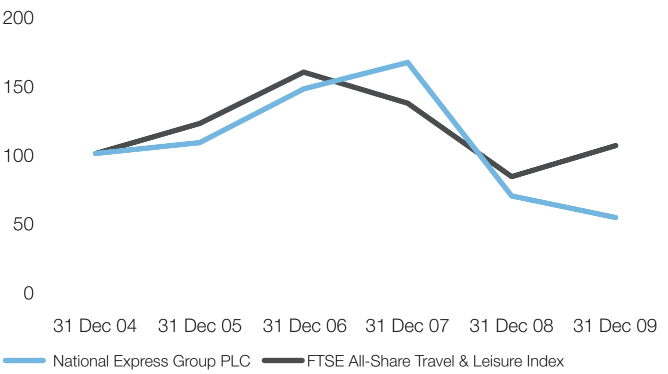
The Committee believes that budgeted profit and/or EPS growth as performance measures for the discretionary bonus scheme and long-term incentives, in most normal circumstances, provide a transparent and accessible method of gauging the performance of the Company. The Company calculates performance against 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 2010 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 2010, 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

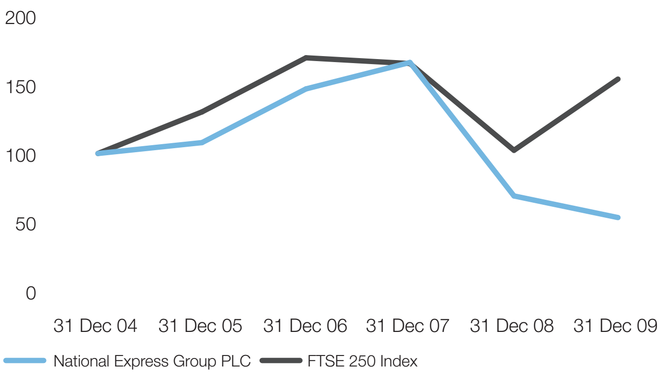
Source: Thomson Financial



The graph above looks at the value, by the end of 2009, of £100 invested in National Express Group PLC on 31 December 2004 compared with £100 invested in the FTSE All-Share Travel & Leisure Index. The other points plotted are the values at intervening financial year-ends.

Total shareholder return versus FTSE 250 Index

Source: Thomson Financial



The graph above looks at the value, by the end of 2009, of £100 invested in National Express Group PLC on 31 December 2004 compared with the value of £100 invested in the FTSE 250 Index. The other points plotted are the values at intervening financial year-ends.

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
Richard Bowker (resigned as a Director 10 July 2009)	22 May 2006	12 months	12 months
Ray O'Toole	11 September 2003	12 months	6 months
Jez Maiden	17 November 2008	12 months	12 months
Dean Finch (appointed as a Director 15 February 2010)	16 December 2009	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 from 12 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 under review.

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 of the Director's duty to mitigate if appropriate, which, in the case of Richard Bowker applied even where the Company elected to make a payment in lieu of notice. In relation to his departure from National Express, Richard Bowker did not receive any payments in lieu of notice or any other payment upon resigning his position.

The Committee has considered the best practice expectations set out in the 2008 ABI/NAPF joint statement on executive contracts and severance and noted the update to the NAPF policy that was published in January 2009. This guidance, and any future revisions, will be taken into account before agreeing any future service contracts with the Committee committed to continuously reviewing its policies in the best interests of shareholders.

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 2009 are as follows:

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

Directors' Remuneration Report continued

Directors' service contracts, notice periods and termination payments continued

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 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 2009**
>201–410	**5**
>151–200	**11**
>101–150	**38**
>75–100	**54**

Information subject to audit: Directors' remuneration

Directors' emoluments

	Salary/fees £000	Performance related bonus £000	Benefits[1] £000	Benefits in lieu of pension £000	**Total 2009[2] £000**	Total 2008 £000
Executive Directors						
Richard Bowker (resigned 10 July 2009)	353	–	24	88	**465**	931
Ray O'Toole	400	45	23	176	**644**	828
Jez Maiden	383	120	22	96	**621**	90
Adam Walker (resigned 26 March 2008)						97
Non-Executive Directors						
John Devaney (Chairman) (appointed 2 April 2009)[3]	315	–	–	–	**315**	–
Tim Score (Senior Independent Director)[4]	76	–	–	–	**76**	58
Jorge Cosmen (Deputy Chairman)	44	–	–	–	**44**	44
Miranda Curtis	51	–	–	–	**51**	30
Roger Devlin[5]	53	–	–	–	**53**	48
Sir Andrew Foster	44	–	–	–	**44**	44
David Ross (resigned 9 December 2008)					**–**	183
Barry Gibson (resigned 31 May 2008)					**–**	23

1 Benefits in kind include a company car, fuel, life assurance and health insurance. Relocation expenses of £107,000 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 for the period during which he held the role of Executive Chairman.

4 Tim Score received additional fees for the period during which he held the role of Interim Chairman which required significantly greater time commitment than the role of Senior Independent Director with his temporary revised fee set accordingly.

5 Roger Devlin received additional fees for the period during which he held the role of Senior Independent Director.

Pensions

Pension benefits earned by Directors in the year to 31 December 2009 from both the approved and unapproved plans were:

	Age	NRA[1]	Accrued benefit at 1 January 2009 £000	Increase in period (net of indexation) £000	Transfer value of increase in period £000	**Accrued benefit at 31 December 2009 £000**	Transfer value at 1 January 2009 £000	**Transfer value at 31 December 2009 £000**	Movement in transfer value during period less Director's contributions £000
Ray O'Toole[2]	54	60	36.4	–	–	**38.2**	643.4	**842.6**	199.2

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 2009 are shown below:

	At 31 December 2009[i]	At 1 January 2009 or on appointment if later	Change from 31 December 2009 to 25 February 2010
Executive Directors			
Ray O'Toole	**146,757**	31,364	–
Jez Maiden	**77,255**	6,000	–
Non-Executive Directors			
Jorge Cosmen	**92,591,971**	28,530,165	–
John Devaney (appointed 2 April 2009)	**66,666**	–	–
Roger Devlin	**20,961**	6,275	–
Miranda Curtis	**–**	–	–
Sir Andrew Foster	**14,160**	–	–
Tim Score	**–**	–	–

(The above table is not subject to audit.)

i Shareholdings incorporate the impact of the Rights Issue effective from 15 December 2009. For every three existing National Express Group PLC shares held on 24 November 2009, shareholders received the right to buy seven new National Express Group PLC shares at 105 pence per share. Directors with existing shareholdings as at the Rights Issue record date took up their rights in full.

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 2009	During year				**At 31 December 2009[1]**	Option price[2]	Market price at date of exercise	Date from which exercisable	Expiry date
		Granted	Adjusted	Exercised	Lapsed					
Ray O'Toole	312	–	288	–	–	**600**	479.01p	–	01.11.11	30.04.12

Notes

1, 2 The Sharesave options held at 31 December 2009 and the Sharesave option price incorporate the impact of the Rights Issue effective from 15 December 2009. The Sharesave grant was subject to an adjustment to reflect the dilutive effect of the Rights Issue. The number of options was multiplied by a factor of 1.9248 and the option price was multiplied by a factor of 0.5195. 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 option holders.

Directors' Remuneration Report continued

Recruitment of Dean Finch

One-Off share awards

In relation to his appointment as Chief Executive Officer, the Committee has agreed to grant Dean Finch share awards under a one-off arrangement. The Committee felt that the award is appropriate to provide compensation for share arrangements forfeited in the process of joining National Express Group PLC and, in doing so, assist with his recruitment and alignment with the interests of the Company's shareholders. The awards have been structured, as far as practicable, to replicate the profile of the vested shares forfeited in the process of joining National Express Group PLC.

The one-off arrangement will be granted in accordance with Listing Rule 9.4.2(2), under which the one-off arrangement will be granted, the principal terms of the proposed awards are summarised below.

The share award will comprise two parts, an award of 28,023 shares (the 'First Award') and an award of 18,281 shares (the 'Second Award'). Each award will be 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.

The awards will ordinarily lapse on cessation of employment save in certain 'good leaver' circumstances (which includes termination of employment by the Company other than for gross misconduct).

In the event of a takeover or winding up of the Company (not being an internal corporate reorganisation) the awards will vest early at such time and to such extent as considered appropriate by the Committee.

No amendments to the advantage of Dean Finch will be made to the material terms of the awards without shareholder approval other than any minor alteration to (i) benefit the administration of the awards (ii) take account of a change in legislation or (iii) obtain or maintain favourable tax, exchange or regulatory treatment for Dean Finch or the Company.

The awards will not be transferable (save on death) or pensionable.

The awards may only be satisfied with market purchased shares comprised within the awards.

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

LTIP awards

In agreeing a recruitment package with Dean Finch, a key objective of the Committee was to accommodate, as far as practicable, a significant proportion of the compensation for awards forfeited under existing National Express Group PLC share plans so that awards would be performance related. As a result, and to ensure that the incoming Chief Executive was fully aligned with the wider senior management team, it was agreed that separate awards of performance shares and matching shares would be granted under the LTIP. These awards will each be equal in value to £500,000 at grant and comprise his sole LTIP awards in 2010.

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

Since both the performance and matching awards will be granted under the LTIP, they will be subject to the performance targets and terms of the LTIP detailed in the relevant section above.

The Committee believes the above package is in the interests of shareholders since (i) it assisted in the recruitment of the preferred candidate and (ii) it provides compensation for shares forfeited on joining the Company in National Express Group PLC shares (as per the one-off arrangement detailed above) in a manner that provides a tangible 'lock-in' and (iii) agreeing with Dean Finch that the after tax value of the £254,250 payment made in lieu of lost entitlements at his former employer will be invested in the Company's shares (for the purposes of receiving a matching share award) will result in an immediate alignment between the new Chief Executive and the Company's shareholders. Furthermore, participation in the LTIP (performance share and matching share awards) provides a consistency of approach with the most senior executives at National Express Group PLC.

Other remuneration

For completeness, the new Chief Executive's base salary is £500,000 and he will receive no other share awards in the current financial year other than those noted above. Other elements of remuneration are as per the policy detailed above.

Conditional award of shares to Jez Maiden

On 17 November 2008, Jez Maiden was granted a share award under a one-off arrangement in relation to his appointment as Group Finance Director. The Committee felt that the award was appropriate to provide compensation for share arrangements forfeited in the process of joining National Express Group PLC in order to expedite his recruitment and ensure alignment of his interests with those of the Company's shareholders.

		At 1 January 2009	During year Granted	Adjusted[1]	Exercised	Lapsed	**At 31 December 2009[1]**	Option price	Market price at date of exercise	Date of vesting
Jez Maiden	First Award	21,074	–	19,489	40,563	–	**–**	–	–	17.11.09
	Second Award	21,075	–	19,490	–	–	**40,565**	–	–	17.11.10
	Third Award	28,666	–	26,510	–	–	**55,176**	–	–	17.11.11

1 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.

In accordance with Listing Rule 9.4.2(2) the principal terms of the awards are summarised below.

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 Award vested on 17 November 2009.

Subject to the terms of the awards and Jez Maiden's continued employment, the Second Award will ordinarily vest on 17 November 2010.

Similarly, the Third Award will ordinarily vest on 17 November 2011 subject to the terms of the award and continued employment. 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).

The awards will ordinarily lapse on cessation of employment save in certain compassionate 'good leaver' circumstances (eg death and disability). In such circumstances the extent to which the First and Second Awards may vest will be determined by the Committee. In the case of the Third Award the extent of vesting will be dependent on the satisfaction of the performance criteria over the curtailed period and such time pro rata adjustments as the Committee considers appropriate.

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

No amendments to the advantage of Jez Maiden will be made to the material terms of the awards without shareholder approval other than any minor alteration to (i) benefit the administration of the awards (ii) take account of a change in legislation or (iii) obtain or maintain favourable tax, exchange or regulatory treatment for Jez Maiden or the Company.

The Committee may vary the performance conditions applying to the Third Award if an event has occurred which causes it to consider that it would be appropriate to amend the performance conditions, provided the Committee considers the varied conditions are fair and reasonable and not materially less challenging than the original condition would have been but for the event in question.

The awards are not transferable (save on death) or pensionable.

The awards may only be satisfied by market purchased shares (excluding shares held in treasury). A cash equivalent payment may be made in lieu of shares.

Long Term Incentive Plan (LTIP) Awards

Performance shares of 1x 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 46.

Directors' Remuneration Report continued

Long Term Incentive Plan (LTIP) Awards continued

	Note	LTIP share awards	At 1 January 2009	During year Granted	Adjusted[2]	Exercised	Lapsed	At 31 December 2009	Market price on date of award	Market price at date of exercise	Date from which exercisable	Expiry date[3]
Richard Bowker (resigned 10 July 2009)		Performance shares	48,590	–	–	–	48,590	**–**	1032.5p	–	09.11.09	09.05.10
		Matching shares	8,513	–	–	–	8,513	**–**	1032.5p	–	09.11.09	09.05.10
		Performance shares	37,878	–	–	–	37,878	**–**	1320.0p	–	11.04.10	11.10.10
		Matching shares	16,666	–	–	–	16,666	**–**	1320.0p	–	11.04.10	11.10.10
		Performance shares	53,400	–	–	–	53,400	**–**	992.5p	–	10.04.11	10.10.11
		Matching shares	14,246	–	–	–	14,246	**–**	992.5p	–	10.04.1 1	10.10.11
Jez Maiden		Performance shares	–	91,616	84,726	–	–	**176,342**	405.0p	–	01.09.12	01.03.13
		Matching shares	–	68,910	63,727	–	–	**132,637**	405.0p	–	01.09.12	01.03.13
Ray O'Toole	1	Performance shares	38,814	–	21,046	43,803	16,057	**–**	931.0p	167.9	06.04.09	06.10.09
	1	Matching shares	24,600	–	13,338	27,761	10,177	**–**	931.0p	167.9	06.04.09	06.10.09
		Performance shares	28,409	–	26,272	–	–	**54,681**	1320.0p	–	11.04.10	11.10.10
		Performance shares	40,302	–	37,271	–	–	**77,573**	992.5p	–	10.04.11	10.10.11
		Matching shares	6,666	–	6,164	–	–	**12,830**	992.5p	–	10.04.11	10.10.11
		Performance shares	–	100,401	92,850	–	–	**193,251**	405.0p	–	01.09.12	01.03.13
		Matching shares	–	100,400	92,849	–	–	**193,249**	405.0p	–	01.09.12	01.03.13

Notes

1 Performance and matching shares granted under the LTIP on 6 April 2006 vested and became exercisable from 6 April 2009 to the extent that the performance conditions had been met. TSR performance had been such as to result in 41.6 % 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 77.1% of that part of the performance and matching share awards that were subject to the EPS performance condition to vest.

2 LTIP awards were adjusted to reflect the dilutive effect of the Rights Issue effective 15 December 2009 by multiplying the numbers of options granted by the HMRC approved 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.

3 The expiry date of the exercise period for LTIP awards granted on 6 April 2006 was extended to 30 November 2009, in accordance with the LTIP rules to allow senior managers and Directors to exercise their vested awards after regulatory restrictions on share dealing had lifted in the run up to the Rights Issue announced on 11 November 2009.

In respect of the operation of the Long Term Incentive Plan the Company operates the National Express Group Employee Benefit Trust which currently holds 1,109,817 shares as at 25 February 2010.

The Register of Directors' Interests maintained by the Company contains full details of the Directors' holdings of shares and options over shares in the Company. The aggregate value of the LTIPs which vested in the year was £92,021 (2008: £999,421). The mid-market price of the Company's ordinary shares at 31 December 2009 was 191.9 pence (2008: 494.75 pence) and the range during the year ended 31 December 2009 was 554.5 pence to 151.75 pence.

By order of the Board

Roger Devlin

Director and Chairman of the Remuneration Committee
25 February 2010

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 2009 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 auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 34, 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 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 (APB'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 2009 and of its loss 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 matter 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 Group financial statements; and
- the information given in the Corporate Governance Statement set out on pages 40 to 41 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structure 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; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 33, in relation to going concern; and
- 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.

Other matter

We have reported separately on the parent Company financial statements of National Express Group PLC for the year ended 31 December 2009 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
25 February 2010

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	4	**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	5	**–**	**(60.4)**	**(60.4)**	–	(55.2)	(55.2)
Exceptional items	5	**–**	**(100.0)**	**(100.0)**	–	(30.9)	(30.9)
Total operating costs	6	**(2,551.3)**	**(160.4)**	**(2,711.7)**	(2,513.1)	(86.1)	(2,599.2)
Group operating profit		**159.8**	**(160.4)**	**(0.6)**	253.9	(86.1)	167.8
(Loss)/profit on disposal of non-current assets	5	**–**	**(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	18	**(0.1)**	**(12.0)**	**(12.1)**	–	–	–
Finance income	9	**9.6**	**–**	**9.6**	17.4	–	17.4
Finance costs	9	**(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	10	**(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	11	**–**	**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	13			**(17.6p)**			40.4p
– diluted earnings per share	13			**(17.6p)**			40.1p
Normalised earnings per share:							
– basic earnings per share	13	**30.5p**			48.9p		
– diluted earnings per share	13	**30.4p**			48.6p		
Earnings per share from continuing operations:							
– basic earnings per share	13			**(20.3p)**			45.0p
– diluted earnings per share	13			**(20.3p)**			44.7p

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	34	**(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

Group Balance Sheet
At 31 December 2009

	Note	2009 £m	2008 £m
Non-current assets			
Intangible assets	14	**1,349.9**	1,519.6
Property, plant and equipment	15	**672.6**	841.5
Financial assets – Available for sale	17	**7.7**	9.2
– Derivative financial instruments	17	**3.3**	1.5
Investments accounted for using the equity method	18	**6.7**	7.9
Other receivables	20	**4.0**	7.0
Deferred tax asset	27	**35.2**	20.0
		2,079.4	2,406.7
Current assets			
Inventories	21	**16.4**	24.4
Trade and other receivables	22	**226.7**	332.3
Financial assets – Derivative financial instruments	17	**5.9**	2.5
Current tax assets		**3.7**	4.0
Cash and cash equivalents	23	**105.8**	105.9
		358.5	469.1
Assets in disposal group classified as held for sale	11	**–**	0.7
Total assets		**2,437.9**	2,876.5
Non-current liabilities			
Financial liabilities – Borrowings	28	**(506.1)**	(1,215.0)
– Derivative financial instruments	28	**(11.2)**	(59.3)
Deferred tax liability	27	**(99.0)**	(124.9)
Other non-current liabilities	25	**(21.6)**	(20.7)
Defined benefit pension liability	34	**(54.9)**	(45.0)
Provisions	26	**(22.0)**	(39.0)
		(714.8)	(1,503.9)
Current liabilities			
Trade and other payables	24	**(467.0)**	(557.3)
Financial liabilities – Borrowings	28	**(258.4)**	(71.6)
– Derivative financial instruments	28	**(36.0)**	(79.3)
Current tax liabilities		**(56.8)**	(32.5)
Provisions	26	**(62.6)**	(44.3)
		(880.8)	(785.0)
Liabilities directly associated with disposal group assets classified as held for sale	11	**–**	(2.2)
Total liabilities		**(1,595.6)**	(2,291.1)
Net assets		**842.3**	585.4
Shareholders' equity			
Called up share capital	32	**25.6**	7.7
Share premium account		**533.2**	195.7
Capital redemption reserve		**0.2**	0.2
Own shares	32	**(14.6)**	(15.2)
Other reserves	33	**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

J Devaney Chairman
J K Maiden Group Finance Director
25 February 2010

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 (note 32) £m	Other reserves (note 33) £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 (note 32) £m	Other reserves (note 33) £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

Group Statement of Cash Flows
For the year ended 31 December 2009

	Note	2009 £m	2008 £m
Cash generated from operations	37	**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	19(a)	**–**	(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	14	**(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	11	**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	23	**105.8**	105.9

Notes to the Consolidated Accounts
For the year ended 31 December 2009

1 Corporate information

The consolidated accounts of National Express Group PLC and its subsidiaries ('the Group') for the year ended 31 December 2009 were authorised for issue in accordance with a resolution of the Directors on 25 February 2010. 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 OFR 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 1985 and 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 2009 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) and measurement of defined benefit pension obligations. 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). 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.

Notes to the Consolidated Accounts continued

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.

Minority interests represent the portion of profit or loss and net assets 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 2009.

IAS 1 (Revised) 'Presentation of financial statements'. The new standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the standard introduces the statement of comprehensive income which presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has opted to present two linked statements.

IAS 23 (Amendment) 'Borrowing costs'. This amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset, removing the option to immediately expense those borrowing costs. The amendment had no impact on the consolidated financial statements.

IAS 32 (Amendment) 'Financial instruments: Presentation', and IAS 1 (Amendment) 'Presentation of financial statements' – 'Puttable financial instruments and obligations arising on liquidation'. These amendments were issued in February 2008. The revisions provide a limited scope exception for puttable instruments to be classified as equity if they fulfil a number of specified features. The amendments to the standards had no impact on the financial position or performance of the Group, as the Group has not issued such instruments.

IFRS 1 (Amendment) 'First-time adoption of IFRSs' and IAS 27 (Amendment) 'Consolidated and Separate Financial Statements'. The amendments to IFRS 1 allows an entity to determine the cost of investments in subsidiaries, jointly controlled entities or associates in its opening IFRS financial statements in accordance with IAS 27 or using a deemed cost. The amendment to IAS 27 requires all dividends from a subsidiary, jointly controlled entity or associate to be recognised in the income statement in the separate financial statements. The new requirements did not have an impact on the consolidated financial statements.

IFRS 2 (Amendment) 'Share-based payment'. This amendment clarifies that vesting conditions are service conditions and performance conditions only and that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment.

IFRS 8 'Operating Segments'. IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'.

Improvements to IFRSs: in May 2008 the International Accounting Standards Board issued its first omnibus of amendments to its standards, primarily with a view to remove inconsistencies and clarify wording.

IFRIC 13 'Customer Loyalty Programmes'. IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive, the arrangement is a multiple-element arrangement and the consideration receivable from the customer should be allocated between the components of the arrangement in proportion to their fair values. The IFRIC had no impact on the consolidated financial statements.

IFRIC 14 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'. IFRIC 14 provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset and how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The European Union endorsed IFRIC 14 in December 2008 and therefore the Group adopted IFRIC 14 from 1 January 2009 as permitted by the special transitional provisions introduced by the EU. IFRIC 14 had no impact on the consolidated financial statements.

2 Accounting policies continued

Changes in accounting policies continued

IFRIC 15 'Agreement for the Construction of Real Estate'. IFRIC 15 clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognised if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. IFRIC 15 did not have an impact on the consolidated financial statements because the Group does not conduct such activity.

IFRIC 16 'Hedges of Net Investment in a Foreign Operation'. IFRIC 16 provides guidance on the accounting for a hedge of a net investment. As such it provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the Group the hedging instruments can be held in the hedge of a net investment and how an entity should determine the related amount of foreign currency gain or loss. IFRIC 16 did not have an impact on the consolidated financial statements.

IFRIC 18 'Transfers of Assets from Customers'. IFRIC 18 clarifies the requirements for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). IFRIC 18 did not have an impact on the consolidated financial statements because the Group does not conduct such activities.

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.

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.

Notes to the Consolidated Accounts continued

2 Accounting policies continued

Revenue recognition

Rendering of services

Revenue comprises income from road passenger transport, train passenger services, airport operations 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 Trains 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 OFR accompanying these accounts.

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.

2 Accounting policies continued

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.

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.

Notes to the Consolidated Accounts continued

2 Accounting policies continued

Goodwill

IFRS 3 'Business Combinations', has been applied to the accounting for business combinations from 1 January 2004.

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.

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.

2 Accounting policies continued

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.

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 and interest rate 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.

Foreign currency forward currency contracts 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.

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 or 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.

Notes to the Consolidated Accounts continued

2 Accounting policies continued

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.

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.

2 Accounting policies continued

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.

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.

Notes to the Consolidated Accounts continued

2 Accounting policies continued

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 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 Group will apply this revised standard from 1 January 2010 and does not anticipate any impact on the 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 Group will apply the revised IFRS 3 for all business combinations from 1 January 2010.

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 Group will apply IFRIC 17 from 1 January 2010 and does not anticipate it will have an impact on the financial position or performance of the Group, as the Group currently has no plan to distribute non-cash assets to owners.

Improvements to IFRSs (effective for annual periods beginning on or after 1 July 2009): in April 2009 the International Accounting Standards Board issued its first 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 2010 and is currently evaluating the impact.

IFRS 2 (Amendment) 'Share-based Payment' (effective for annual periods beginning on or after 1 January 2010). The Group will apply this amendment to IFRS 2 from 1 January 2010 and is currently evaluating its impact.

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 impact on the 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 Group will apply this IFRIC from 1 January 2010 and does not anticipate any 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 form 1 January 2011 and is currently evaluating the impact.

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 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.

3 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.

4 Revenue

	2009 £m	2008 £m
Rendering of services	**2,699.9**	2,755.2
Rental income	**11.2**	11.8
Revenue	**2,711.1**	2,767.0
Finance income	**9.6**	17.4
Total revenue from continuing operations	**2,720.7**	2,784.4

During the year, franchise agreement receipts from DfT Rail amounted to £1.3m (2008: £24.0m) in UK Rail.

5 Segmental analysis

IFRS 8 has been adopted in the year. This had no impact on our reported segments. 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 OFR.

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 (note 11)	**–**	**–**	**–**	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. No single external customer amounts to 10% or more of the total revenue.

Notes to the Consolidated Accounts continued

5 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)

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 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**

	Intangible asset amortisation 2008 £m	Operating exceptional items 2008 £m	Total 2008 £m
UK Bus	0.5	3.0	3.5
UK Coach	0.3	2.0	2.3
UK Rail	1.0	12.2	13.2
North American Bus	4.7	11.1	15.8
European Coach & Bus	48.7	2.6	51.3
Total continued operations	55.2	30.9	86.1
Discontinued operations (note 11)	–	3.8	3.8
Total	55.2	34.7	89.9

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 the year to 31 December 2008 exceptional costs of £4.3m for UK Integration were incurred in UK Bus, UK Coach, UK Rail and Central functions. Mobilisation costs of £0.1m were incurred in National Express East Coast. Integration costs of £2.6m were incurred in Continental Auto. Business Transformation costs of £11.1m were incurred in North America. In addition, exceptional costs of £12.8m were incurred in the UK relating to a reorganisation announced at the end of 2008.

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).

In 2008 non-operating exceptional items comprise £5.1m of profit on disposal of businesses owned by ALSA (note 19b).

Notes to the Consolidated Accounts continued

5 Segmental analysis continued

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

	Assets 2009 £m	Of which non-current assets* 2009 £m	Liabilities 2009 £m	Capital expenditure 2009 £m	Assets 2008 £m	Of which non-current assets* 2008 £m	Liabilities 2008 £m	Capital expenditure 2008 £m
UK Bus	**129.4**	**116.6**	**(120.8)**	**3.1**	190.5	168.9	(90.7)	7.4
UK Coach	**57.0**	**46.7**	**(55.8)**	**12.6**	70.9	58.8	(54.3)	10.4
UK Rail	**111.4**	**23.2**	**(202.2)**	**8.7**	205.5	63.1	(340.7)	10.8
Intercompany elimination	**(2.6)**	**–**	**2.6**	**–**	(1.9)	–	1.9	–
UK operations	**295.2**	**186.5**	**(376.2)**	**24.4**	465.0	290.8	(483.8)	28.6
North American Bus	**618.0**	**566.8**	**(74.6)**	**20.9**	700.6	623.9	(115.6)	71.7
European Coach & Bus	**1,371.4**	**1,268.7**	**(181.8)**	**20.1**	1,580.6	1,445.2	(186.9)	39.4
Central functions	**27.9**	**0.5**	**(107.5)**	**0.1**	16.8	1.2	(84.5)	0.7
Unallocated	**162.4**	**–**	**(892.5)**	**–**	144.0	–	(1,449.3)	–
Intercompany elimination	**(37.0)**	**–**	**37.0**	**–**	(31.2)	–	31.2	–
Total continuing operations	**2,437.9**	**2,022.5**	**(1,595.6)**	**65.5**	2,875.8	2,361.1	(2,288.9)	140.4
Assets in disposal group/ (liabilities directly associated with disposal group) classified as held for sale	**–**	**–**	**–**	**–**	0.7	–	(2.2)	0.6
Total	**2,437.9**	**2,022.5**	**(1,595.6)**	**65.5**	2,876.5	2,361.1	(2,291.1)	141.0

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

Capital expenditure comprises property, plant and equipment additions as disclosed above and in note 15. In 2009 software intangible assets of £5.8m (2008: £8.2m) were acquired in North America and disclosed in note 14.

Unallocated assets and liabilities comprise the following items:

	Unallocated assets 2009 £m	Unallocated liabilities 2009 £m	Unallocated assets 2008 £m	Unallocated liabilities 2008 £m
Cash and cash equivalents	**105.8**	**–**	105.9	–
Other debt receivable	**0.8**	**–**	0.9	–
Current tax	**3.7**	**(56.8)**	4.0	(32.5)
Available for sale investments	**7.7**	**–**	9.2	–
Derivative financial assets/(liabilities)	**9.2**	**(47.2)**	4.0	(138.6)
Borrowings, excluding finance leases	**–**	**(688.9)**	–	(1,152.7)
Dividend payable	**–**	**(0.6)**	–	(0.6)
Deferred tax	**35.2**	**(99.0)**	20.0	(124.9)
Total	**162.4**	**(892.5)**	144.0	(1,449.3)

6 Operating costs

		2009 £m	2008 £m
Materials and consumables		**88.5**	84.3
Staff costs (including exceptional cost of £8.8m (2008: £15.3m))		**909.4**	894.2
Depreciation – Owned assets		**89.7**	75.6
– Leased assets		**18.3**	20.4
Amortisation of leasehold property prepayment		**0.1**	0.1
Amortisation of fixed asset grants		**(2.0)**	(1.8)
Operating lease charges	Rolling stock: capital element	**129.9**	131.8
	Rolling stock: non-capital element	**56.8**	57.3
	Public service vehicles	**4.7**	4.6
	Other	**9.8**	9.6
	– Plant and equipment	**201.2**	203.3
	Fixed track access	**143.5**	304.1
	Other	**54.4**	68.8
	– Land and buildings	**197.9**	372.9
Pre-contract bid costs: UK Trains		**0.7**	4.6
Foreign exchange differences (including exceptional expense of £1.8m (2008: £nil))		**1.8**	(2.1)
Other charges (including exceptional expense of £89.4m (2008: £15.6m))		**1,145.7**	892.5
Operating costs before intangible asset amortisation		**2,651.3**	2,544.0
Intangible asset amortisation		**60.4**	55.2
Total operating costs – continuing operations		**2,711.7**	2,599.2

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:

	2009 £m	2008 £m
Fees payable to the Company's auditors for the audit of the consolidated and parent Company accounts	**0.6**	0.6
Fees payable to the Company's auditors and its associates for other services:		
The audit of the Company's subsidiaries	**1.0**	1.2
Tax services	**0.7**	0.6
Corporate finance services	**1.6**	–
Other services	**–**	0.1
	3.9	2.5

Included in the above fees paid to the Group's auditors are fees for corporate finance services of £1.5m (2008: £nil) in relation to the Rights Issue which have been charged against the share premium account. All other fees have been charged to the income statement.

Notes to the Consolidated Accounts continued

7 Employee benefit costs

(a) Staff costs

	2009 £m	2008 £m
Wages and salaries	**783.0**	773.8
Social security costs	**100.3**	92.6
Pension costs (note 34)	**24.2**	23.5
Share-based payment (note 8)	**1.9**	4.3
	909.4	894.2

Included within wages and salaries are exceptional costs of £8.8m (2008: £15.3m).

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

	2009	2008
Managerial and administrative	**3,863**	4,250
Operational	**37,427**	40,760
	41,290	45,010

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.

	2009 £m	2008 £m
Fees	**0.6**	0.4
Basic salaries	**1.1**	1.1
Benefits	**0.5**	0.4
Performance-related bonuses	**0.2**	0.5
Share-based payment	**(0.1)**	1.0
	2.3	3.4

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 2009 under the Group's share schemes are as follows:

	Number of share options 2009	Number of share options[1] 2008	Exercise price[1]	Future exercise periods
Executive Share Option Plan	**198,070**	209,563	**207p–448p**	**2010–2014**
Long Term Incentive Plan	**3,464,399**	1,289,747	**nil**	**2010–2013**
Share Matching Plan	**833,220**	388,264	**nil**	**2010–2013**
Deferred Annual Share Bonus Plan	**824,510**	504,028	**nil**	**2010–2013**
WMT Long Service Option Scheme	**315,285**	283,126	**129p–604p**	**2010–2019**
Sharesave Scheme	**1,387,451**	1,765,145	**479p**	**2010–2012**
Executive Deferred Bonus Plan	**578,388**	nil	**nil**	**2010**
	7,601,323	4,439,873		

1 Allocations prior to 11 November 2009 and the corresponding exercise price have been adjusted to reflect the bonus element of the Rights Issue. Details of the Rights Issue are provided in note 32.

(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, 889 (2008:1,439) 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.

Notes to the Consolidated Accounts 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 will 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 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 and disability).

In the event of a variation of the share capital 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:

	2009 £m	2008 £m
Expense arising from share and share option plans – continuing operations	**1.9**	4.3

The share-based payment charge in respect of discontinued operations was nil (2008: £0.1m).

During the year ended 31 December 2009, 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:

	2009 Number of share options	2009 Weighted average exercise price p	2008 Number of share options[2]	2008 Weighted average exercise price[2] p
Options without a nil exercise price:				
At 1 January	**2,257,834**	**467**	600,622	416
Granted during the year	**69,900**	**129**	1,803,272	480
Lapsed during the year	**(423,813)**	**491**	(70,219)	846
Exercised during the year	**(3,115)**	**500**	(75,841)	746
Outstanding at 31 December[1]	**1,900,806**	**449**	2,257,834	467
Exercisable at 31 December	**398,707**	**386**	381,982	392
Options with a nil exercise price:				
At 1 January	**2,182,038**	**nil**	1,773,262	nil
Granted during the year	**4,290,648**	**nil**	1,132,475	nil
Lapsed during the year	**(396,696)**	**nil**	(323,727)	nil
Exercised during the year	**(375,473)**	**nil**	(399,972)	nil
Outstanding at 31 December	**5,700,517**	**nil**	2,182,038	nil
Exercisable at 31 December	**nil**	**nil**	3,647	nil
Total outstanding at 31 December	**7,601,323**		4,439,872	
Total exercisable at 31 December	**398,707**		385,629	

1 Included within this balance are options over 127,324 (2008: 173,929) 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 2009 had exercise prices that were between 129p and 604p (2008[1]: between 207p and 636p) excluding options with a nil exercise price. The range of exercise prices for options was as follows:

Exercise price (p)	2009	2008[1]
0–300	**128,668**	58,768
300–350	**51,321**	51,321
350–650	**1,720,817**	2,147,745
	1,900,806	2,257,834

1 The 2008 exercise prices have been adjusted to reflect the impact of the bonus element of the Rights Issue. Details of the Rights Issue are provided in note 32.

The options have a weighted average contractual life of one year (2008: three years). Options were exercised regularly throughout the year and the weighted average share price at exercise was 335p (2008: 891p).

Notes to the Consolidated Accounts continued

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	
	2009	2008	**2009**	2008
Risk free interest rate	**2.8%**	4.2%–4.9%	**2.0%**	–
Expected volatility	**32.5%**	26.8%–27.2%	**48.4%**	25.1%–32.0%
Peer group volatility	**–**	–	**49.9%**	30.8%
Expected option life in years	**6 years**	3–6 years	**3 years**	3 years
Expected dividend yield	**12.6%**	3.4%–4.0%	**2.7%**	3.8%–7.2%
Weighted average share price at grant date	**248p**	884p–1135p	**175p–405p**	547p–972p
Weighted average share price adjusted for Rights Issue	**129p**	459p–590p	**91p–210p**	284p–505p
Weighted average exercise price at grant date	**248p**	922p–1163p	**nil**	nil
Weighted average exercise price adjusted for Rights Issue	**129p**	479p–604p	**nil**	nil
Weighted average fair value of options at grant date	**20p**	140p–211p	**174p–374p**	166p–868p
Weighted average fair value of options granted adjusted for Rights Issue	**10p**	73p–110p	**91p–194p**	86p–451p

Experience to date has shown that approximately 15% (2008: 15%) of options are exercised early, principally due to redundancies.

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 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)
Of which, from financial instruments:						
Cash and cash equivalents	**9.6**	**–**	**9.6**	17.4	–	17.4
Financial liabilities measured at amortised cost	**(48.9)**	**–**	**(48.9)**	(62.7)	–	(62.7)
Financial liabilities at fair value through profit or loss	**(10.1)**	**(17.9)**	**(28.0)**	(2.3)	(5.8)	(8.1)
Derivatives used for hedging	**–**	**–**	**–**	(1.1)	(5.7)	(6.8)
Loan fee amortisation	**(3.6)**	**(2.0)**	**(5.6)**	(1.6)	–	(1.6)

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.

10 Taxation

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

	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 and overseas	**12.5**	4.8
Total current income tax	**23.2**	34.3
Deferred taxation (note 27):		
Origination and reversal of temporary differences – continuing operations	**(37.0)**	(58.5)
Adjustments with respect to prior years – UK and 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)

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

	2009 £m	2008 £m
Current taxation:		
Credit on exchange movements offset in reserves	**1.9**	16.1
	1.9	16.1
Deferred taxation:		
Deferred tax credit/(charge) on share-based payment	**0.2**	(1.6)
Deferred tax credit on actuarial gains	**5.4**	7.0
Deferred tax credit on exchange movements offset in reserves	**–**	1.5
Deferred tax (charge)/credit on cash flow hedges	**(23.0)**	24.8
	(17.4)	31.7

Notes to the Consolidated Accounts continued

10 Taxation continued

(c) Reconciliation of the total tax charge

	2009 £m	2008 £m
(Loss)/profit from continuing operations before income tax	**(83.5)**	109.9
Profit/(loss) from discontinued operations before income tax	**7.3**	(12.8)
Accounting (loss)/profit before income tax	**(76.2)**	97.1
Notional (credit)/charge at UK corporation tax rate of 28% (2008: 28.5%)	**(21.3)**	27.7
Non-deductible goodwill impairment and intangible amortisation	**0.3**	0.9
Utilisation of unrecognised tax losses	**(3.8)**	–
Prior year adjustments within current and deferred tax	**2.8**	6.4
Spanish reinvestment relief and other tax credits	**(4.3)**	(4.3)
Effect of overseas tax rates	**4.6**	3.7
Tax on Spanish goodwill and intangibles (note 10d)	**(6.3)**	(66.6)
Effect of removal of Industrial Buildings Allowances (note 10e)	**(5.0)**	14.4
Non-taxable profit on sale of non-current assets	**2.6**	–
Overseas financing deductions	**(4.6)**	(6.8)
Non-deductible expenditure on the exit of NXEC	**8.8**	–
Non-deductible expenditure	**2.7**	2.0
Total tax (credit) reported in the income statement (note 10a)	**(23.5)**	(22.6)

On 1 April 2008 the standard rate of corporation tax in the UK was changed to 28%. For the year ended 31 December 2008 the average corporation tax rate was therefore 28.5%.

(d) Tax on Spanish goodwill and intangibles

A reorganisation of the Spanish group structure in 2008 gave rise to future goodwill amortisation for tax purposes on which a deferred tax asset has been recognised to the extent that the realisation of the deferred tax benefit against future tax profits is probable.

(e) Removal of Industrial Buildings Allowances

Industrial Buildings Allowances (IBAs) are being phased out from April 2008 to March 2011. As a result, deferred tax has been adjusted to recognise the reduction in deductibility in future years.

(f) Temporary differences associated with Group investments

No deferred tax (2008: £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 the year, overseas dividends received on or after 1 July 2009 are expected to be exempt from UK corporation tax, but may be subject to withholding tax. There are no temporary differences (2008: £86.9m) 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.

(g) 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 £27.4m (2008: £52.2m), which arise in tax jurisdictions where the Group does not expect to generate sufficient suitable future profits. In addition, there are capital losses of £30.9m (2008: £34.2m) which have not been recognised, recoverability of which is dependent on capital gains arising. A deferred tax asset of £35.2m 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.

(h) Deferred tax included in the income statement

	2009 £m	2008 £m
Accelerated capital allowances	**0.5**	19.7
Other short-term temporary differences	**(5.1)**	(79.4)
(Recognition)/utilisation of losses	**(42.1)**	2.8
	(46.7)	(56.9)

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

11 Discontinued operations

On 24 October 2008, the Group announced that it planned to exit the Dot2Dot business. On 9 January 2009, the Group completed the sale of the Dot2Dot business and it was classified as a discontinued operation for the year ended 31 December 2008. Further costs were incurred in 2009 in relation to the closure. The 2009 results include a charge to the income statement in respect of the discontinued operations of Dot2Dot of £2.4m (2008: £9.7m). In addition, a £10.6m credit was recognised after costs in relation to a settlement of outstanding claims from the exit of the Australian operations.

The 2009 cash flows from discontinued operations include a net inflow of £11.4m (2008: £nil) in relation to the Australia settlement, an outflow of £3.0m (2008: outflow £10.8m) in relation to Dot2Dot and an outflow of £2.9m (2008: outflow £6.1m) for North America wage order 9 settlements.

The results of the Group's discontinued operations in 2009 are presented below together with the comparative data for 2008 and arise from Australia, Dot2Dot and North America, together with the respective taxation charges:

	Australia		Dot2Dot		North America Public Transit		Total (restated)	
	2009 £m	2008 £m	**2009 £m**	2008 £m	**2009 £m**	2008 £m	**2009 £m**	2008 £m
Revenue	**–**	–	**–**	5.1	**–**	–	**–**	5.1
Operating costs, before goodwill impairment, intangible amortisation and exceptional items	**–**	–	**–**	(13.4)	**–**	–	**–**	(13.4)
Normalised operating loss	**–**	–	**–**	(8.3)	**–**	–	**–**	(8.3)
Normalised loss before tax	**–**	–	**–**	(8.3)	**–**	–	**–**	(8.3)
Tax credit on normalised loss	**–**	–	**–**	2.8	**–**	–	**–**	2.8
Normalised loss from discontinued operations	**–**	–	**–**	(5.5)	**–**	–	**–**	(5.5)
Goodwill impairment	**–**	–	**–**	(0.7)	**–**	–	**–**	(0.7)
Exceptional items	**10.3**	–	**(3.0)**	(3.8)	**–**	–	**7.3**	(3.8)
	10.3	–	**(3.0)**	(4.5)	**–**	–	**7.3**	(4.5)
Tax on exceptional items	**0.3**	–	**0.6**	0.3	**–**	(3.7)	**0.9**	(3.4)
	10.6	–	**(2.4)**	(4.2)	**–**	(3.7)	**8.2**	(7.9)
Profit/(loss) from discontinued operations	**10.6**	–	**(2.4)**	(9.7)	**–**	(3.7)	**8.2**	(13.4)
Profit/(loss) per share								
Basic from discontinued operations	**–**	–	**–**	–	**–**	–	**2.7p**	(4.6p)
Diluted from discontinued operations	**–**	–	**–**	–	**–**	–	**2.7p**	(4.5p)
Net cash (outflow) from:								
Operating activities	**–**	–	**–**	(10.2)	**–**	–	**–**	(10.2)
Investing activities	**11.4**	–	**(3.0)**	(0.6)	**(2.9)**	(6.1)	**5.5**	(6.7)

The Group acquired the entire share capital of Hotelink Limited in March 2007, and subsequently renamed the business National Express Dot2Dot Limited. The exceptional items of £3.0m (2008: £3.8m) before tax reflect the charge the Group has incurred in order to complete the disposal of the business.

Assets in disposal group classified as held for sale of £nil (2008: £0.7m represent trade and other receivables). Liabilities directly associated with disposal group assets classified as held for sale of £nil (2008: £2.2m consist of provisions (£2.1m) and trade payables (£0.1m)).

Notes to the Consolidated Accounts continued

12 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

13 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. Details of the Rights Issue are provided in note 32.

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.

13 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. Details of the Rights Issue are provided in note 32.

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 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**

The disposal of £4.0m (cost) intangible assets and £13.2m goodwill is related to Travel London Limited.

Notes to the Consolidated Accounts continued

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 2008	356.5	9.9	–	366.4	42.0	952.6	994.6	1,361.0
Additions through business combinations	7.9	–	–	7.9	4.8	8.7	13.5	21.4
Additions internally generated	–	–	8.2	8.2	–	–	–	8.2
Reclassification from tangible fixed assets	–	–	2.3	2.3	–	–	–	2.3
Impairment	–	–	–	–	–	(0.7)	(0.7)	(0.7)
Foreign exchange	107.2	–	2.6	109.8	10.8	245.2	256.0	365.8
At 31 December 2008	471.6	9.9	13.1	494.6	57.6	1,205.8	1,263.4	1,758.0
Amortisation and impairment:								
At 1 January 2008	63.7	3.6	–	67.3	–	86.8	86.8	154.1
Charge for year	54.1	1.1	–	55.2	–	–	–	55.2
Foreign exchange	29.1	–	–	29.1	–	–	–	29.1
At 31 December 2008	146.9	4.7	–	151.6	–	86.8	86.8	238.4
Net book value:								
At 31 December 2008	324.7	5.2	13.1	343.0	57.6	1,119.0	1,176.6	1,519.6
At 1 January 2008	292.8	6.3	–	299.1	42.0	865.8	907.8	1,206.9

The annual impairment charge in 2008 of £0.7m related to the goodwill arising on the acquisition of Dot2Dot and reduced the net book value of the goodwill to £nil.

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:

	2009 Contractual relationships £m	**2009 Goodwill £m**	**Total £m**	2008 Contractual relationships £m	2008 Goodwill £m	Total £m
UK Bus	**–**	**–**	**–**	–	13.2	13.2
UK Coach	**–**	**13.2**	**13.2**	–	13.2	13.2
North American Bus	**37.4**	**262.2**	**299.6**	37.8	279.3	317.1
European Coach & Bus	**18.4**	**754.2**	**772.6**	19.8	813.3	833.1
	55.8	**1,029.6**	**1,085.4**	57.6	1,119.0	1,176.6

The useful economic lives of contractual relationships in North America and Spain 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 two 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		Growth rate used to extrapolate cash flows beyond two year period of management plan	
	2009	2008	**2009**	2008
UK Bus	**–**	12.5%	**–**	2.0%
UK Coach	**10.1%**	12.5%	**2.0%**	2.0%
North American Bus	**11.7%**	12.5%	**2.0%**	2.0%
European Coach & Bus	**7.5%**	9.0%	**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 division exceeds its carrying amount by £52.7m. 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 90 basis points, an increase in the discount rate of 100 basis points or a reduction in revenue growth rates of 90 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 Spain division exceeds its carrying amount by £478m. 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 580 basis points, an increase in the discount rate of 270 basis points or a reduction in revenue growth rates of 480 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 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 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

Notes to the Consolidated Accounts continued

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 2008	88.8	4.1	683.7	166.8	943.4
Additions	6.6	1.0	105.1	28.3	141.0
Acquisitions of businesses	1.8	–	6.4	0.1	8.3
Disposals	(3.3)	(0.7)	(57.5)	(6.8)	(68.3)
Attributable to assets held for sale	–	–	–	(1.4)	(1.4)
Reclassifications	–	–	–	(2.3)	(2.3)
Foreign exchange	15.6	1.7	164.8	7.3	189.4
At 31 December 2008	109.5	6.1	902.5	192.0	1,210.1
Depreciation:					
At 1 January 2008	7.0	1.2	170.0	68.8	247.0
Charge for the year	1.8	0.6	68.5	25.1	96.0
Disposals	(0.6)	(0.1)	(28.1)	(4.1)	(32.9)
Attributable to assets held for sale	–	–	–	(0.3)	(0.3)
Foreign exchange	1.7	1.1	51.1	4.9	58.8
At 31 December 2008	9.9	2.8	261.5	94.4	368.6
Net book value:					
At 31 December 2008	99.6	3.3	641.0	97.6	841.5
At 1 January 2008	81.8	2.9	513.7	98.0	696.4

Plant and equipment held for sale at 31 December 2008 relates to Dot2Dot.

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

		2009 £m	2008 £m
Land and buildings	– cost	**1.8**	1.9
	– depreciation	**(0.1)**	(0.1)
Net land and buildings		**1.7**	1.8
Public service vehicles	– cost	**151.3**	265.5
	– depreciation	**(41.4)**	(85.9)
Net public service vehicles		**109.9**	179.6
Plant and equipment	– cost	**1.5**	1.8
	– depreciation	**(1.5)**	(1.5)
Net plant and equipment		**–**	0.3
Total net book value		**111.6**	181.7

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
Travel London Limited	Operation of bus services (disposed of 9 June 2009)
Travel London (West) Limited	Operation of bus services (disposed of 9 June 2009)
Travel London (Middlesex) Limited	Operation of bus services (ceased operating on 9 June 2009)
c2c Rail Limited	Operation of train passenger services
Central Trains Limited	Operation of train passenger services (ceased operating** on 10 November 2007)
Gatwick Express Limited	Operation of train passenger services (ceased operating** on 22 June 2008)
London Eastern Railway Limited (trading as National Express East Anglia)	Operation of train passenger services
Maintrain Limited	Provision of train maintenance services (ceased operating** on 10 November 2007)
Midland Main Line Limited	Operation of train passenger services (ceased operating** on 10 November 2007)
National Express Trains Limited*	Holding company for train operating companies
NXEC Trains Limited (trading as National Express East Coast)	Operation of train passenger services (ceased operating** on 13 November 2009)
Silverlink Train Services Limited	Operation of train passenger services (ceased operating** on 10 November 2007)

* Shares held by the Company. All other shares held by subsidiaries.
** These businesses ceased operating train passenger services or maintenance services on the dates noted above.

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

Dabliu Consulting SLU***	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.

Notes to the Consolidated Accounts continued

17 Financial assets

	2009 £m	2008 £m
Available for sale investments – Unlisted ordinary shares	**7.7**	9.2
Derivative financial instruments – Interest rate swaps	**–**	1.5
Derivative financial instruments – Fuel price swaps	**3.3**	–
Financial assets included in non-current assets	**11.0**	10.7
Derivative financial instruments – Interest rate swaps	**–**	1.5
Derivative financial instruments – Fuel price swaps	**5.6**	1.0
Derivative financial instruments – Foreign exchange forward contracts	**0.3**	–
Financial assets included in current assets	**5.9**	2.5

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

Available for sale investments

	2009 £m	2008 £m
Cost or valuation:		
At 1 January	**10.0**	8.0
Additions	**0.3**	–
Disposals	**(1.8)**	(0.1)
Foreign exchange	**(0.8)**	2.1
At 31 December	**7.7**	10.0
Accumulated impairment:		
At 1 January	**(0.8)**	(0.8)
Disposals	**0.8**	–
At 31 December	**–**	(0.8)
Net carrying amount:		
At 31 December	**7.7**	9.2
At 1 January	**9.2**	7.2

The principal available for sale investments are as follows:

Name	Country of registration	Class of share	2009 Proportion held %	2008 Proportion held %
Bosnjak Holdings Pty Ltd	Australia	Ordinary shares	**86**	57
London & Continental Railways (LCR)	England and Wales	Ordinary shares	**–**	21
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**	4–16

Additions during the year relate to investments held by National Bus Company Pty Ltd which went into voluntary administration. During the year £1.1m of the investment has been repaid and a further £0.3m remains to be paid which is held as an available for sale investment. The Group does not have significant influence or control of these investments as the company involved is in administration.

During the year ALSA and Continental Auto disposed of £1.0m of investments. National Express Group PLC also disposed of 100% of its investment in LCR for nil profit or loss. The cost of the investment was £0.8m which was fully provided for and being carried at nil value.

18 Investments accounted for using the equity method

Investments accounted for using the equity method are as follows:

	2009 £m	2008 £m
Joint ventures	**2.0**	2.2
Associates	**4.7**	5.7
Total investments accounted for under the equity method	**6.7**	7.9

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

	2009 £m	2008 £m
Share of joint venture's profit	**–**	0.1
Share of associates' loss	**(0.1)**	(0.1)
	(0.1)	–
Exceptional charge for associate onerous contract provision	**(12.0)**	–
Total share of results from associates and joint ventures	**(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	2009 £m	Ibero 2008 £m
Non-current assets	**3.8**	4.2
Current assets	**0.1**	0.3
Share of gross assets	**3.9**	4.5
Non-current liabilities	**(1.6)**	(2.0)
Current liabilities	**(0.3)**	(0.3)
Share of gross liabilities	**(1.9)**	(2.3)
Share of net assets	**2.0**	2.2

Share of joint venture's revenue and results	2009 £m	Ibero 2008 £m
Revenue	**0.2**	0.3
Profit	**–**	0.1

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

Notes to the Consolidated Accounts continued

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
Spain associates	Spain	20–50

Inter-Capital and Regional Rail Limited (ICRRL) is 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.

Spain'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 Spain	
Share of associates' balance sheets	**2009 £m**	2008 £m
Non-current assets	**5.1**	6.1
Current assets	**7.3**	8.7
Share of gross assets	**12.4**	14.8
Non-current liabilities	**(2.9)**	(3.7)
Current liabilities	**(4.8)**	(5.4)
Share of gross liabilities	**(7.7)**	(9.1)
Share of net assets	**4.7**	5.7

The Group's net investment in associates is £4.7m (2008: £5.7m) which comprises associates held by Spain only.

	Revenue		Loss	
Share of associates' revenue and results	**2009 £m**	2008 £m	**2009 £m**	2008 £m
Spain associates	**20.2**	18.2	**(0.1)**	(0.1)
Total normalised associates' results	**20.2**	18.2	**(0.1)**	(0.1)
Exceptional ICRRL charge	**–**	–	**(12.0)**	–
Total associates' results	**20.2**	18.2	**(12.1)**	(0.1)

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

19 Business combinations

(a) Acquisitions

2009 Acquisitions

There were no acquisitions in the Group in 2009.

2008 Acquisitions

Transportes Colectivos SA

On 21 November 2008 the Group acquired the remaining 75% share capital of Transportes Colectivos SA (TCSA), a coach company based in Spain, which operates regional services in the Basque Country. Consideration of £21.4m was satisfied by cash, and in addition the Group had already paid £5.1m in 2006 for the initial investment in 25% of the share capital.

Net assets at date of acquisition:	Book value £m	Fair value adjustments £m	**Fair value total £m**
Intangible assets	–	6.2	**6.2**
Property, plant and equipment	6.7	(0.2)	**6.5**
Inventories	0.7	(0.3)	**0.4**
Trade and other receivables	6.5	–	**6.5**
Current tax	0.1	–	**0.1**
Cash and cash equivalents	22.0	–	**22.0**
Trade and other payables	(10.7)	(0.3)	**(11.0)**
Provisions	(5.3)	4.0	**(1.3)**
Net financial liabilities	(5.1)	–	**(5.1)**
Deferred tax liability	–	(1.9)	**(1.9)**
Net assets	14.9	7.5	**22.4**
Goodwill on acquisition			**4.1**
Total consideration			**26.5**
Less: initial investment of the 25% made in 2006			**(5.1)**
Less: net cash acquired			**(22.0)**
Net cash (inflow)			**(0.6)**

The acquisition balance sheet has been adjusted to reflect fair value adjustments. The adjustments represent:

a) the recognition of a customer contract acquired with TCSA (£6.2m) which reflects the expected renewal of this contract in Spain. The customer contract is amortised over the life of the contract;

b) a decrease in the value of passenger transportation fleet (£0.2m) and spare parts inventories (£0.3m);

c) an increase in payables in relation to accrued holiday pay;

d) an adjustment in provisions to reflect only liabilities existing as at the acquisition date, such as agreed redundancy payments (£1.3m); and

e) the deferred tax liability associated with the contract acquired.

From the date of acquisition, TCSA contributed £0.4m to the operating profit of the Group in 2008. If the combination had taken place at the beginning of 2008, the operating profit for the Group in 2008 would have been £168.2m and revenue from continuing operations in 2008 would have been £2,808.5m.

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 businesses and assembled workforce and increased scale in our Spanish regional operations. Management believes that goodwill represents value to the Group for which the recognition of a discrete intangible asset is not permitted.

Notes to the Consolidated Accounts continued

19 Business combinations continued

(a) Acquisitions continued

Other 2008 acquisitions

During the year ended 31 December 2008, in Canada, the Group acquired the entire share capital of school bus operators Alouette (North Bay Alouette Bus Lines Inc) on 7 January 2008. In the United States, the Group acquired the entire share capital of school bus operators A&E (A&E Transport Services Inc) on 28 February 2008.

	Book value				
Net assets at date of acquisition:	Alouette £m	A&E £m	Total £m	Fair value adjustments £m	**Fair value Total £m**
Intangible assets	0.1	–	0.1	6.4	**6.5**
Property, plant and equipment	0.1	1.6	1.7	0.1	**1.8**
Trade and other receivables	–	1.2	1.2	–	**1.2**
Cash and cash equivalents	–	0.6	0.6	–	**0.6**
Trade and other payables	–	(0.3)	(0.3)	–	**(0.3)**
Deferred tax liability	–	–	–	(1.8)	**(1.8)**
Net assets acquired	0.2	3.1	3.3	4.7	**8.0**
Goodwill on acquisition					**4.6**
Total consideration					**12.6**
Net consideration					**12.5**
Acquisition costs					**0.1**
Total consideration					**12.6**
Less: net cash acquired					**(0.6)**
Net cash outflow					**12.0**

The acquisition balance sheets have been adjusted to reflect fair value adjustments. The adjustments represent:

a) the elimination of the book value of Alouette's intangible assets (£0.1m), the recognition of customer contracts acquired with A&E (£1.7m), and customer relationships acquired with Allouette (£4.2m) and A&E (£0.6m). The customer contracts are amortised over the life of the contracts, whilst customer relationships are not amortised, but are tested for impairment on an annual basis;

b) a £0.1m increase in the value of property, plant and equipment at Alouette following a review of the vehicle fleet; and

c) the deferred tax liability associated on the customer contracts acquired with A&E (£0.5m), and the customer relationships acquired with Alouette (£0.2m) and A&E (£1.1m).

Total consideration was £0.9m for Alouette (including £0.1m acquisition costs) and £11.7m for A&E.

From their respective dates of acquisition, Alouette and A&E contributed £0.3m and £1.6m respectively to operating profit of the Group in 2008. If these combinations had taken place at the beginning of 2008 the Group operating profit in 2008 would have been £168.2m and revenue from continuing operations in 2008 would have been £2,769.4m.

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 businesses 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.

(b) 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.

In 2008, the Group disposed of the Portuguese transport business and one Spanish concession held by ALSA within the European Coach & Bus division. The disposal proceeds were £8.3m comprising of £5.4m cash received in 2008, £0.9m cash received in 2009, with the balance to be received in 2010. The net assets were £3.2m resulting in £5.1m profit on disposal.

20 Non-current assets – other receivables

	2009 £m	2008 £m
Prepayments and accrued income	**2.5**	2.8
Other receivables	**1.5**	4.2
	4.0	7.0

21 Inventories

	2009 £m	2008 £m
Raw materials and consumables	**16.4**	24.4

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

22 Current assets – trade and other receivables

	2009 £m	2008 £m
Trade receivables	**166.1**	227.7
Less: provision for impairment of receivables	**(12.1)**	(11.8)
Trade receivables – net	**154.0**	215.9
Amounts due from associates and joint ventures (note 36)	**1.3**	1.4
Amounts owed by other related parties (note 36)	**1.5**	1.2
Other receivables	**21.2**	45.0
Prepayments and accrued income	**48.7**	68.8
	226.7	332.3

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

	2009 £m	2008 £m
At 1 January	**(11.8)**	(6.5)
Provided in the year	**(0.3)**	(5.3)
At 31 December	**(12.1)**	(11.8)

Credit risk with respect to trade receivables is low as a large proportion of the Group’s trading is with public or quasi-public organisations.

23 Cash and cash equivalents

	2009 £m	2008 £m
Cash at bank and in hand	**58.3**	52.0
Overnight deposits	**12.0**	3.5
Other short-term deposits	**35.5**	50.4
Cash and cash equivalents	**105.8**	105.9

Cash and cash equivalents include restricted balances of £16.8m (2008: £49.7m) held by the UK Train subsidiaries. Under the terms of the train franchise agreements, cash can only be distributed by the TOCs either up to the amount of retained profits or the amount determined by prescribed liquidity ratios. The restricted cash represents that which is 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 respective short-term deposit rates. The fair value of cash and cash equivalents is equal to the carrying value.

Notes to the Consolidated Accounts continued

24 Current liabilities – trade and other payables

	2009 £m	2008 £m
Trade payables	**187.3**	228.6
Amounts owed to associates and joint ventures (note 36)	**1.5**	1.2
Amounts owed to other related parties (note 36)	**1.0**	0.7
Other tax and social security payable	**35.4**	28.8
Accruals and deferred income	**154.4**	185.0
Other payables	**87.4**	113.0
	467.0	557.3

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 £2.9m (2008: £3.4m).

25 Other non-current liabilities

	2009 £m	2008 £m
Other liabilities	**21.6**	20.7

Other non-current liabilities comprise deferred fixed asset grants of £4.6m (2008: £6.0m) and other liabilities of £17.0m (2008: £14.7m).

26 Provisions

	Insurance claims[a] £m	Eurostar onerous contract provision[b] £m	Other[c] £m	Total £m
At 1 January 2009	43.3	21.5	18.5	83.3
Charged to income statement	24.8	12.0	64.1	100.9
Utilised in the year	(24.5)	(8.6)	(67.2)	(100.3)
Amortisation of discount	0.9	2.0	–	2.9
Exchange difference	(1.6)	–	(0.6)	(2.2)
At 31 December 2009	**42.9**	**26.9**	**14.8**	**84.6**
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**
Current 31 December 2008	17.5	8.6	18.2	44.3
Non-current 31 December 2008	25.8	12.9	0.3	39.0
	43.3	21.5	18.5	83.3

a 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.

b A provision was recognised in 2006 for the Group's onerous contract for Eurostar with ICRRL. £8.6m (2008: £8.4m) was paid to ICRRL during the year. The provision will be utilised over the period to the end of the Group's contract in 2010. An additional provision was recognised during the year for the Company's liability for the proposed early termination of the ICRRL contract with Eurostar.

c The following items are included within other provisions:

i. A provision was established at 30 June 2009 as a result of the termination of the East Coast franchise. The final amounts were paid in November being for £20.7m of onerous contracts and £31.4m of performance bond liabilities. The amounts were recorded within exceptional items.

ii. A provision was recognised in 2007 for the expected liabilities in relation to the discontinued North American Public Transit business. These liabilities arose as the Group is a party to an industry-wide litigation in respect of working time regulations. The provision recognised is the expected value of the settlement, but the total amount of the provisions recognised by the Group is not disclosed as this may prejudice the Group's position in this matter. The whole provision is expected to be paid in 2010.

iii. A provision was recognised in the year in the UK for redundancy costs as a result of a significant restructuring exercise undertaken at the end of 2009. The provision is expected to be fully paid in 2010.

iv. The majority of other remaining provisions are expected to be paid within 2010.

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

27 Deferred tax

	2009 £m	2008 £m
Net deferred tax liability brought forward	**(104.9)**	(158.1)
Acquisition of subsidiaries	**–**	(3.7)
Disposal of subsidiaries	**2.0**	–
Credit to income statement	**46.7**	56.9
(Charge)/credit to other comprehensive income or equity	**(17.4)**	31.7
Exchange differences	**9.8**	(31.7)
Net deferred tax liability at 31 December	**(63.8)**	(104.9)

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	2009 £m	2008 £m
Accelerated tax depreciation	**(14.9)**	(26.2)
Losses carried forward	**29.0**	–
Other short-term temporary differences	**21.1**	46.2
Total	**35.2**	20.0

Deferred tax liabilities	2009 £m	2008 £m
Accelerated tax depreciation	**(89.6)**	(87.9)
Losses carried forward	**30.1**	15.1
Other short-term temporary differences	**(39.5)**	(52.1)
Total	**(99.0)**	(124.9)

28 Financial liabilities

	2009 £m	2008 £m
Non-current		
Bank loans	**447.2**	1,132.7
Finance lease obligations	**57.7**	81.5
Other debt payable	**1.2**	0.8
Financial liabilities – Interest-bearing loans and borrowings	**506.1**	1,215.0
Fuel price swaps	**3.8**	28.2
Interest rate swaps	**–**	18.3
Foreign exchange forward contracts	**7.4**	12.8
Financial liabilities – Derivative financial instruments	**11.2**	59.3
Non-current financial liabilities	**517.3**	1,274.3
Current		
Loan notes	**–**	0.8
Bank loans	**240.5**	18.1
Finance lease obligations	**17.9**	52.4
Other debt payable	**–**	0.3
Financial liabilities – Interest-bearing loans and borrowings	**258.4**	71.6
Fuel price swaps	**11.5**	52.0
Interest rate swaps	**24.2**	14.9
Foreign exchange forward contracts	**0.3**	12.4
Financial liabilities – Derivative financial instruments	**36.0**	79.3
Current financial liabilities	**294.4**	150.9

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

Notes to the Consolidated Accounts continued

29 Interest-bearing loans and borrowings

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

	2009 £m	Maturity	Effective interest rate	2008 £m	Maturity	Effective interest rate
Sterling loan notes	–	–	–	0.8	On demand	LIBOR + 1.0%
Loan notes	–	–	–	0.8		
Sterling bank loans	–	–	–	17.9	2012–2015	LIBOR + 0.2%
Sterling bank loans	445.8	June 2011	LIBOR + 1.5%	600.0	June 2011	LIBOR + 0.5%
Short-term Sterling bank loans	–	–	–	10.0	2009	LIBOR + 0.5%
Euro bank loans unhedged	2.6	2010–2015	EURIBOR + 1.0%	8.0	2009–2015	EURIBOR + 0.6%
Euro bank loans unhedged	239.3	September 2010	EURIBOR + 2.0%	–	–	–
Euro bank loans subject to interest rate hedge	–	–	–	514.9	September 2010	4.9%
Bank loans	687.7			1,150.8		
US dollar finance leases at fixed rate	30.3	2010–2014	4.0%	40.3	2009–2012	4.0%
US dollar finance leases at floating rate	–	–	–	26.1	November 2009	LIBOR – 0.3%
Euro finance leases at fixed rate	0.5	2010–2012	5.0%	–	–	–
Euro finance leases at floating rate	18.0	2010–2016	EURIBOR + 0.5%	36.9	2009–2016	EURIBOR + 0.5%
Sterling finance leases at fixed rate	26.8	2010–2018	5.4%	30.6	2009–2018	5.4%
Finance leases	75.6			133.9		
Euro loans	1.2	2010–2011	–	1.1	2009–2011	–
Other debt payable	1.2			1.1		
Total	764.5			1,286.6		

During the year, £361.0m of debt was repaid following a Rights Issue, of which £225.0m was used to repay drawings on part of the Euro bank loan facility. Subsequent to the repayment, the Euro bank loan facility was reduced to €270.0m (£239.3m).

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

The Group is subject to a number of covenants in relation to its borrowing facilities which, if contravened, would result in its loans becoming immediately repayable. These covenants specify maximum net debt to EBITDA and minimum EBITDA to interest.

29 Interest-bearing loans and borrowings continued

The following table sets out the carrying amount, by maturity of the Group's financial instruments that are exposed to interest rate risk.

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							
Bank loans	–	–	–	–	–	–	–
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
Loan notes	–	–	–	–	–	–	–
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)

As at 31 December 2008	< 1 year £m	1–2 years £m	2–3 years £m	3–4 years £m	4–5 years £m	> 5 years £m	Total £m
Fixed rate							
Bank loans	–	(514.9)	–	–	–	–	(514.9)
Finance leases	(10.4)	(9.8)	(11.2)	(7.2)	(6.8)	(25.5)	(70.9)
Net interest rate swaps	(13.4)	(11.4)	(2.0)	(3.4)	–	–	(30.2)
Other debt payable	(0.3)	(0.6)	(0.2)	–	–	–	(1.1)
Floating rate							
Cash assets	105.9	–	–	–	–	–	105.9
Loan notes	(0.8)	–	–	–	–	–	(0.8)
Bank loans	(18.1)	(6.3)	(607.6)	(2.4)	(0.7)	(0.8)	(635.9)
Finance leases	(42.0)	(10.2)	(5.6)	(2.1)	(1.1)	(2.0)	(63.0)

Notes to the Consolidated Accounts continued

30 Financial risk management objectives and policies

Financial risk factors and management

The Group's multinational operations and significant debt financing expose it to a variety of financial risks, the most material of which are market risks relating to fuel prices, foreign currency exchange rates, interest rates and the effects of changes in liquidity risk. The Group has in place a risk management programme that seeks to limit the adverse effects of these risks on the financial performance of the Group by using financial instruments including borrowings, forward exchange contracts, fuel price and interest rate swaps.

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 taking activity including financial risk identification and measurement is in accordance with the Group's policies and procedures. The policies are implemented by the Group treasury department that receives regular reports from all the operating companies to enable prompt identification of financial risks so that appropriate actions may be taken. The Group treasury department has a policy and procedures manual that sets out specific guidelines to manage foreign currency exchange risk, interest rate risk and credit risk including the use of financial instruments.

Foreign currency

The Group has major operations in the US, Canada and Spain and as a result is exposed to foreign currency exchange rate risks on translation of net assets and on earnings denominated in foreign currency. These risks can have significant effects on the Group's reported results. The Group's foreign currency exchange management policy is to minimise economic and material transactional exposures arising from currency movements against sterling. The Group seeks to align its debt with the free cash flow generated in each currency, such that some protection is afforded to the net debt: EBITDA banking covenant within which the Group must operate. Interest on the currency debt provides a hedge against the earnings in that currency and the translation of the debt provides a potential hedge against the translation of the Group's net assets denominated in that currency. At the year end, the Group had currency borrowings of €270.0m and a cross-currency swap of US$85.0m. The swap contract's remaining term runs for a period up to 1.5 years. At the end of the year, the Group's policy is that currency borrowings should be in the range 0% to 50% (2008: 0% to 50%) of the net assets denominated in that currency. At 31 December 2009, 14% (2008: 14%) of the Group's exposure to US dollar assets were hedged, nil% (2008: nil%) of the exposure to Canadian dollar assets and 21% (2008: 39%) of the exposure to euro assets.

The table below demonstrates the sensitivity of the Group's financial instruments to a reasonably possible change in foreign currency 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 £26.6m.

As at 31 December	Strengthening/ (weakening) in currency	**2009** Effect on profit before tax £m	**2009** Effect on translation reserve £m	2008 Effect on profit before tax £m	2008 Effect on translation reserve £m
US dollar	10%	**–**	**(4.8)**	–	(5.3)
Euro	10%	**–**	**(21.8)**	–	(46.9)
Canadian dollar	10%	**–**	**–**	–	–
Australian dollar	10%	**–**	**–**	–	–
US dollar	(10)%	**–**	**4.8**	–	5.3
Euro	(10)%	**–**	**21.8**	–	46.9
Canadian dollar	(10)%	**–**	**–**	–	–
Australian dollar	(10)%	**–**	**–**	–	–

30 Financial risk management objectives and policies continued

Interest rate risk

The Group is exposed to interest rate risk on both interest-bearing assets and interest-bearing liabilities. The effects of changes in interest rates could affect the Group's future cash flows or the fair values of its financial instruments, mainly financial liabilities. It is the Group's policy to maintain an appropriate balance between fixed and floating interest rates on borrowings in order to provide certainty as to the level of interest expense in the short term and to reduce the year on year impact of interest rate fluctuations over the medium term. Interest on the Group's floating interest rate debt is based on LIBOR or EURIBOR. To achieve the above objectives, the Group has entered into a series of interest rate swaps that have the effect of converting floating rate debt to fixed rate debt. The net effect of these transactions was that as at 31 December 2009 the Group was economically hedged against interest rate movements on £239.3m (2008: £525.6m) of gross debt for an average of 0.6 (2008: 2.5) years.

The table below demonstrates the sensitivity of the Group's financial instruments to a reasonably possible change in interest rates, with all other variables in general economic activity held constant, on the Group's profit before tax and on the Group's hedging reserve. The effect on profit before tax arises through movements in interest on floating rate financial instruments including interest rate swaps. At 31 March 2009, four Euro interest rate swaps of the total notional value €550.0m were de-designated from hedge accounting. The Company no longer accounts for them as hedging instruments under IAS 39. The effect of the revaluations of these swaps along with the amortisation of the Euro hedging reserve is now recognised in the income statement.

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 100bp on 31 December 2009, it is estimated that the Group's profit before taxation for 2009 would decrease by approximately £4.0m. If the interest rates applicable to floating rate instruments denominated in US$ were increased by 50bp on 31 December 2009, it is estimated that the Group's profit before taxation for 2009 would increase by approximately £0.4m. If the interest rates applicable to floating rate instruments denominated in Euro were increased by 75bp on 31 December 2009, it is estimated that the Group's profit before taxation for 2009 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 2009 and that the change in interest rates has the following effect on profit or loss for the current year 2009.

As at 31 December	Increase/ (decrease) in basis points	**2009** Effect on profit before tax £m	**2009** Effect on hedging reserve £m	2008 Effect on profit before tax £m	2008 Effect on hedging reserve £m
Sterling	100	**(4.0)**	**–**	(5.6)	–
US dollars	50	**0.4**	**–**	0.5	–
Euro	75	**0.2**	**–**	(0.2)	8.2
Sterling	(100)	**4.0**	**–**	5.6	–
US dollars	(50)	**(0.4)**	**–**	(0.5)	–
Euro	(75)	**(0.2)**	**–**	0.2	(8.2)

Notes to the Consolidated Accounts continued

30 Financial risk management objectives and policies continued

Commodity prices

The Group is exposed to commodity price risk as a result of fuel usage. It is the Group's policy to hedge this exposure in order to provide certainty as to the level of costs 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 swaps and purchase contracts which are expected to be highly effective in mitigating price risk. At 31 December 2009, the Group hedged approximately 97% of its 2010 expected usage, 76% of its expected usage in 2011 and 10% of its expected usage in 2012.

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 swaps. The effect on the hedging reserve arises through movements on the fair value of the Group's fuel price swaps. For these derivative contracts the sensitivity of the net fair value to an immediate 20% increase or decrease in all prices would have been £27.9m at 31 December 2009. 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.

			2009		2008
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%	**–**	**9.3**	–	7.2
US dollar denominated gasoil	20%	**–**	**7.3**	–	5.6
Euro denominated ULSD	20%	**–**	**11.3**	–	3.2
Sterling denominated ULSD	(20%)	**–**	**(9.3)**	–	(7.2)
US dollar denominated gasoil	(20%)	**–**	**(7.3)**	–	(5.6)
Euro denominated ULSD	(20%)	**–**	**(11.3)**	–	(3.2)

Credit risk

The maximum credit risk exposure of the Group is the gross carrying value of each of its financial assets. This risk is mitigated by a number of factors. Many of the Group's principal customers, suppliers and financial institutions with which it conducts business are public (or quasi-public) bodies, both national (DfT Rail and Network Rail in the UK) and local (school boards in North America, municipal authorities in Spain and Morocco, Transport for London and Centro in the UK). 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 rating or better. The amount of exposure to any individual counterparty is subject to a limit, which is reassessed annually 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. The Group does not renegotiate the terms of trade receivables. Accordingly, there were no renegotiated balances outstanding at 31 December 2009. 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 2009	**154.0**	**67.0**	**44.1**	**10.8**	**4.4**	**27.7**
Trade receivables at 31 December 2008	215.9	129.7	26.3	23.0	14.5	22.4

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 and currency requirements. The Group actively maintains a mixture of long term and short term committed facilities that are designed to ensure the Group has sufficient available funds to meet current and forecast financial requirements as cost effectively as possible. In managing the liquidity risk, the Group has access to a range of funding at competitive rates through capital markets and banks. The treasury department located at the head office coordinates relationships with banks, borrowing requirements, foreign exchange requirements and cash management.

At 31 December 2009, the Group had committed borrowing facilities of £1,066.7m (2008: £1,363.8m) of which £318.6m (2008: £143.8m) were undrawn. During the year, £361.0m of debt was repaid following a rights issue, of which £225.0m was used to repay drawings on part of the Euro bank loan facility. Subsequent to the repayment, the Euro bank loan facility was reduced to €270.0m (£239.3m).

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2009 based on the contractual undiscounted payments. The table includes cash outflows associated with the 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, as in the case of cross-currency swap hedging the net investments in US operations.

Year ended 31 December 2009	**On demand £m**	**Less than 1 year £m**	**1–5 years £m**	**> 5 years £m**	**Total £m**
Loan notes	**–**	**–**	**–**	**–**	**–**
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**

Year ended 31 December 2008	On demand £m	Less than 1 year £m	1–5 years £m	> 5 years £m	Total £m
Loan notes	0.8	–	–	–	0.8
Bank loans	–	52.3	1,182.0	0.8	1,235.1
Finance lease obligations	–	57.8	63.3	29.3	150.4
Other debt payable	–	0.3	0.8	–	1.1
Net Interest rate swaps	–	8.9	11.5	–	20.4
Fuel price swaps	–	49.7	32.1	–	81.8
Foreign exchange forward contracts	–	15.9	14.9	–	30.8
Trade and other payables	–	439.2	14.7	–	453.9
ICRRL onerous contract obligation	–	8.6	15.7	–	24.3
	0.8	632.7	1,335.0	30.1	1,998.6

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 Consolidated Statement of Changes in Equity) and its net debt (refer to note 37). During 2009, the Group completed a Rights Issue and raised proceeds of approximately £355.0m net of issue costs (further information is included in note 32). Following the Rights Issue, part of the Euro facility was repaid, leaving €270.0m (£239.3m) outstanding at 31 December 2009 (further information is included in note 29).

The reduction in the Group's net debt from £1,179.8m to £657.9m is explained in the OFR. Information about the covenants in relation to the Group's borrowing facilities is included in note 29. Subsequent to 31 December 2009, the Group issued a seven-year £350.0m Sterling bond and repaid the remaining €270.0m of the Euro bridge facility (further information is included in note 38).

Notes to the Consolidated Accounts continued

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

Fair values

The fair value of all derivatives like foreign exchange forward contracts, fuel price swaps and interest rate swaps has been determined by the third party financial institution with which the Group holds the instrument, in line with the market value of similar financial instruments. Derivatives, other than those designated as effective hedging instruments, are classified as at fair value through profit or loss and are carried on the balance sheet at 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 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.

The fair value of the Group's financial assets and liabilities approximates the carrying value, except for available-for-sale investments where there is no active market. In the absence of any other reliable external information, these assets are carried at cost or amortised cost.

There are only three types of financial instruments, which the Group holds at fair value, ie cross currency swaps, interest rate swaps and fuel price swaps. 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.

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)

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

Fair values continued

Classification of financial instruments As at 31 December 2008	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	–	9.2	–	–	–	9.2
Interest rate swaps	–	–	–	–	3.0	3.0
Fuel price swaps	–	–	1.0	–	–	1.0
Cash and cash equivalents	105.9	–	–	–	–	105.9
Trade and other receivables	308.0	–	–	–	–	308.0
	413.9	9.2	1.0	–	3.0	427.1
Liabilities						
Loan notes	–	–	–	(0.8)	–	(0.8)
Bank loans	–	–	–	(1,150.8)	–	(1,150.8)
Finance lease obligations	–	–	–	(133.9)	–	(133.9)
Other debt payable	–	–	–	(1.1)	–	(1.1)
Interest rate swaps	–	–	(17.5)	–	(15.7)	(33.2)
Fuel price swaps	–	–	(80.2)	–	–	(80.2)
Foreign exchange forward contracts	–	–	(25.2)	–	–	(25.2)
Trade and other payables	–	–	–	(453.9)	–	(453.9)
ICRRL onerous contract obligation	–	–	–	(21.5)	–	(21.5)
	–	–	(122.9)	(1,762.0)	(15.7)	(1,900.6)

The financial liabilities measured at amortised cost include bank loans, finance lease obligations and other debt payable. After initial fair value recognition, they are measured at amortised cost using the effective interest method. The carrying amount of the financial liabilities is shown in note 29.

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 2009 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 fluctuations in market risks, such as foreign currency exchange rates, fuel prices and interest rates. Such derivative financial instruments are initially recognised at fair value and are subsequently remeasured at fair value. In line with 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 2009 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 dollars and Euro foreign operations. Additionally, until 31 March 2009 (ie when the designation as a hedge was revoked) the Group applied cash flow hedge accounting for hedging floating interest rate risk on underlying floating rate borrowings.

Notes to the Consolidated Accounts continued

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 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)**

In 2008, fuel swap put options were sold. The gain of £3.6m was recognised in the hedging reserve and has been transferred to the income statement in 2009.

	Interest rate swaps £m	Foreign exchange forward contracts £m	Fuel swaps £m	Total £m
Net (liability)/asset at 1 January 2008	(5.4)	(14.5)	12.1	(7.8)
Cash settlements	1.1	33.0	(16.0)	18.1
Revaluation through income statement	(6.0)	–	–	(6.0)
Revaluation through other comprehensive income	(19.0)	(0.2)	(63.8)	(83.0)
Exchange differences	(0.9)	(43.5)	(11.5)	(55.9)
Net liability at 31 December 2008	(30.2)	(25.2)	(79.2)	(134.6)

The movement on the hedging reserve is detailed below:

	2009 £m	2008 £m
At 1 January	**(58.4)**	5.4
Transferred to income statement – operating costs	**54.0**	(16.0)
Transferred to income statement – net finance costs	**28.0**	6.8
Revaluation	**0.2**	(79.4)
Tax on revaluation	**(0.1)**	22.2
Tax on transfers to income statement	**(22.9)**	2.6
At 31 December	**0.8**	(58.4)

Hedge of net investments in foreign entities

Included in bank loans are borrowings of €270.0m (£239.3m) (2008: €540.0m (£516.1m)) which are designated as a hedge of net investments in the foreign currency denominated net assets of the Group and are being used to reduce the exposure to foreign exchange risk. At 31 December 2009, the hedge had a carrying amount of £239.3m (2008: £516.1m) and the gain on the hedge recognised in reserves in 2009 was £36.8m (2008: loss £179.8m on €540.0m (£516.1m)). The Euros have been borrowed to match the underlying net assets of the Spanish subsidiary with no ineffectiveness reflected in the income statement. In addition the Group has synthetic debt in the form of foreign exchange forward contracts in place of US$85.0m (£52.6m) (2008: US$85.0m (£56.7m)) to complete the post-tax hedge of the net investment in foreign entities. The US dollars have been sold forward for Sterling purchased and match the underlying net investment with no ineffectiveness reflected in the income statement. The US$85.0m hedge extends to 31 May 2011. At 31 December 2009, there was £5.5m positive movement in the revaluation of the swap (spot element only) (2008: loss £12.9m). The portion of the gain or loss on the foreign exchange forward contracts 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.

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 used in the UK Bus, UK Coach and European Coach & Bus divisions and gasoil as used in the UK Trains division are hedged by swaps in the same type of fuel. Diesel used in the North American division is hedged by heating oil swaps. The timing of the swap cash flows will match the underlying fuel purchases from 2010 through to 2012. There was no significant element of hedge ineffectiveness requiring the recognition in the income statement.

During the year £54.0m of fair value losses (2008: £16.0m) have been transferred from the hedging reserve, of which £51.0m (2008: £8.5m credit) was recognised in the hedging reserve at 1 January 2009 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 2009 Fair value £m	31 December 2008 Fair value £m	**31 December 2009 Volume million litres**	31 December 2008 Volume million litres
Hedge fuel price swaps				
Sterling denominated fuel swaps – UK Bus, UK Coach and UK Trains	**1.0**	(12.8)	**62.2**	111.2
US dollar denominated fuel swaps – North American Bus	**(0.6)**	(10.6)	**66.1**	66.1
Euro denominated fuel swaps – European Coach & Bus	**(5.7)**	(27.6)	**88.0**	94.1
Fuel price swaps included in current (liabilities)/assets	**(5.3)**	(51.0)	**216.3**	271.4
Sterling denominated fuel swaps – UK Bus, UK Coach and UK Trains	**(0.4)**	(2.8)	**65.9**	32.4
US dollar denominated fuel swaps – North American Bus	**(2.0)**	(16.5)	**39.7**	45.4
Euro denominated fuel swaps – European Coach & Bus	**2.3**	(8.9)	**80.0**	48.0
Fuel price swaps included in non-current (liabilities)/assets	**(0.1)**	(28.2)	**185.6**	125.8
Total hedge fuel price swaps	**(5.4)**	(79.2)	**401.9**	397.2
Non-hedge fuel price swaps				
Sterling denominated fuel swaps – UK Trains (current)	**(0.6)**	–	**5.5**	–
Sterling denominated fuel swaps – UK Trains (non-current)	**(0.4)**	–	**5.5**	–
Total non-hedge fuel price swaps	**(1.0)**	–	**11.0**	–
Total fuel price swaps	**(6.4)**	(79.2)	**412.9**	397.2

Interest rate swaps at fair value through profit or loss

At 31 December 2009 the Group did not seek cash flow hedge accounting for any of its interest rate swaps. At 31 March 2009, the last four Euro interest rate swaps of the total notional value €550.0m were de-designated for hedge accounting purposes. The Company no longer accounts for them as hedging instruments as they ceased to be considered as effective under IAS 39 (ie the floating side of hedges overcompensated for the floating interest paid on the underlying bank borrowings). The effective part of the revaluations of these swaps at that date amounted to £25.1m and was fully transferred to the income statement by 31 December 2009. Their revaluation gains and losses between 31 March 2009 and 31 December 2009 were recognised in the income statement (this was a loss of £0.2m). In addition, on 23 December 2009 the Group entered into three Euro denominated interest rate swaps of the total notional value €280.0m. They were used to lock in the cash flows on the corresponding part of €550.0m Euro interest rate swaps discussed above. It reflected the fact that by 23 December 2009 the Group repaid €270.0m of its borrowings. At 31 December 2009 the negative movement in their fair value amounted to £0.8m and was recognised in the income statement. All Euro interest rate swaps were subsequently settled on 14 January 2010 in line with the underlying Euro borrowing being fully repaid on 15 January 2010.

The Group continues to account for two US$100.0m denominated interest rate swaps at fair value through profit or loss. These instruments were entered into in September 2000 fixed at 6.9% and 6.8545% until September 2010. In 2009 the Group accounted for their £1.2m fair market value gain for the year in the income statement. In April, the two US$50.0m interest rate hedges used to lock in the cash flows on US$100m of the ‘closed out’ swap were sold for a net consideration of £2.4m. With regards to the second US$100.0m swap, the underlying borrowing was exchanged into Sterling debt as at the 15 December 2008.

In July 2009 the last Euro denominated basis swaps expired. The total loss of fair market value of £0.5m associated with these swaps was recognised in the income statement. They were part of a series of six month basis swaps entered into by the Company in July 2008, where the Company paid six month EURIBOR less a margin and received one month EURIBOR. These instruments were used to lock in the differential between one month and six month borrowing rates. The Group did not apply hedge accounting for these instruments.

Notes to the Consolidated Accounts continued

32 Called-up share capital

	2009 £m	2008 £m
At 31 December:		
Authorised:		
800,000,000 (2008: 200,000,000) ordinary shares of 5p each[i]	**40.0**	10.0
Issued called-up and fully paid:		
511,726,026 (2008: 154,687,284) ordinary shares of 5p each	**25.6**	7.7

Movement in ordinary shares during the year:	£m	Number of shares
At 1 January 2008	7.7	154,627,671
Exercise of share options	–	59,613
At 1 January 2009	7.7	154,687,284
Rights Issue[ii]	17.9	357,038,742
At 31 December 2009	25.6	511,726,026

i. 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.

ii. 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 was 378,588 (2008: 475,813) of which nil (2008: 59,613) exercises were satisfied by newly issued shares and 378,588 (2008: 416,200) 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 (2008: 1,825,000) 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 (2008: nil). The market value of these shares at 31 December 2009 was £3.2m (2008: £9.0m).

Own shares include 1,176,633 (2008: 185,103) 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 746,489 (2008: 153,533) shares and 378,588 (2008: 416,200) shares were used to satisfy options granted under a number of the Company's share schemes. The Trust shares increased by 623,629 shares as a result of the Rights Issue. The value of shares within the Trust has been recognised as an investment in treasury shares. The market value of these shares at 31 December 2009 was £2.3m (2008: £0.9m). 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 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**

	Merger reserve £m	Hedging reserve £m	Translation reserve £m	Total £m
At 1 January 2008	15.4	5.4	9.6	30.4
Hedge movements, net of tax	–	(63.8)	–	(63.8)
Exchange differences, net of tax	–	–	167.1	167.1
At 31 December 2008	15.4	(58.4)	176.7	133.7

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.

Notes to the Consolidated Accounts continued

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.

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)

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 2009. 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:

			2009			2008
	UK Bus	**UK Coach**	**UK Rail**	UK Bus	UK Coach	UK Rail
Rate of increase in salaries	**4.5%**	**4.5%**	**4.5%**	3.8%	3.8%	3.8%
Rate of increase of pensions	**3.5%**	**3.5%**	**3.5%**	2.8%	2.8%	2.8%
Discount rate	**5.75%**	**5.75%**	**5.75%**	6.5%	6.3%	6.3%
Inflation assumption	**3.5%**	**3.5%**	**3.5%**	2.8%	2.8%	2.8%
Expected rates of return on scheme assets						
Equities	**8.0%**	**8.0%**	**8.0%**	8.0%	8.0%	8.0%
Bonds	**4.5%**	**4.5%**	**4.5%**	6.1%	6.1%	6.1%
Properties	**6.3%**	**6.3%**	**6.3%**	5.9%	5.9%	5.9%
Other	**1.25%**	**1.25%**	**1.25%**	1.3%	1.3%	1.3%
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 Bus and UK Coach schemes improvements in mortality are in line with medium cohort tables. 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 2009	**(46.4)**	**(5.2)**	**(1.9)**
Effect of a 0.1% increase in the discount rate	**7.3**	**1.2**	**–**
Current service (cost) for the year ended 31 December 2009	**(3.2)**	**(0.7)**	**(15.2)**
Effect of a 0.1% increase in the discount rate	**0.1**	**–**	**0.3**

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.

Notes to the Consolidated Accounts continued

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 increased from £28.2m at 31 December 2008 to £81.7m at 31 December 2009. The increase is caused by interest on the franchise adjustment of £1.7m and net actuarial movements of £51.8m. In the prior year, the franchise adjustment increased by £25.9m from £2.3m at 1 January 2008 to £28.2m at 31 December 2008. The increase was caused by interest on the franchise adjustment of £0.2m, net actuarial movements of £25.2m and by £0.5m relating to franchise exits.

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:

	2009 £m	2008 £m
Balance sheet		
Defined benefit pension deficit	**(81.7)**	(28.2)
Deferred tax asset	**18.2**	6.5
Intangible asset	**2.0**	2.4
Net reduction in net assets	**(61.5)**	(19.3)
Statement of comprehensive income		
Actuarial losses	**(51.8)**	(25.2)
Tax on actuarial gains and losses	**14.5**	6.4
Net decrease in actuarial gains	**(37.3)**	(18.8)
Income statement		
Interest on franchise adjustment	**(1.7)**	(0.2)
Curtailment gain on franchise exit	**–**	(0.5)
Intangible asset amortisation	**(0.5)**	(0.5)
Deferred tax credit	**–**	0.1
Net decrease in income	**(2.2)**	(1.1)

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 2009 and 2008 are set out in the following tables. The restriction on surplus in 2008 arose on the Travel West Midlands UK Bus scheme.

Group income statement	**UK Bus 2009 £m**	**UK Coach 2009 £m**	**UK Rail 2009 £m**	**Total 2009 £m**
Amounts charged to normalised operating profit:				
Current service cost	**(3.2)**	**(0.7)**	**(15.2)**	**(19.1)**
Past service cost	**–**	**–**	**–**	**–**
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)**

Group income statement	UK Bus 2008 £m	UK Coach 2008 £m	UK Rail 2008 £m	Other 2008 £m	Total 2008 £m
Amounts charged to normalised operating profit:					
Current service cost	(4.8)	(1.2)	(21.0)	(0.5)	(27.5)
Past service cost	(0.4)	–	–	–	(0.4)
Expected return on pension scheme assets	26.4	3.0	28.0	–	57.4
Interest on pension liabilities	(23.4)	(2.8)	(23.1)	–	(49.3)
Interest on franchise adjustment	–	–	0.2	–	0.2
Total charge to income statement	(2.2)	(1.0)	(15.9)	(0.5)	(19.6)
Actual return on plan assets	(36.4)	(4.8)	(93.4)	–	(134.6)

Group statement of comprehensive income	UK Bus 2008 £m	UK Coach 2008 £m	UK Rail 2008 £m	Other 2008 £m	Total 2008 £m
Actual return less expected return on pension scheme assets	(62.8)	(7.8)	(121.4)	–	(192.0)
Other actuarial gains and losses	61.7	8.7	101.1	–	171.5
Adjustment for unrecognised surplus	(4.3)	–	–	–	(4.3)
Actuarial (losses)/gains	(5.4)	0.9	(20.3)	–	(24.8)

Notes to the Consolidated Accounts continued

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 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)

As at 31 December 2008	UK Bus 2008 £m	UK Coach 2008 £m	UK Rail 2008 £m	Other 2008 £m	Total 2008 £m
Equities	152.3	20.8	370.9	–	544.0
Bonds	202.1	20.8	39.7	–	262.6
Property	3.1	–	34.1	–	37.2
Other	5.3	0.5	–	–	5.8
Fair value of scheme assets	362.8	42.1	444.7	–	849.6
Present value of scheme liabilities	(357.4)	(43.3)	(554.9)	(1.5)	(957.1)
Franchise adjustment	–	–	28.2	–	28.2
Defined benefit obligation	(357.4)	(43.3)	(526.7)	(1.5)	(928.9)
Restriction on surplus	(9.0)	–	–	–	(9.0)
Members' share of deficit	–	–	43.3	–	43.3
Defined benefit pension deficit	(3.6)	(1.2)	(38.7)	(1.5)	(45.0)

The movement in the present value of the defined benefit obligation in the year is as stated below. For UK Trains, 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 £845.1m (2008: £927.4m) (including the members' share of the deficit) arising from plans that are wholly or partly funded and £1.4m (2008: £1.5m) from unfunded plans.

	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)
Past service cost	–	–	–	–	–
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/credit	(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)

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 2008	(412.4)	(48.6)	(653.1)	(1.0)	(1,115.1)
Current service cost	(4.8)	(1.2)	(21.0)	(0.5)	(27.5)
Past service cost	(0.4)	–	–	–	(0.4)
Franchise exit	–	–	25.6	–	25.6
Benefits paid	23.3	1.0	21.0	–	45.3
Contributions by employees	(1.4)	(0.4)	(11.0)	–	(12.8)
Finance charge	(23.4)	(2.8)	(23.1)	–	(49.3)
Interest on franchise adjustment	–	–	0.2	–	0.2
Members' share of movement on liabilities	–	–	33.6	–	33.6
Actuarial gain recognised in statement of comprehensive income	61.7	8.7	101.1	–	171.5
Defined benefit obligation at 31 December 2008	(357.4)	(43.3)	(526.7)	(1.5)	(928.9)

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 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**

	UK Bus £m	UK Coach £m	UK Rail £m	Total £m
Fair value of scheme assets at 1 January 2008	412.0	43.7	620.3	1,076.0
Expected return on plan assets	26.4	3.0	28.0	57.4
Franchise exit	–	–	(25.6)	(25.6)
Cash contributions – Employer	9.1	3.8	16.3	29.2
Cash contributions – Employee	1.4	0.4	11.0	12.8
Benefits paid	(23.3)	(1.0)	(21.0)	(45.3)
Members' share of return on assets	–	–	(62.9)	(62.9)
Actuarial loss recognised in statement of comprehensive income	(62.8)	(7.8)	(121.4)	(192.0)
Fair value of scheme assets at 31 December 2008	362.8	42.1	444.7	849.6

Notes to the Consolidated Accounts continued

34 Pensions and other post-employment benefits continued

(c) Financial results for pension benefits continued

The Group expects to contribute £22.1m to its defined benefit pension plans in 2010.

History of experience gains and losses:	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
UK Bus					
Fair value of scheme assets	**399.9**	362.8	412.0	406.0	385.8
Present value of defined benefit obligation	**(446.3)**	(357.4)	(412.4)	(421.8)	(423.6)
Restriction on surplus	**–**	(9.0)	(4.7)	(1.5)	–
Deficit in the scheme	**(46.4)**	(3.6)	(5.1)	(17.3)	(37.8)
Experience adjustments arising on liabilities	**0.2**	(3.3)	(4.6)	(3.0)	(3.3)
Experience adjustments arising on assets	**31.3**	(62.8)	(5.2)	7.5	35.3
UK Coach					
Fair value of scheme assets	**51.6**	42.1	43.7	39.9	35.7
Present value of defined benefit obligation	**(56.8)**	(43.3)	(48.6)	(52.6)	(50.6)
Deficit in the scheme	**(5.2)**	(1.2)	(4.9)	(12.7)	(14.9)
Experience adjustments arising on liabilities	**–**	–	(2.2)	(1.6)	–
Experience adjustments arising on assets	**3.8**	(7.8)	(0.6)	–	2.5
UK Rail					
Fair value of scheme assets	**284.4**	444.7	620.3	743.4	796.4
Present value of defined benefit obligation	**(342.0)**	(526.7)	(653.1)	(808.2)	(900.7)
Members' share of deficit	**55.7**	43.3	14.0	43.7	70.1
Deficit in the scheme	**(1.9)**	(38.7)	(18.8)	(21.1)	(34.2)
Experience adjustments arising on liabilities	**(1.1)**	16.9	(5.3)	(25.5)	(53.8)
Experience adjustments arising on assets	**23.2**	(121.4)	3.2	32.6	54.4
Other					
Fair value of scheme assets	**–**	–	–	–	–
Present value of defined benefit obligation	**(1.4)**	(1.5)	(1.0)	(1.7)	(1.9)
Deficit in the scheme	**(1.4)**	(1.5)	(1.0)	(1.7)	(1.9)
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 £44.9m loss (2008: £26.8m 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:

		2009 £m	2008 £m
Future minimum rentals payable under non-cancellable operating leases:			
Within one year:	Land and buildings	**96.4**	212.7
	Plant and equipment	**135.5**	206.3
		231.9	419.0
After one year but not more than five years:	Land and buildings	**56.4**	401.1
	Plant and equipment	**67.0**	575.9
		123.4	977.0
More than five years:	Land and buildings	**40.6**	12.1
	Plant and equipment	**13.0**	1.0
		53.6	13.1
		408.9	1,409.1

Operating lease commitments continued

The majority of the Group's commitments arise in the UK Trains 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 2004. Commitments for future minimum rental payments under these contracts are shown below:

UK Trains division commitments		Land and buildings 2009 £m	Land and buildings 2008 £m	Plant and equipment 2009 £m	Plant and equipment 2008 £m
Future minimum rentals payable under non-cancellable operating leases:					
Within one year:	Fixed track access	**56.7**	148.9	**–**	–
	Rolling stock	**–**	–	**125.6**	200.6
	Other	**24.7**	49.6	**1.8**	1.5
		81.4	198.5	**127.4**	202.1
After one year but not more than five years:	Fixed track access	**15.6**	253.1	**–**	–
	Rolling stock	**–**	–	**34.6**	563.7
	Other	**7.3**	118.9	**0.6**	3.7
		22.9	372.0	**35.2**	567.4
More than five years:	Fixed track access	**–**	–	**–**	–
	Rolling stock	**–**	–	**–**	–
	Other	**–**	0.4	**–**	0.1
		–	0.4	**–**	0.1
		104.3	570.9	**162.6**	769.6

Fixed track access agreements have an average remaining life of 1.4 years (2008: 4.1 years), other land and buildings have an average duration of 1.4 years (2008: 4.0 years). Rolling stock agreements have an average life of 1.4 years (2008: 3.6 years) and other plant and equipment 1.4 years (2008: 4.2 years).

Notes to the Consolidated Accounts continued

35 Commitments and contingencies continued

Outside of the UK Trains 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	**2009 £m**	2008 £m	**2009 £m**	2008 £m	**2009 £m**	2008 £m
Within one year	**15.0**	14.2	**8.0**	3.9	**0.1**	0.3
After one year but not more than five years	**33.5**	29.1	**31.6**	6.9	**0.2**	1.6
More than five years	**40.6**	11.7	**13.0**	0.9	**–**	–
	89.1	55.0	**52.6**	11.7	**0.3**	1.9

The average remaining life of operating lease commitments in the other divisions is 15.6 years (2008: 5.8 years) for land and buildings, 5.8 years (2008: 3.3 years) for public service vehicles and 2.3 years (2008: 1.4 years) for other plant and equipment.

Operating lease agreements where the Group is the lessor

The Group receives rent on properties as follows:

	2009 £m	2008 £m
Future minimum rentals receivable under non-cancellable operating leases:		
Within one year	**4.6**	9.1
After one year but not more than five years	**1.3**	8.2
More than five years	**–**	–
	5.9	17.3

The leases have an average unexpired duration of 1.4 years (2008: 2.5 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.

	2009		2008	
	Minimum payments £m	**Present value of payments £m**	Minimum payments £m	Present value of payments £m
Within one year	**20.6**	**17.9**	57.8	52.4
After one year but not more than five years	**52.5**	**46.7**	63.3	54.0
More than five years	**12.0**	**11.0**	29.3	27.5
Total minimum lease payments	**85.1**	**75.6**	150.4	133.9
Less future financing charges	**(9.5)**	**–**	(16.5)	–
Present value of minimum lease payments	**75.6**	**75.6**	133.9	133.9

Capital commitments

	2009 £m	2008 £m
Contracted	**17.1**	42.7

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 2009, there were UK Train performance bonds of £25.8m (2008: £57.2m) and UK Train season ticket bonds of £84.4m (2008: £86.0m). The Group has other performance bonds which include the £17.0m (2008: £16.1m) performance bond in respect of Inter-Capital and Regional Rail Limited, performance bonds in respect of businesses in the US of £76.8m (2008: £76.6m) and the rest of Europe of £25.4m (2008: £24.7m). Letters of credit have been issued to support insurance retentions of £59.8m (2008: £86.2m).

36 Related party transactions

	Amount of transactions		Amounts due from related parties		Amounts due to related parties	
	2009 £m	2008 £m	**2009 £m**	2008 £m	**2009 £m**	2008 £m
Associates						
ICRRL	**8.6**	8.4	**–**	–	**–**	–
Spain associates	**1.9**	2.5	**1.3**	1.4	**(1.5)**	(1.2)
Trade investments						
Spain trade investments	**3.5**	2.6	**1.1**	0.8	**(0.7)**	(0.5)
Property transactions						
Stock Transportation	**1.5**	0.3	**–**	–	**–**	–
Spain	**4.8**	3.4	**0.4**	0.4	**(0.3)**	(0.2)
Durham School Services	**0.4**	0.3	**–**	–	**–**	–
Total associates	**10.5**	10.9	**1.3**	1.4	**(1.5)**	(1.2)
Total other related parties	**10.2**	6.6	**1.5**	1.2	**(1.0)**	(0.7)
Total	**20.7**	17.5	**2.8**	2.6	**(2.5)**	(1.9)

Amounts due to ICRRL are included in provisions as disclosed in note 26.

A provision of £0.6m (2008: £0.6m) has been booked against amounts due from Spain 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 £0.4m (2008: £0.3m) 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 now rents this property from Stock Realty Limited for £0.1m in 2009. This transaction was approved by the Board of National Express Group PLC.

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

	2009 £m	2008 £m
Total compensation paid to key management personnel (note 7)	**2.3**	3.4

Directors' interests in employee share plans are disclosed in the Directors' Remuneration Report.

Notes to the Consolidated Accounts continued

37 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.

(a) 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

(b) Analysis of changes in net debt

Net debt at 31 December 2009 comprises cash and cash equivalents of £105.8m (2008: £105.9m) as disclosed in note 23, 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) as disclosed in note 28.

	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 £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.

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 £nil (2008: £15.8m) and £5.6m (2008: £1.6m) amortisation of loan arrangement fees.

	At 1 January 2008 £m	Cash flow £m	Acquisitions/ disposals £m	Exchange differences £m	Other movements £m	At 31 December 2008 £m
Cash	68.0	(24.2)	–	8.2	–	52.0
Overnight deposits	14.6	(11.9)	–	0.8	–	3.5
Other short-term deposits	74.6	(24.2)	–	–	–	50.4
Cash and cash equivalents	157.2	(60.3)	–	9.0	–	105.9
Other debt receivables	–	0.9	–	–	–	0.9
Borrowings:						
Loan notes	(0.8)	–	–	–	–	(0.8)
Bank loans	(947.4)	19.0	–	(220.8)	(1.6)	(1,150.8)
Finance lease obligations	(119.8)	32.8	(5.1)	(26.0)	(15.8)	(133.9)
Other debt payable	–	(0.9)	–	(0.2)	–	(1.1)
Total borrowings	(1,068.0)	50.9	(5.1)	(247.0)	(17.4)	(1,286.6)
Net debt	(910.8)	(8.5)	(5.1)	(238.0)	(17.4)	(1,179.8)

(c) Reconciliation of net cash flow to movement in net debt

	2009 £m	2008 £m
Increase/(decrease) in cash and cash equivalents in the year	**3.3**	(60.3)
Cash (inflow)/outflow from movement in other debt receivables	**(0.1)**	0.9
Cash outflow from movement in debt and finance leases	**500.0**	50.9
Change in net debt resulting from cash flows	**503.2**	(8.5)
Change in net debt resulting from acquisitions and disposals	**–**	(5.1)
Change in net debt resulting from non-cash movements	**18.7**	(255.4)
Movement in net debt in the year	**521.9**	(269.0)
Opening net debt	**(1,179.8)**	(910.8)
Net debt	**(657.9)**	(1,179.8)

38 Post balance sheet events

On 7 January 2010, National Express Group PLC issued a £350.0m seven year Sterling bond with a coupon of 6.25% under the £1,000,000,000 ETM programme. The proceeds from the issue were used to repay the remaining €270.0m outstanding on the €540.0m bridge facility, which was subsequently cancelled. The remaining proceeds were used to repay other borrowings.

The bond was issued subject to the Group obtaining two investment grade credit ratings prior to 13 January 2011. In the event that the Group does not obtain such ratings by this date, the coupon will step up by 1.25% thereafter.

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 2009 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 auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 34, 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 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 (APB'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 2009;
- 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 2009.

Alison Baker (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor
London
25 February 2010

Company Balance Sheet
At 31 December 2009

	Note	2009 £m	2008 £m
Fixed assets			
Tangible assets	4	**0.5**	1.2
Financial assets – Investments	5	**743.0**	873.0
		743.5	874.2
Current assets			
Debtors	7	**1,519.5**	1,631.3
Financial assets – Derivative financial instruments	6	**0.3**	3.0
Cash at bank and in hand	8	**11.3**	3.0
		1,531.1	1,637.3
Creditors: amounts falling due within one year	9	**(1,197.7)**	(1,009.3)
Financial liabilities – Derivative financial instruments	6	**(24.5)**	(27.3)
Current tax liabilities		**–**	(5.7)
Net current assets		**308.9**	595.0
Total assets less current liabilities		**1,052.4**	1,469.2
Creditors: amounts falling due after more than one year	10	**(445.8)**	(1,114.9)
Financial liabilities – Derivative financial instruments	6	**(7.4)**	(31.1)
Provisions for liabilities and charges	11	**(35.7)**	(24.9)
Net assets		**563.5**	298.3
Shareholders' equity			
Called-up share capital	14	**25.6**	7.7
Share premium account	15	**533.2**	195.7
Capital redemption reserve	15	**0.2**	0.2
Own shares	15	**(14.6)**	(15.2)
Hedging reserve	15	**–**	(11.9)
Profit and loss account	15	**19.1**	121.8
Shareholders' equity		**563.5**	298.3

J Devaney Chairman
J K Maiden Group Finance Director
25 February 2010

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 loss of the Company for the year is £85.9m (2008: £59.0m).

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.

Notes to the Company Accounts continued

2 Exchange rates

The most significant exchange rates to the pound for the Company 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

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 2009	3.2
Disposals	(0.5)
At 31 December 2009	**2.7**
Depreciation:	
At 1 January 2009	2.0
Charge for the year	0.2
Disposals	–
At 31 December 2009	**2.2**
Net book value:	
At 31 December 2009	**0.5**
At 31 December 2008	1.2

Tangible fixed assets held under finance lease agreements are analysed as follows:

	2009 £m	2008 £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 2009	**1,271.9**	**0.8**	**1,272.7**
Disposals	**–**	**(0.8)**	**(0.8)**
At 31 December 2009	**1,271.9**	**–**	**1,271.9**
Provisions:			
At 1 January 2009	**(398.9)**	**(0.8)**	**(399.7)**
Provided in the year	**(130.0)**	**–**	**(130.0)**
Disposals	**–**	**0.8**	**0.8**
At 31 December 2009	**(528.9)**	**–**	**(528.9)**
Net carrying amount:			
At 31 December 2009	**743.0**	**–**	**743.0**
At 31 December 2008	873.0	–	873.0

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 Train 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

Notes to the Company Accounts continued

6 Derivatives

	2009 £m	2008 £m
Interest rate swaps	–	1.5
Financial assets due over one year	–	1.5
Interest rate swaps	–	1.5
Foreign exchange forward contracts	0.3	–
Financial assets due under one year	0.3	1.5
Interest rate swaps	–	(18.3)
Foreign exchange forward contracts	(7.4)	(12.8)
Financial liabilities due over one year	(7.4)	(31.1)
Interest rate swaps	(24.2)	(14.9)
Foreign exchange forward contracts	(0.3)	(12.4)
Financial liabilities due under one year	(24.5)	(27.3)

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

	2009 £m	2008 £m
Trade debtors	0.2	0.3
Amounts owed by subsidiary undertakings	1,504.2	1,622.9
Corporation tax recoverable	12.5	–
Deferred tax asset (see note 12)	–	5.6
Other debtors	1.6	1.4
Prepayments and accrued income	1.0	1.1
	1,519.5	1,631.3

Included within prepayments is £0.4m (2008: £0.5m) which is recoverable after more than one year.

8 Cash at bank and in hand

	2009 £m	2008 £m
Other short-term deposits	11.3	–
Cash at bank	–	3.0
	11.3	3.0

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

	2009 £m	2008 £m
Bank overdraft	180.4	74.8
Bank loans	239.3	10.0
Trade creditors	8.6	7.8
Amounts owed to subsidiary undertakings	747.0	898.3
Accruals and deferred income	16.4	8.8
Other creditors	6.0	9.6
	1,197.7	1,009.3

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

	2009 £m	2008 £m
Bank loans	**445.8**	1,114.9

11 Provisions for liabilities and charges

	Insurance claims[a] £m	Eurostar onerous contract[b] £m	Deferred Tax £m	Total £m
At 1 January 2009	**3.4**	**21.5**	**–**	**24.9**
Deferred tax asset at 1 January 2009	**–**	**–**	**(5.6)**	**(5.6)**
Charged to profit and loss account	**1.7**	**12.0**	**4.5**	**18.2**
Amortisation of discount	**–**	**2.0**	**–**	**2.0**
Utilised in the year	**–**	**(8.6)**	**–**	**(8.6)**
Charged to equity in relation to cash flow hedges	**–**	**–**	**4.8**	**4.8**
At 31 December 2009	**5.1**	**26.9**	**3.7**	**35.7**

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

b A provision was recognised in 2006 for the Company's onerous contract for Eurostar with ICRRL. £8.6m was paid to ICRRL during the year. The provision will be utilised during the period up to the end of our contract in 2010. An additional provision was recognised during the year for the Company's liability for the proposed early termination of the ICRRL contract with Eurostar.

12 Deferred tax

The major components of the provision for deferred taxation are as follows:

	2009 £m	2008 £m
Accelerated capital allowances	**(0.1)**	(0.2)
Other timing differences	**(3.6)**	5.8
Net deferred tax (liability)/asset at 31 December 2009	**(3.7)**	5.6

The reconciliation of deferred tax balances is as follows:

	£m
Deferred tax asset at 1 January 2009	5.6
Charged to profit and loss	(4.5)
Charged to equity in relation to cash flow hedges	(4.8)
Deferred tax liability at 31 December 2009	**(3.7)**

Timing differences associated with Group investments

No deferred tax (2008: £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.

Notes to the Company Accounts continued

13 Interest-bearing loans and borrowings

The effective interest rates at the balance sheet date were as follows:

	2009 £m	Maturity	Effective interest rate	2008 £m	Maturity	Effective interest rate
Current						
Bank overdraft	**180.4**	**On demand**	**BASE + 1.0%**	74.8	On demand	BASE + 1.0%
Short-term Sterling bank loans	**–**	**–**	**–**	10.0	2009	LIBOR + 0.5%
Euro bank loans unhedged	**239.3**	**2010**	**EURIBOR + 2.0%**	–	–	–
Bank loans	**239.3**			10.0		
Total current	**419.7**			84.8		
Non-current						
Sterling bank loans	**445.8**	**June 2011**	**LIBOR + 1.5%**	600.0	June 2011	LIBOR + 0.5%
Euro bank loans subject to interest rate hedge	**–**	**–**	**–**	514.9	September 2010	4.9%
Bank loans	**445.8**			1,114.9		
Total non-current	**445.8**			1,114.9		

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

	2009 £m	2008 £m
At 31 December:		
Authorised:		
800,000,000 (2008: 200,000,000) ordinary shares of 5p each[i]	**40.0**	10.0
Issued called-up and fully paid:		
511,726,026 (2008: 154,687,284) ordinary shares of 5p each	**25.6**	7.7

Movement in ordinary shares during the year	£m	Number of shares
At 1 January 2008	7.7	154,627,671
Exercise of share options	–	59,613
At 1 January 2009	7.7	154,687,284
Rights Issue[ii]	17.9	357,038,742
At 31 December 2009	**25.6**	**511,726,026**

i. 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.

ii. 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 378,588 (2008: 475,813) of which nil (2008: 59,613) exercises were satisfied by newly issued shares and 378,588 (2008: 416,200) 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	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	**–**	**–**	**–**	**–**	**–**	**0.7**	**0.7**
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	**–**	**–**	**–**	**–**	**–**	**(85.9)**	**(85.9)**
At 31 December 2009	**25.6**	**533.2**	**0.2**	**(14.6)**	**–**	**19.1**	**563.5**

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

Treasury shares include 1,668,688 (2008: 1,825,000) 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 (2008: nil). The market value of these shares at 31 December 2009 was £3.2m (2008: £9.0m).

Own shares include 1,176,633 (2008: 185,103) 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 746,489 (2008: 153,533) shares and 378,588 (2008: 416,200) shares were used to satisfy options granted under a number of the Company's share schemes. The Trust shares increased by 623,629 shares as a result of the Rights Issue. The market value of these shares at 31 December 2009 was £2.3m (2008: £0.9m). The dividends payable on these shares have been waived.

	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 2008	7.7	195.3	0.2	(16.3)	(3.0)	241.5	425.4
Shares issued	–	0.4	–	–	–	–	0.4
Shares purchased	–	–	–	(1.7)	–	–	(1.7)
Shares utilised	–	–	–	2.8	–	(2.8)	–
Share-based payments	–	–	–	–	–	1.6	1.6
Tax on share-based payments credited to reserves	–	–	–	–	–	0.1	0.1
Hedge movements	–	–	–	–	(8.9)	–	(8.9)
Dividends	–	–	–	–	–	(59.6)	(59.6)
Loss for the year	–	–	–	–	–	(59.0)	(59.0)
At 31 December 2008	7.7	195.7	0.2	(15.2)	(11.9)	121.8	298.3

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 £3.1m (2008: £2.5m).

Notes to the Company Accounts continued

17 Share-based payment

During the year ended 31 December 2009, 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:

	2009		2008	
	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	**35,299**	**381**	62,931	385
Granted during the year	**–**	**–**	10,671	479
Lapsed during the year	**(4,540)**	**420**	–	–
Group transfers during the year	**–**	**–**	(2,500)	863
Exercised during the year	**–**	**–**	(35,803)	793
Outstanding at 31 December[1]	**30,759**	**376**	35,299	381
Exercisable at 31 December	**22,480**	**338**	24,628	339
Options with a nil exercise price:				
At 1 January	**812,210**	**nil**	879,121	nil
Granted during the year	**1,495,767**	**nil**	452,375	nil
Lapsed during the year	**(280,186)**	**nil**	(284,469)	nil
Group transfers during the year	**–**	**nil**	(10,733)	nil
Exercised during the year	**(130,533)**	**nil**	(224,084)	nil
Outstanding at 31 December	**1,897,258**	**nil**	812,210	nil
Exercisable at 31 December	**–**		–	
Total outstanding at 31 December	**1,928,017**		847,509	
Total exercisable at 31 December	**22,480**		24,628	

1 Included within this balance are options over 5,774 (2008: 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 2009 had exercise prices that were between 207p and 479p (2008[1]: between 207p and 479p) excluding options with a nil exercise price. The range of exercise prices for options was as follows:

Exercise price (p)	**2009**	2008[1]
0–300	**6,142**	6,142
350–650	**24,617**	29,157
	30,759	35,299

1 The 2008 exercise prices have been adjusted to reflect the impact of the bonus element of the Rights Issue. Details of the Rights Issue are provided in note 32 of the consolidated accounts.

The options have a weighted average contractual life of one year (2008: two years). Options were exercised throughout the year and the weighted average share price at exercise was 341p (2008: 863p).

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 without nil exercise price		Share options with nil exercise price	
	2009	2008	**2009**	2008
Risk free interest rate	**2.8%**	4.2%–4.9%	**2.0%**	–
Expected volatility	**32.5%**	26.8%–27.2%	**48.4%**	25.1%–32.0%
Peer group volatility	**–**	–	**49.9%**	30.8%
Expected option life in years	**6 years**	3–6 years	**3 years**	3 years
Expected dividend yield	**12.6%**	3.4%–4.0%	**2.7%**	3.8%–7.2%
Weighted average share price at grant date	**248p**	884p–1135p	**175p–405p**	547p–972p
Weighted average share price adjusted for Rights Issue	**129p**	459p–590p	**91p–210p**	284p–505p
Weighted average exercise price at grant date	**248p**	922p–1163p	**nil**	nil
Weighted average exercise price adjusted for Rights Issue	**129p**	479–604p	**nil**	nil
Weighted average fair value of options at grant date	**20p**	140p–211p	**174p–374p**	166p–868p
Weighted average fair value of options granted adjusted for Rights Issue	**10p**	73p–110p	**91p–194p**	86p–451p

Experience to date has shown that approximately 15% (2008: 15%) of options are exercised early, principally due to redundancies. 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.

Notes to the Company Accounts continued

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	
	2009 £m	2008 £m
Operating leases which expire:		
Within one year	**0.2**	–
Within two to five years	**0.5**	1.1

Contingent liabilities

(a) Guarantees

The Company has guaranteed credit facilities totalling £56.6m (2008: £129.5m) of certain subsidiaries.

(b) Bonds and letters of credit

In the ordinary course of business, the Company is required to issue counter-indemnities in support of its subsidiaries' operations. As at 31 December 2009, there were UK Train performance bonds of £25.8m (2008: £57.2m) and UK Train season ticket bonds of £84.4m (2008: £86.0m). The Company has other performance bonds which include the £17.0m (2008: £16.1m) performance bond in respect of Inter-Capital and Regional Rail Limited and performance bonds in respect of businesses in the United States of America of £76.8m (2008: £76.6m). Letters of credit have been issued to support insurance retentions of £59.8m (2008: £86.2m).

(c) Claims

The Directors' Report discloses that Ray O'Toole is a defendant in proceedings being brought before the Supreme Court of New South Wales. These proceedings relate to a period of time when Ray O'Toole was director of Bosnjak Holdings Pty Ltd, which was a subsidiary of the Group. The Company is also a defendant to these proceedings. The Directors believe no liabilities will arise from these proceedings and therefore no provision has been made at 31 December 2009 or 31 December 2008.

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

On 7 January 2010, National Express Group PLC issued a £350.0m seven year Sterling bond with a coupon of 6.25% under the £1,000,000,000 ETM programme. The proceeds from the issue were used to repay the remaining €270.0m outstanding on the €540.0m bridge facility, which was subsequently cancelled. The remaining proceeds were used to repay other borrowings.

The bond was issued subject to the Group obtaining two investment grade credit ratings prior to 13 January 2011. In the event that the Group does not obtain such ratings by this date, the coupon will step up by 1.25% thereafter.

Five Year Summary

Year ended 31 December	IFRS 2009 £m	IFRS 2008 £m	IFRS 2007 £m	IFRS 2006 £m	IFRS 2005 £m
Revenue	**2,711.1**	2,767.0	2,612.3	2,525.5	2,216.0
Normalised* operating profit	**159.8**	253.9	210.4	184.8	155.5
Group operating (loss)/profit	**(0.6)**	167.8	161.7	141.6	109.5
(Loss)/profit before tax	**(83.5)**	109.9	149.3	104.1	89.3
Statistics					
Basic (loss)/earnings per share[1]	**(17.6p)**	40.4p	35.9p	26.3p	(1.0p)
Normalised* diluted earnings per share[1]	**30.4p**	48.6p	43.6p	39.7p	39.6p
Dividends per share	**–**	22.72p	37.96p	34.75p	32.25p
Net assets	**842.3**	585.4	437.0	345.5	312.3
Net (debt)/funds					
Cash at bank and in hand	**105.8**	105.9	157.2	143.6	145.5
Other debt receivable	**0.8**	0.9	–	–	1.0
Loan notes	**–**	(0.8)	(0.8)	(0.8)	(0.8)
Bank and other loans	**(687.7)**	(1,150.8)	(947.4)	(478.1)	(594.5)
Bank overdrafts	**–**	–	–	–	(5.5)
Finance lease obligations	**(75.6)**	(133.9)	(119.8)	(103.1)	(109.1)
Other debt payable	**(1.2)**	(1.1)	–	–	–
	(657.9)	(1,179.8)	(910.8)	(438.4)	(563.4)

* 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 and charges for goodwill impairment, intangible amortisation, property, plant and equipment impairments, exceptional items and tax relief on qualifying exceptional items.

1 Prior year earnings per share figures have been restated for the effect of the 2009 Rights Issue.

Shareholder information

Shareholder electronic communications

By registering for electronic communications you can help us to conserve environmental resources by reducing print, paper and postage costs. Log on to www.shareview.co.uk if you would like to:

- register your e-mail so that future shareholder information, including the Annual Report and Accounts, is sent to you 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 directly to your bank account

Having dividends paid directly 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*.

* Calls to this number are charged at 8p per minute from a BT landline. Other telephone providers' costs may vary.

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*.

* 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.

2009 Rights Issue

On 11 November 2009, a Rights Issue was announced on the basis of seven new ordinary shares for every three existing shares held on 24 November 2009, at a subscription price of 105p per share. Dealing in the new ordinary shares commenced on the London Stock Exchange on 15 December 2009. Shareholders who subscribed for their rights in full should, for UK tax on chargeable gains (CGT) purposes, treat the existing and new shares as the same asset acquired at the time of acquisition of their existing shares, and the subscription monies for the new shares should be added to the base cost of their existing shareholding. Further tax information can be found in the Rights Issue section of the Investor Centre on www.nationalexpressgroup.com.

Analysis of ordinary shareholdings at 25 February 2010

	Number of accounts	Per cent of total number of accounts	Number of shares '000	Per cent of ordinary capital
By size of holding				
1–500	6,821	47	1,051,330	–
501–1,000	1,939	13	1,512,197	–
1,001–5,000	3,989	27	9,284,569	2
5,001–50,000	1,576	11	18,870,671	4
50,001–1,000,000	195	1	46,916,881	9
Over 1,000,000	68	1	434,090,378	85
	14,588	100	511,726,026	100
By investor type				
Individuals	13,471	92	26,717,972	5
Institutional Investors	1,001	7	443,254,590	87
Other Corporate Investors	116	1	41,753,464	8
	14,588	100	511,726,026	100

Dividends and financial calendar

Annual General Meeting	5 May 2010
Half year results announced	29 July 2010
Interim dividend ex dividend date (if applicable)	September 2010
Interim dividend record date (if applicable)	September 2010
Interim dividend payment date (if applicable)	September 2010

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Glossary

Combined Code	The Combined Code on Corporate Governance published by the Financial Reporting Council
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	Earnings Before Interest and Tax and also before depreciation and amortisation. It is calculated by taking normalised profit from operations 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.
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
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.
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 and charges for goodwill impairment, intangible asset amortisation, exceptional items and tax relief on qualifying exceptional terms.
Normalised profit (For the purposes of Directors' Remuneration)	Profit before tax, goodwill impairment, intangible asset amortisation and exceptional items.

Normalised results	are defined as the statutory result before the following, as appropriate: profit or loss on the sale of businesses, exceptional profit or loss on the disposal of non-current assets and charges for goodwill impairment, 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 defined as the statutory cash flow including the following, as appropriate: cash generated from operations and proceeds from disposals of property, plant and equipment, and less the following, as appropriate: finance lease additions, purchase of property, plant and equipment, purchase of intangible assets, payments to associates, payments in relation to exceptional items, UK Rail franchise entry and exit cash flows and discontinued operations' cash flows.
OFR	Operating and Financial Review. In this Annual Report and Accounts the Operating and Financial Review is divided into a number of sections; the Chairman's Review, Key Performance Indicators, the Divisional Reviews, the Performance and Financial Review and Principal Risks and Uncertainties.
RCF	Revolving Credit Facility
RPS	Railway Pension Scheme
SPAD	Signal Passed at Danger
TfL	Transport for London
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

Notes

Cautionary statement

This OFR 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.

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