

Directors' report

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

Principal activities

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

Business review

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

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

Branches outside the UK

The Company has branches in Spain.

Results and dividends

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

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

Directors

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

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

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

Corporate Governance

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

Directors' interests in contracts

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

Directors' Liability Insurance

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

Events after the balance sheet date

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

Employment policies

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

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

Employee involvement

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

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

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

Environmental policy

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

Charitable and political contributions

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

Creditors' payment policy and practice

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

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

Financial instruments

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

Major shareholdings

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

Share capital and rights attaching to the Company's shares

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

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

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

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

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

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

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

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

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

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

Share schemes

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

Articles of Association

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

Annual General Meeting

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

Powers of the Directors

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

Material contracts and change of control agreements

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

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

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

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

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

Directors' and employees' service contracts

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

Auditors

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

Disclosure of information to auditors

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

Going concern

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

Directors' responsibilities for the financial statements

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

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

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

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

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

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

Directors' responsibility statement pursuant to DTR 4

The Directors confirm that, to the best of each person's knowledge:

- (a) the financial statements set out in pages 70 to 146, which have been prepared in accordance with applicable United Kingdom law and International Financial Reporting Standards as adopted by the European Union or, in the case of the Company's accounts, UK GAAP, give a true and fair view of the assets, liabilities, financial position and profit of the Company and of the Group taken as a whole; and
- (b) the Performance and Financial Review on pages 30 to 33 contained in this report includes a fair review of the development and performance of the business and the position of the Company and the Group taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board.

Tony McDonald

Secretary

24 February 2011