

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

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

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

Respective responsibilities of Directors and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the Group financial statements:

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

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

Under the Listing Rules we are required to review:

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

Other matter

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

Alison Baker (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

London

24 February 2011

Group Income Statement

For the year ended 31 December 2010

	Note	Total before intangible amortisation and exceptional items 2010 £m	Intangible amortisation and exceptional items 2010 £m	Total 2010 £m	Total before intangible amortisation and exceptional items 2009 £m	Intangible amortisation and exceptional items 2009 £m	Total 2009 £m
Continuing operations							
Revenue	4	2,125.9	–	2,125.9	2,711.1	–	2,711.1
Operating costs before intangible amortisation and exceptional items		(1,921.7)	–	(1,921.7)	(2,551.3)	–	(2,551.3)
Intangible amortisation	5	–	(57.1)	(57.1)	–	(60.4)	(60.4)
Exceptional items	5	–	(61.2)	(61.2)	–	(100.0)	(100.0)
Total operating costs	6	(1,921.7)	(118.3)	(2,040.0)	(2,551.3)	(160.4)	(2,711.7)
Group operating profit/(loss)		204.2	(118.3)	85.9	159.8	(160.4)	(0.6)
Loss on disposal of non-current assets	5	–	–	–	–	(7.4)	(7.4)
Profit/(loss) from operations		204.2	(118.3)	85.9	159.8	(167.8)	(8.0)
Share of post tax results from associates and joint ventures accounted for using the equity method	18	0.3	–	0.3	(0.1)	(12.0)	(12.1)
Finance income	9	4.8	–	4.8	9.6	–	9.6
Finance costs	9	(48.8)	(2.0)	(50.8)	(53.1)	(19.9)	(73.0)
Profit/(loss) before tax		160.5	(120.3)	40.2	116.2	(199.7)	(83.5)
Tax (charge)/credit	10	(39.2)	61.7	22.5	(23.0)	45.6	22.6
Profit/(loss) after tax for the year from continuing operations		121.3	(58.6)	62.7	93.2	(154.1)	(60.9)
(Loss)/profit for the year from discontinued operations	11	–	(0.4)	(0.4)	–	8.2	8.2
Profit/(loss) for the year		121.3	(59.0)	62.3	93.2	(145.9)	(52.7)
Profit/(loss) attributable to equity shareholders		120.4	(59.0)	61.4	92.4	(145.9)	(53.5)
Profit attributable to non- controlling interests		0.9	–	0.9	0.8	–	0.8
		121.3	(59.0)	62.3	93.2	(145.9)	(52.7)
Earnings per share:							
– basic earnings per share	13			12.0p			(17.6p)
– diluted earnings per share	13			12.0p			(17.6p)
Normalised earnings per share:							
– basic earnings per share	13	23.6p			30.5p		
– diluted earnings per share	13	23.5p			30.4p		
Earnings per share from continuing operations:							
– basic earnings per share	13			12.1p			(20.3p)
– diluted earnings per share	13			12.1p			(20.3p)

Group Statement of Comprehensive Income

For the year ended 31 December 2010

	Note	2010 £m	2009 £m
Profit/(loss) for the year		62.3	(52.7)
Other comprehensive income:			
Exchange differences on retranslation of foreign operations (net of hedging)		(1.8)	(78.7)
Exchange differences on retranslation of non-controlling interests		(0.2)	(0.4)
Actuarial gains/(losses) on defined benefit pension plans	34	34.3	(18.1)
Gain on cash flow hedges taken to equity		21.1	0.2
Transfers to the income statement on cash flow hedges		2.3	82.0
Tax on exchange differences		(6.0)	1.9
Deferred tax on actuarial gains/(losses)		(9.8)	5.4
Deferred tax on cash flow hedges		(6.6)	(23.0)
Other comprehensive income/(expense) for the year net of tax		33.3	(30.7)
Total comprehensive income/(expense) for the year		95.6	(83.4)
Total comprehensive income/(expense) attributable to:			
Equity shareholders		94.9	(83.8)
Non-controlling interests		0.7	0.4
		95.6	(83.4)

Group Balance Sheet

At 31 December 2010

	Note	2010 £m	2009 £m
Non-current assets			
Intangible assets	14	1,284.2	1,349.9
Property, plant and equipment	15	714.1	672.6
Financial assets – Available for sale	17	7.8	7.7
– Derivative financial instruments	17	7.2	3.3
Investments accounted for using the equity method	18	6.6	6.7
Trade and other receivables	20	6.0	4.0
Deferred tax asset	27	2.8	35.2
		2,028.7	2,079.4
Current assets			
Inventories	21	17.6	16.4
Trade and other receivables	22	226.8	226.7
Financial assets – Derivative financial instruments	17	18.3	5.9
Current tax assets		3.4	3.7
Cash and cash equivalents	23	128.8	105.8
		394.9	358.5
Total assets		2,423.6	2,437.9
Non-current liabilities			
Financial liabilities – Borrowings	28	(674.4)	(506.1)
– Derivative financial instruments	28	(5.1)	(11.2)
Deferred tax liability	27	(86.9)	(99.0)
Other non-current liabilities	25	(25.2)	(21.6)
Non-current tax liabilities		(12.3)	–
Defined benefit pension liability	34	(10.4)	(54.9)
Provisions	26	(35.7)	(22.0)
		(850.0)	(714.8)
Current liabilities			
Trade and other payables	24	(501.0)	(467.0)
Financial liabilities – Borrowings	28	(64.4)	(258.4)
– Derivative financial instruments	28	(12.4)	(36.0)
Current tax liabilities		(12.1)	(56.8)
Provisions	26	(43.9)	(62.6)
		(633.8)	(880.8)
Total liabilities		(1,483.8)	(1,595.6)
Net assets		939.8	842.3
Shareholders' equity			
Called up share capital	32	25.6	25.6
Share premium account		532.7	533.2
Capital redemption reserve		0.2	0.2
Own shares		(14.1)	(14.6)
Other reserves	33	125.1	116.1
Retained earnings		263.7	175.8
Total shareholders' equity		933.2	836.3
Non-controlling interest in equity		6.6	6.0
Total equity		939.8	842.3

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

Group Statement of Changes in Equity

For the year ended 31 December 2010

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

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Own shares (note 32) £m	Other reserves (note 33) £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
At 1 January 2009	7.7	195.7	0.2	(15.2)	133.7	257.2	579.3	6.1	585.4
Shares issued	17.9	336.7	-	-	-	-	354.6	-	354.6
Shares purchased	-	-	-	(1.8)	-	-	(1.8)	-	(1.8)
Shares sold	-	-	-	1.3	-	(1.0)	0.3	-	0.3
Reclaim of VAT on historical share issue costs	-	0.8	-	-	-	-	0.8	-	0.8
Own shares released to satisfy employee share schemes	-	-	-	1.1	-	(1.1)	-	-	-
Total comprehensive income	-	-	-	-	(17.6)	(66.2)	(83.8)	0.4	(83.4)
Share-based payments	-	-	-	-	-	1.9	1.9	-	1.9
Tax on share-based payments	-	-	-	-	-	0.2	0.2	-	0.2
Dividends	-	-	-	-	-	(15.2)	(15.2)	-	(15.2)
Dividends paid to non-controlling interest	-	-	-	-	-	-	-	(0.5)	(0.5)
At 31 December 2009	25.6	533.2	0.2	(14.6)	116.1	175.8	836.3	6.0	842.3

Group Statement of Cash Flows

For the year ended 31 December 2010

	Note	2010 £m	2009 £m
Cash generated from operations	37	222.1	218.0
Tax (paid)/received		(8.6)	2.6
Net cash from operating activities		213.5	220.6
Cash flows from investing activities			
Payments to acquire businesses, net of cash acquired	19(a)	0.1	–
Deferred consideration for businesses acquired and disposed		(2.4)	0.7
Purchase of property, plant and equipment		(49.9)	(81.2)
Proceeds from disposal of property, plant and equipment		7.4	35.1
Payments to acquire intangible assets	14	(2.0)	(5.8)
Payments to acquire available for sale investments		(0.3)	–
Receipts from disposal of available for sale investments		–	1.0
Receipts from disposal of businesses, net of cash disposed		–	28.4
Receipts in respect of discontinued operations	11	0.3	5.5
Dividends received from associates		0.2	0.6
Interest received		1.1	9.6
Net cash used in investing activities		(45.5)	(6.1)
Cash flows from financing activities			
Proceeds from issue of ordinary shares		–	357.9
Payments incurred on the issue of ordinary shares		(3.8)	–
Proceeds from sale of treasury shares		–	0.3
Purchase of treasury shares		(1.7)	(1.8)
Reclaim of VAT on historical share issue costs		–	0.8
Interest paid		(43.8)	(52.8)
Finance lease principal payments		(18.7)	(50.4)
Net loans repaid		(74.0)	(434.4)
Payments for the maturity of foreign currency contracts		(2.0)	(15.1)
Dividends paid to non-controlling interests		–	(0.5)
Dividends paid to shareholders of the Company		–	(15.2)
Net cash used in financing activities		(144.0)	(211.2)
Increase in cash and cash equivalents		24.0	3.3
Opening cash and cash equivalents		105.8	105.9
Increase in cash and cash equivalents		24.0	3.3
Foreign exchange		(1.0)	(3.4)
Closing cash and cash equivalents	23	128.8	105.8

Notes to the Consolidated Accounts

For the year ended 31 December 2010

1 Corporate information

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

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

2 Accounting policies

Statement of compliance

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

Basis of preparation

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

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

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

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

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

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

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.

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

Changes in accounting policies

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

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

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

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

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

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

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

Interests in joint ventures

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

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

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

2 Accounting policies continued

Interests in associates

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

Income statement presentation

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

Exceptional items

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

Revenue recognition

Rendering of services

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

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

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

Rental income

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

Finance income

Revenue is recognised using the effective interest method.

Government grants

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

Segmental reporting

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

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

Notes to the Consolidated Accounts continued

2 Accounting policies continued

Leases

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

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

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

Borrowing costs

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

Current tax and deferred tax

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

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

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

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

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

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

Intangible assets

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

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

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

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

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

2 Accounting policies continued

Software

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

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

Goodwill

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

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

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

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

Property, plant and equipment

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

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

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

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

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

Notes to the Consolidated Accounts continued

2 Accounting policies continued

Impairment of non-financial assets

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

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

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

Financial instruments

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

Financial assets at fair value through profit or loss

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

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

Loans and receivables

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

Available-for-sale financial assets

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

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

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

2 Accounting policies continued

Derivative financial instruments

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

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

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

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

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

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

Inventories

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

Pre-contract costs

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

Trade and other receivables

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

Cash and cash equivalents

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

Trade and other payables

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

Interest-bearing loans and borrowings

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

Notes to the Consolidated Accounts continued

2 Accounting policies continued

Insurance

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

Pensions and other post-employment benefits

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

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

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

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

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

Share-based payment

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

Provisions

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

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

2 Accounting policies continued

Share capital, share premium and dividends

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

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

Non-current assets held for sale and discontinued operations

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

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

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

Foreign currencies

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

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

New standards and interpretations not applied

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

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

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

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

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

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

Notes to the Consolidated Accounts continued

3 Exchange rates

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

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

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

4 Revenue

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

5 Segmental analysis

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

Analysis by class and geography of business

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

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

5 Segmental analysis continued

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

Notes to the Consolidated Accounts continued

5 Segmental analysis continued

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

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

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

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

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

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

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

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

5 Segmental analysis continued

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

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

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

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

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

Unallocated assets and liabilities comprise the following items:

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

Notes to the Consolidated Accounts continued

6 Operating costs

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

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

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

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

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

7 Employee benefit costs

(a) Staff costs

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

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

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

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

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

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

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

(b) Share schemes

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

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

(i) Executive Share Option Plan

The Company operates tax approved and unapproved executive share option schemes open to Group employees in senior management positions. Options granted by this Plan have a maximum term of ten years. The options vest after three years subject to the satisfaction of certain performance criteria¹ based on the achievement of a target growth in earnings per share. If the performance criteria are not met when initially tested, in some instances they may be reassessed during the term of the option. From 2005 executive share option grants have been replaced by awards made under the Long Term Incentive Plan, as described in (ii). There are no cash settlement alternatives.

7 Employee benefit costs continued

(b) Share schemes continued

(ii) Long Term Incentive Plan (“LTIP”)

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

(iii) Share Matching Plan (the “Plan”)

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

(iv) Deferred Annual Share Bonus Plan

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

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

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

(vi) TWM Share Incentive Plan (the “SIP”)

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

(vii) Savings Related Share Option Scheme (“Sharesave Scheme”)

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

¹ Performance criteria for Executive Share Option Plan:

- (a) Options granted under the 2002 National Express Group Executive Share Option Plan Part 2 Unapproved.
- (b) For options granted in 2002 and 2003, the performance condition is as follows: (a) for awards up to 50% of salary; EPS growth of RPI + 4% pa, (b) for awards between 51% of salary and up to 100% of salary; EPS growth of RPI + 6% pa, (c) for awards between 101% of salary and up to 150% of salary; EPS growth of RPI + 8% pa, (d) for awards between 151% of salary and up to 200% of salary; EPS growth of RPI + 10% pa. Parts (a) and (b) are initially tested over years 0–3 with a facility to retest over years 0–4 and 0–5. Parts (c) and (d) are not subject to retesting. Straight-line vesting occurs between EPS levels.
- (c) For options granted in 2004, the performance condition is as follows: (a) for awards up to 50% of salary; EPS growth of RPI + 4% pa, (b) for awards between 51% of salary and up to 100% of salary; EPS growth of RPI + 5% pa, (c) for awards between 101% of salary and up to 150% of salary; EPS growth of RPI + 6% pa, (d) for awards between 151% of salary and up to 200% of salary; EPS growth of RPI + 10% pa. Performance is tested over years 0–3. Straight-line vesting occurs between EPS levels. Retesting is not permitted.

7 Employee benefit costs continued

(b) Share schemes continued

(viii) Executive Deferred Benefit Plan

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

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

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

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

8 Share-based payment

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

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

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

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

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

Notes to the Consolidated Accounts continued

8 Share-based payment continued

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

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

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

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

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

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

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

8 Share-based payment continued

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

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

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

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

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

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

9 Net finance costs

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

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

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

Notes to the Consolidated Accounts continued

10 Taxation

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

	2010 £m	2009 £m
Current taxation:		
UK corporation tax	4.4	1.1
Overseas taxation	3.6	9.6
Current income tax charge	8.0	10.7
Adjustments with respect to prior years – UK and overseas	(36.2)	12.5
Total current income tax (credit)/charge	(28.2)	23.2
Deferred taxation (note 27)		
Origination and reversal of temporary differences – continuing operations	(5.4)	(37.0)
Adjustments with respect to prior years – UK and overseas	11.0	(9.7)
Deferred tax charge/(credit)	5.6	(46.7)
Total tax credit	(22.6)	(23.5)
The tax credit in the income statement is disclosed as follows:		
Income tax credit on continuing operations	(22.5)	(22.6)
Income tax credit on discontinued operations	(0.1)	(0.9)
	(22.6)	(23.5)
The tax credit on continuing operations is disclosed as follows:		
Tax charge on profit before intangible asset amortisation and exceptional items	39.2	23.0
Tax credit on intangible asset amortisation and exceptional items	(61.7)	(45.6)
	(22.5)	(22.6)
Tax credit on intangible asset amortisation and exceptional items is analysed as follows:		
UK tax settlement (note 10h)	(32.1)	–
Tax credit on intangible asset amortisation	(17.1)	(19.8)
Tax credit on exceptional item	(12.5)	(25.8)
	(61.7)	(45.6)

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

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

10 Taxation continued

(c) Reconciliation of the total tax charge

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

(d) Temporary differences associated with Group investments

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

(e) Unrecognised tax losses

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

(f) Deferred tax included in the income statement

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

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

(g) Deferred tax included in the income statement

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

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

Notes to the Consolidated Accounts continued

10 Taxation continued

(h) UK tax settlement

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

11 Discontinued operations

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

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

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

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

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

12 Dividends paid and proposed

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

13 Earnings per share

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

Basic earnings per share is calculated by dividing the earnings/(loss) attributable to equity shareholders of £61.4m (2009: £53.5m loss) by the weighted average number of ordinary shares in issue during the year, excluding those held by employee share ownership trusts and those held as treasury shares which are both treated as cancelled.

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

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

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

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

Notes to the Consolidated Accounts continued

13 Earnings per share continued

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

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

14 Intangible assets

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

14 Intangible assets continued

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

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

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

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

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

Notes to the Consolidated Accounts continued

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 five year period of management plan	
	2010	2009	2010	2009
UK Coach	9.9%	10.1%	2.0%	2.0%
North American Bus	11.1%	11.7%	2.0%	2.0%
European Coach & Bus	8.4%	7.5%	2.0%	2.0%

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

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

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

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

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

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

15 Property, plant and equipment

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

15 Property, plant and equipment continued

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

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

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

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

Notes to the Consolidated Accounts continued

16 Subsidiaries

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

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

Incorporated in England and Wales

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

Incorporated in Scotland

Tayside Public Transport Co Limited (trading as Travel Dundee)	Operation of bus services
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Incorporated in the USA

Durham School Services LP	Operation of school bus services
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Incorporated in Canada

Stock Transportation Limited	Operation of school bus services
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Incorporated in Spain

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

* The main holding companies of the ALSA Group.

17 Financial assets

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

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

Available for sale investments

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

The principal available for sale investments are as follows:

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

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

Notes to the Consolidated Accounts continued

18 Investments accounted for using the equity method

Investments accounted for using the equity method are as follows:

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

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

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

(a) Investments in joint ventures

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

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

The financial information of this joint venture is summarised below:

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

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

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

18 Investments accounted for using the equity method continued

(b) Investments in associates

The Group's interests in associates are as follows:

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

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

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

The associates' financial information is summarised below:

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

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

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

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

Notes to the Consolidated Accounts continued

19 Business combinations

(a) Acquisitions

2010 Acquisitions

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

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

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

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

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

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

2009 Acquisitions

There were no acquisitions in the Group in 2009.

(b) Disposals

2010 Disposals

There were no disposals in the Group in 2010.

2009 Disposals

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

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

20 Non-current assets – other receivables

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

21 Inventories

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

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

22 Current assets – trade and other receivables

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

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

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

23 Cash and cash equivalents

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

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

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

Notes to the Consolidated Accounts continued

24 Current liabilities – trade and other payables

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

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

25 Other non-current liabilities

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

26 Provisions

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

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

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

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

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

27 Deferred tax

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

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

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

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

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

28 Financial liabilities

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

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

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:

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

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

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

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

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

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

29 Interest-bearing loans and borrowings continued

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

As at 31 December 2010	< 1 year £m	1–2 years £m	2–3 years £m	3–4 years £m	4–5 years £m	> 5 years £m	Total £m
Fixed rate							
Bonds	–	–	–	–	–	(565.6)	(565.6)
Finance leases	(22.9)	(13.8)	(15.6)	(23.8)	(12.7)	(34.0)	(122.8)
Net interest rate swaps	–	–	–	–	–	–	–
Other debt payable	(0.4)	–	(1.2)	–	–	(0.2)	(1.8)
Floating rate							
Cash assets	128.8	–	–	–	–	–	128.8
Bank loans	(36.1)	(0.8)	(1.6)	(0.7)	(0.6)	–	(39.8)
Finance leases	(4.9)	(1.4)	(0.8)	(0.7)	(0.8)	(0.2)	(8.8)
Net interest rate swaps	–	–	–	–	–	(1.3)	(1.3)
As at 31 December 2009	< 1 year £m	1–2 years £m	2–3 years £m	3–4 years £m	4–5 years £m	> 5 years £m	Total £m
Fixed rate							
Finance leases	(9.0)	(10.5)	(7.0)	(6.6)	(14.5)	(10.0)	(57.6)
Net interest rate swaps	(24.2)	–	–	–	–	–	(24.2)
Other debt payable	–	(1.2)	–	–	–	–	(1.2)
Floating rate							
Cash assets	105.8	–	–	–	–	–	105.8
Bank loans	(240.5)	(446.0)	(0.7)	(0.1)	(0.2)	(0.2)	(687.7)
Finance leases	(8.9)	(4.7)	(1.6)	(1.0)	(0.8)	(1.0)	(18.0)

30 Financial risk management objectives and policies

Financial risk factors and management

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

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

Foreign currency

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

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

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

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

30 Financial risk management objectives and policies continued

Interest rate risk

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

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

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

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

Notes to the Consolidated Accounts continued

30 Financial risk management objectives and policies continued

Commodity prices

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

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

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

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

Credit risk

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

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

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

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

30 Financial risk management objectives and policies continued

Liquidity risk

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

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

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

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

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

Capital risk management

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

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

Notes to the Consolidated Accounts continued

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

Fair values

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

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

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

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

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

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

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

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

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

Fair values continued

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

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

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

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

Hedging activities

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

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

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 2010	(24.2)	(7.4)	(6.4)	(38.0)
Cash settlements	22.4	2.0	2.4	26.8
Revaluation through income statement	0.4	–	0.2	0.6
Revaluation through other comprehensive income	–	–	21.1	21.1
Exchange differences	0.1	(4.6)	2.0	(2.5)
Net (liability)/asset at 31 December 2010	(1.3)	(10.0)	19.3	8.0

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

The movement on the hedging reserve is detailed below:

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

Hedge of net investments in foreign entities

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

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

Fuel price hedges

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

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

Fuel price swaps can be analysed as follows:

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

Interest rate swaps at fair value through profit or loss

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

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

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

Notes to the Consolidated Accounts continued

32 Called-up share capital

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

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

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

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

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

Own shares

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

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

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

33 Other reserves

	Merger reserve £m	Hedging reserve £m	Translation reserve £m	Total £m
At 1 January 2010	15.4	0.8	99.9	116.1
Hedge movements, net of tax	–	16.8	–	16.8
Exchange differences, net of tax	–	–	(7.8)	(7.8)
At 31 December 2010	15.4	17.6	92.1	125.1
	Merger reserve £m	Hedging reserve £m	Translation reserve £m	Total £m
At 1 January 2009	15.4	(58.4)	176.7	133.7
Hedge movements, net of tax	–	59.2	–	59.2
Exchange differences, net of tax	–	–	(76.8)	(76.8)
At 31 December 2009	15.4	0.8	99.9	116.1

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

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

34 Pensions and other post-employment benefits

(a) Summary of pension benefits and assumptions

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

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

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

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

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

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

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

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

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

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

34 Pensions and other post-employment benefits continued

(a) Summary of pension benefits and assumptions continued

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

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

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

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

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

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

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

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 decreased from £81.7m at 31 December 2009 to £72.4m at 31 December 2010. The decrease is caused by interest on the franchise adjustment of £4.7m and net actuarial movements of £14.0m. In the prior year, the franchise adjustment increased by £53.5m from £28.2m at 1 January 2009 to £81.7m at 31 December 2009. The increase was caused by interest on the franchise adjustment of £1.7m and net actuarial movements of £51.8m.

If the Group had accounted for its legal obligation in respect of the RPS instead of the constructive obligation, the following adjustments would have been made to the financial information:

	2010 £m	2009 £m
Balance sheet		
Defined benefit pension deficit	(72.4)	(81.7)
Deferred tax asset	15.0	18.2
Intangible asset	1.5	2.0
Net reduction in net assets	(55.9)	(61.5)
Statement of comprehensive income		
Actuarial gains/(losses)	14.0	(51.8)
Tax on actuarial gains and losses	(3.7)	14.5
Net decrease in actuarial gains/(losses)	10.3	(37.3)
Income statement		
Interest on franchise adjustment	(4.7)	(1.7)
Intangible asset amortisation	(0.5)	(0.5)
Deferred tax credit	0.6	–
Net decrease in income	(4.6)	(2.2)

34 Pensions and other post-employment benefits continued

(c) Financial results for pension benefits

The amounts charged to the Group income statement and Group statement of comprehensive income for the years ended 31 December 2010 and 2009 are set out in the following tables.

	UK Bus 2010 £m	UK Coach 2010 £m	UK Rail 2010 £m	Total 2010 £m
Group income statement				
Amounts (charged)/credited to Group operating profit/(loss):				
Current service cost	(4.4)	(0.8)	(10.9)	(16.1)
Curtailment gain (included within exceptional items)	–	2.3	–	2.3
Expected return on pension scheme assets	24.2	3.2	12.9	40.3
Interest on pension liabilities	(25.1)	(3.2)	(15.0)	(43.3)
Interest on franchise adjustment	–	–	4.7	4.7
Total (charge)/credit to income statement	(5.3)	1.5	(8.3)	(12.1)
Actual return on plan assets	45.5	5.5	19.0	70.0

	UK Bus 2010 £m	UK Coach 2010 £m	UK Rail 2010 £m	Total 2010 £m
Group statement of comprehensive income				
Actual return less expected return on pension scheme assets	21.3	2.3	6.1	29.7
Other actuarial gains and losses	16.8	(2.3)	(9.9)	4.6
Actuarial gains/(losses)	38.1	–	(3.8)	34.3

	UK Bus 2009 £m	UK Coach 2009 £m	UK Rail 2009 £m	Total 2009 £m
Group income statement				
Amounts (charged)/credited to normalised operating profit:				
Current service cost	(3.2)	(0.7)	(15.2)	(19.1)
Expected return on pension scheme assets	20.4	2.8	19.5	42.7
Interest on pension liabilities	(22.6)	(2.7)	(20.3)	(45.6)
Interest on franchise adjustment	–	–	1.7	1.7
Total charge to income statement	(5.4)	(0.6)	(14.3)	(20.3)
Actual return on plan assets	51.7	6.6	42.7	101.0

	UK Bus 2009 £m	UK Coach 2009 £m	UK Rail 2009 £m	Total 2009 £m
Group statement of comprehensive income				
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)

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:

	UK Bus 2010 £m	UK Coach 2010 £m	UK Rail 2010 £m	Other 2010 £m	Total 2010 £m
As at 31 December 2010					
Equities	197.6	29.3	303.7	–	530.6
Bonds	147.5	28.7	13.8	–	190.0
Property	79.2	–	0.2	–	79.4
Other	5.2	1.6	0.6	–	7.4
Fair value of scheme assets	429.5	59.6	318.3	–	807.4
Present value of scheme liabilities	(434.8)	(59.6)	(445.2)	(1.4)	(941.0)
Franchise adjustment	–	–	72.4	–	72.4
Defined benefit obligation	(434.8)	(59.6)	(372.8)	(1.4)	(868.6)
Members' share of deficit	–	–	50.8	–	50.8
Defined benefit pension deficit	(5.3)	–	(3.7)	(1.4)	(10.4)

	UK Bus 2009 £m	UK Coach 2009 £m	UK Rail 2009 £m	Other 2009 £m	Total 2009 £m
As at 31 December 2009					
Equities	183.1	25.7	234.4	–	443.2
Bonds	137.5	24.3	25.0	–	186.8
Property	74.3	–	25.0	–	99.3
Other	5.0	1.6	–	–	6.6
Fair value of scheme assets	399.9	51.6	284.4	–	735.9
Present value of scheme liabilities	(446.3)	(56.8)	(423.7)	(1.4)	(928.2)
Franchise adjustment	–	–	81.7	–	81.7
Defined benefit obligation	(446.3)	(56.8)	(342.0)	(1.4)	(846.5)
Members' share of deficit	–	–	55.7	–	55.7
Defined benefit pension deficit	(46.4)	(5.2)	(1.9)	(1.4)	(54.9)

The movement in the present value of the defined benefit obligation in the year is as stated below. For UK Rail, the RPS is a shared cost scheme, which means that costs are formally shared 60% employer and 40% employee.

The Group's defined benefit obligation comprises £867.2m (2009: £845.1m) (including the members' share of the deficit) arising from plans that are wholly or partly funded and £1.4m (2009: £1.4m) from unfunded plans.

	UK Bus £m	UK Coach £m	UK Rail £m	Other £m	Total £m
Defined benefit obligation at 1 January 2010	(446.3)	(56.8)	(342.0)	(1.4)	(846.5)
Current service cost	(4.4)	(0.8)	(10.9)	–	(16.1)
Benefits paid	25.6	1.5	14.5	–	41.6
Contributions by employees	(1.4)	(0.3)	(6.5)	–	(8.2)
Finance charge	(25.1)	(3.2)	(15.0)	–	(43.3)
Curtailement gain	–	2.3	–	–	2.3
Interest on franchise adjustment	–	–	4.7	–	4.7
Members' share of movement on liabilities	–	–	(7.7)	–	(7.7)
Actuarial gain/(loss) recognised in statement of comprehensive income	16.8	(2.3)	(9.9)	–	4.6
Defined benefit obligation at 31 December 2010	(434.8)	(59.6)	(372.8)	(1.4)	(868.6)

34 Pensions and other post-employment benefits continued

(c) Financial results for pension benefits continued

	UK Bus £m	UK Coach £m	UK Rail £m	Other £m	Total £m
Defined benefit obligation at 1 January 2009	(357.4)	(43.3)	(526.7)	(1.5)	(928.9)
Current service cost	(3.2)	(0.7)	(15.2)	–	(19.1)
Franchise exit	–	–	268.1	–	268.1
Benefits paid	24.9	1.4	23.7	–	50.0
Contributions by employees	(1.4)	(0.3)	(10.5)	–	(12.2)
Finance charge	(22.6)	(2.7)	(20.3)	–	(45.6)
Other movements	–	0.1	–	0.1	0.2
Interest on franchise adjustment	–	–	1.7	–	1.7
Members' share of movement on liabilities	–	–	(75.3)	–	(75.3)
Actuarial (loss)/gain recognised in statement of comprehensive income	(86.6)	(11.3)	12.5	–	(85.4)
Defined benefit obligation at 31 December 2009	(446.3)	(56.8)	(342.0)	(1.4)	(846.5)

The movement in the fair value of scheme assets is as follows:

	UK Bus £m	UK Coach £m	UK Rail £m	Total £m
Fair value of scheme assets at 1 January 2010	399.9	51.6	284.4	735.9
Expected return on plan assets	24.2	3.2	12.9	40.3
Cash contributions – Employer	8.3	3.7	10.2	22.2
Cash contributions – Employee	1.4	0.3	6.5	8.2
Benefits paid	(25.6)	(1.5)	(14.5)	(41.6)
Members' share of return on assets	–	–	12.7	12.7
Actuarial gain recognised in statement of comprehensive income	21.3	2.3	6.1	29.7
Fair value of scheme assets at 31 December 2010	429.5	59.6	318.3	807.4

	UK Bus £m	UK Coach £m	UK Rail £m	Total £m
Fair value of scheme assets at 1 January 2009	362.8	42.1	444.7	849.6
Expected return on plan assets	20.4	2.8	19.5	42.7
Franchise exit	–	–	(268.1)	(268.1)
Cash contributions – Employer	8.9	4.1	15.4	28.4
Cash contributions – Employee	1.4	0.3	10.5	12.2
Benefits paid	(24.9)	(1.4)	(23.7)	(50.0)
Membership movements	–	(0.1)	–	(0.1)
Members' share of return on assets	–	–	62.9	62.9
Actuarial gain recognised in statement of comprehensive income	31.3	3.8	23.2	58.3
Fair value of scheme assets at 31 December 2009	399.9	51.6	284.4	735.9

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 £19.0m to its defined benefit pension plans in 2011.

History of experience gains and losses:	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
UK Bus					
Fair value of scheme assets	429.5	399.9	362.8	412.0	406.0
Present value of defined benefit obligation	(434.8)	(446.3)	(357.4)	(412.4)	(421.8)
Restriction on surplus	–	–	(9.0)	(4.7)	(1.5)
Deficit in the scheme	(5.3)	(46.4)	(3.6)	(5.1)	(17.3)
Experience adjustments arising on liabilities	(0.1)	0.2	(3.3)	(4.6)	(3.0)
Experience adjustments arising on assets	21.3	31.3	(62.8)	(5.2)	7.5
UK Coach					
Fair value of scheme assets	59.6	51.6	42.1	43.7	39.9
Present value of defined benefit obligation	(59.6)	(56.8)	(43.3)	(48.6)	(52.6)
Deficit in the scheme	–	(5.2)	(1.2)	(4.9)	(12.7)
Experience adjustments arising on liabilities	2.7	–	–	(2.2)	(1.6)
Experience adjustments arising on assets	2.3	3.8	(7.8)	(0.6)	–
UK Rail					
Fair value of scheme assets	318.3	284.4	444.7	620.3	743.4
Present value of defined benefit obligation	(372.8)	(342.0)	(526.7)	(653.1)	(808.2)
Members' share of deficit	50.8	55.7	43.3	14.0	43.7
Deficit in the scheme	(3.7)	(1.9)	(38.7)	(18.8)	(21.1)
Experience adjustments arising on liabilities	12.2	(1.1)	16.9	(5.3)	(25.5)
Experience adjustments arising on assets	6.1	23.2	(121.4)	3.2	32.6
Other					
Fair value of scheme assets	–	–	–	–	–
Present value of defined benefit obligation	(1.4)	(1.4)	(1.5)	(1.0)	(1.7)
Deficit in the scheme	(1.4)	(1.4)	(1.5)	(1.0)	(1.7)
Experience adjustments arising on liabilities	–	–	–	–	–

The cumulative amount of actuarial gains and losses recognised in the statement of comprehensive income since 1 January 2004 is £10.6m loss (2009: £44.9m loss). The Directors are unable to determine how much of the pension scheme deficit recognised on transition to IFRSs and taken directly to equity of £51.9m is attributable to actuarial gains and losses since inception of those pension schemes. Consequently the Directors are unable to determine the amount of actuarial gains and losses that would have been recognised in the statement of comprehensive income before 1 January 2004.

35 Commitments and contingencies

Operating lease commitments

The Group's total operating lease commitments are as follows:

		2010 £m	2009 £m
Future minimum rentals payable under non-cancellable operating leases:			
Within one year:	Land and buildings	82.4	96.4
	Plant and equipment	158.0	135.5
		240.4	231.9
After one year but not more than five years:	Land and buildings	46.7	56.4
	Plant and equipment	75.7	67.0
		122.4	123.4
More than five years:	Land and buildings	33.8	40.6
	Plant and equipment	5.8	13.0
		39.6	53.6
		402.4	408.9

Operating lease commitments

The majority of the Group's commitments arise in the UK Rail division. Trains division companies have contracts with Network Rail Infrastructure Limited for access to the railway infrastructure (tracks, stations and depots). They also have contracts under which rolling stock is leased. The TOCs' obligations to fulfil these commitments exist only as part of their franchise agreement. The table below reflects the commitments up to the current franchise end dates unless an extension or new franchise agreement has been signed. The commitments are based on charges advised by the Rail Regulator for the period starting on 1 April 2009. Commitments for future minimum rental payments under these contracts are shown below:

		Land and buildings		Plant and equipment	
		2010 £m	2009 £m	2010 £m	2009 £m
UK Rail division commitments					
Future minimum rentals payable under non-cancellable operating leases:					
Within one year:	Fixed track access	47.8	56.7	–	–
	Rolling stock	–	–	145.1	125.6
	Other	21.1	24.7	1.1	1.8
		68.9	81.4	146.2	127.4
After one year but not more than five years:	Fixed track access	13.4	15.6	–	–
	Rolling stock	–	–	31.6	34.6
	Other	6.8	7.3	1.0	0.6
		20.2	22.9	32.6	35.2
		89.1	104.3	178.8	162.6

Fixed track access agreements have an average remaining life of 1.1 years (2009: 1.4 years), other land and buildings have an average duration of 1.2 years (2009: 1.4 years). Rolling stock agreements have an average life of 1.0 years (2009: 1.4 years) and other plant and equipment 1.9 years (2009: 1.4 years).

Notes to the Consolidated Accounts continued

35 Commitments and contingencies continued

Outside of the UK Rail division the Group has entered into operating leases on certain properties, public service vehicles and various items of plant and equipment. Commitments for future minimum rental payments under cancellable operating leases are shown below:

	Land and buildings		Public service vehicles		Other	
	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m
Other divisions' commitments						
Within one year	13.5	15.0	10.9	8.0	0.9	0.1
After one year but not more than five years	26.5	33.5	41.5	31.6	1.6	0.2
More than five years	33.8	40.6	5.8	13.0	–	–
	73.8	89.1	58.2	52.6	2.5	0.3

The average remaining life of operating lease commitments in the other divisions is 4.1 years (2009: 5.6 years) for land and buildings, 3.8 years (2009: 4.2 years) for public service vehicles and 2.7 years (2009: 2.3 years) for other plant and equipment.

Operating lease agreements where the Group is the lessor

The Group receives rent on properties as follows:

	2010 £m	2009 £m
Future minimum rentals receivable under non-cancellable operating leases:		
Within one year	4.1	4.6
After one year but not more than five years	1.4	1.3
More than five years	–	–
	5.5	5.9

The leases have an average unexpired duration of 1.5 years (2009: 1.4 years).

Finance lease commitments

The Group has finance leases for public service vehicles and various items of plant and equipment. These leases have terms of renewal but no purchase options and escalation clauses. Renewals are at the option of the specific entity that holds the lease.

	2010		2009	
	Minimum payments £m	Present value of payments £m	Minimum payments £m	Present value of payments £m
Within one year	28.2	27.8	20.6	17.9
After one year but not more than five years	83.1	73.5	52.5	46.7
More than five years	38.5	30.3	12.0	11.0
Total minimum lease payments	149.8	131.6	85.1	75.6
Less future financing charges	(18.2)	–	(9.5)	–
Present value of minimum lease payments	131.6	131.6	75.6	75.6

Capital commitments

	2010 £m	2009 £m
Contracted	31.1	17.1

The Group is committed to vehicle purchases and various land and buildings improvements.

Contingent liabilities

Bonds and letters of credit

In the ordinary course of business, the Group is required to issue counter-indemnities in support of its operations. As at 31 December 2010, there were UK Rail performance bonds of £25.8m (2009: £25.8m) and UK Rail season ticket bonds of £85.0m (2009: £84.4m). The Group has other performance bonds which include the £17.9m (2009: £17.0m) performance bond in respect of Inter-Capital and Regional Rail Limited, performance bonds in respect of businesses in the US of £100.2m (2009: £76.8m) and the rest of Europe of £25.6m (2009: £25.4m). Letters of credit have been issued to support insurance retentions of £39.4m (2009: £59.8m).

36 Related party transactions

	Amount of transactions		Amounts due from related parties		Amounts due to related parties	
	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m
Associates						
ICRRL	8.7	8.6	–	–	(18.2)	(26.9)
Spain associates	1.6	1.9	0.8	1.3	(1.1)	(1.5)
Total associates	10.3	10.5	0.8	1.3	(19.3)	(28.4)
Trade investments						
Spain trade investments	4.2	3.5	0.9	1.1	(0.3)	(0.7)
Property transactions						
Stock Transportation	0.5	1.5	–	–	–	–
Spain	5.0	4.8	0.4	0.4	(0.4)	(0.3)
Durham School Services	0.1	0.4	–	–	–	–
Total other related parties	9.8	10.2	1.3	1.5	(0.7)	(1.0)
Total	20.1	20.7	2.1	2.8	(20.0)	(29.4)

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

A provision of £0.4m (2009: £0.6m) has been booked against amounts due from European Coach & Bus associates, which are presented net.

Property transactions

Brian Stock was appointed as Chief Executive of the Group's North American operations in October 2004. Stock Transportation Limited, a school bus operator in North America, was acquired in July 2002. As part of the Sale and Purchase Agreement, the Group entered into leases for eight properties at market rents and on standard terms and conditions. The rental payments of £0.5m (2009: £0.4m) are made to Stock Properties Limited and Stock Realty Limited, of which Brian Stock is a related party. In addition, in 2009 Stock Transportation Limited sold a property for £1.0m to Stock GP Limited, of which Brian Stock is a related party, and rents this property from Stock Realty Limited for £0.1m in 2010 (2009: £0.1m). This transaction was approved by the Board of National Express Group PLC. Brian Stock ceased to be Chief Executive of the Group's North American operations on 31 December 2009 but he remained as a consultant to the business during 2010.

A number of Spain companies have leased properties from companies related to the Cosmen family. Jorge Cosmen is a Non-Executive Director of the Group and was appointed as Deputy Chairman in October 2008. These leases were in place before the Group's acquisition of ALSA and are for appropriate market rates.

Compensation of key management personnel of the Group

	2010 £m	2009 £m
Total compensation paid to key management personnel (note 7)	4.7	2.3

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

Notes to the Consolidated Accounts continued

37 Cash flow statement

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

(a) Reconciliation of Group profit/(loss) before tax to cash generated from operations

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

(b) Analysis of changes in net debt

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

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

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

Borrowings comprise non-current interest bearing loans and borrowings of £674.4m (2009: £506.1m) as disclosed in note 28.

37 Cash flow statement continued

(b) Analysis of changes in net debt continued

Other non-cash movements in net debt represent finance lease additions of £77.1m (2009: £nil) and £4.4m (2009: £5.6m) amortisation of loan and bond arrangement fees.

	At 1 January 2009 £m	Cash flow £m	Acquisitions/ disposals £m	Exchange differences £m	Other movements £m	At 31 December 2009 £m
Cash	52.0	9.5	–	(3.2)	–	58.3
Overnight deposits	3.5	8.7	–	(0.2)	–	12.0
Other short-term deposits	50.4	(14.9)	–	–	–	35.5
Cash and cash equivalents	105.9	3.3	–	(3.4)	–	105.8
Other debt receivables	0.9	(0.1)	–	–	–	0.8
Borrowings:						
Loan notes	(0.8)	0.8	–	–	–	–
Bank loans	(1,150.8)	448.9	–	19.8	(5.6)	(687.7)
Finance lease obligations	(133.9)	50.4	–	7.9	–	(75.6)
Other debt payable	(1.1)	(0.1)	–	–	–	(1.2)
Total borrowings	(1,286.6)	500.0	–	27.7	(5.6)	(764.5)
Net debt	(1,179.8)	503.2	–	24.3	(5.6)	(657.9)

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

	2010 £m	2009 £m
Increase in cash and cash equivalents in the year	23.9	3.3
Cash inflow from movement in other debt receivables	(0.1)	(0.1)
Cash outflow from movement in debt and finance leases	94.8	500.0
Change in net debt resulting from cash flows	118.6	503.2
Change in net debt resulting from acquisitions and disposals	0.1	–
Change in net debt resulting from non-cash movements	(71.2)	18.7
Movement in net debt in the year	47.5	521.9
Opening net debt	(657.9)	(1,179.8)
Net debt	(610.4)	(657.9)

38 Post balance sheet events

There were no post balance sheet events.

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

We have audited the parent Company financial statements of National Express Group PLC for the year ended 31 December 2010 which comprise the Parent Company Balance Sheet and the related notes 1 to 20. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of Directors and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the parent Company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2010;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the parent Company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the Group financial statements of National Express Group PLC for the year ended 31 December 2010.

Alison Baker (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor
London
24 February 2011

Company Balance Sheet

At 31 December 2010

	Note	2010 £m	2009 £m
Fixed assets			
Tangible assets	4	–	0.5
Financial assets – Investments	5	766.0	743.0
		766.0	743.5
Current assets			
Debtors	7	1,448.8	1,519.5
Financial assets – Derivative financial instruments	6	4.2	0.3
Cash at bank and in hand	8	8.0	11.3
		1,461.0	1,531.1
Creditors: amounts falling due within one year	9	(985.1)	(1,197.7)
Financial liabilities – Derivative financial instruments	6	(10.3)	(24.5)
Net current assets		465.6	308.9
Total assets less current liabilities			
		1,231.6	1,052.4
Creditors: amounts falling due after more than one year	10	(565.6)	(445.8)
Financial liabilities – Derivative financial instruments	6	(5.1)	(7.4)
Provisions for liabilities and charges	11	(25.1)	(32.0)
Deferred tax liability	12	–	(3.7)
Net assets		635.8	563.5
Shareholders' equity			
Called-up share capital	14	25.6	25.6
Share premium account	15	532.7	533.2
Capital redemption reserve	15	0.2	0.2
Own shares	15	(14.1)	(14.6)
Profit and loss account	15	91.4	19.1
Shareholders' equity		635.8	563.5

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

Notes to the Company Accounts

1 Accounting policies

Basis of preparation

The separate accounts of the parent Company are presented as required by the Companies Act 2006. The accounts have been prepared under the historic cost convention, except for the recognition of derivative financial instruments and available for sale investments detailed below, and in accordance with applicable accounting standards in the United Kingdom.

In applying these policies management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the accounts and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

No profit and loss account is presented by the Company as permitted by Section 408 of the Companies Act 2006.

The retained profit of the Company for the year is £70.6m (2009: £87.1m loss).

Leases

Leases of tangible fixed assets where substantially all the risks and rewards of ownership of the asset have passed to the Company are classified as finance leases and the assets are capitalised in the balance sheet as plant and equipment. Finance leases are capitalised at the present value of the minimum lease payments. The capital element of future obligations under hire purchase contracts and finance leases is included as a liability in the balance sheet. The interest element of rental obligations is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding. Assets acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

Leases of assets where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Rentals paid under operating leases are charged to the profit and loss account on a straight-line basis over the term of the lease. Incentives received under operating leases and initial direct costs in negotiating the lease are amortised to the profit and loss account on a straight-line basis over the term of the lease, or to the first review if shorter.

Tangible fixed assets

Tangible fixed assets are stated at historic cost less accumulated depreciation and any impairment. Tangible fixed assets are depreciated on a straight-line basis over their estimated useful lives as follows:

Plant and equipment – 3 to 5 years

The carrying value of fixed assets is reviewed for impairment if events or changes in circumstances indicate that the current carrying value may not be recoverable, and are written down immediately to their recoverable amount. Repairs and maintenance are charged to the profit and loss account during the financial period in which they are incurred.

Investments in subsidiaries

Investments are held at historic cost less any provision for impairment.

Available for sale investments

Available for sale financial assets are non-derivative financial assets that are designated as such, or that are not classified as a loan or receivable, held to maturity or at fair value through profit or loss. After initial recognition these assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or the investment is determined to be impaired, at which time the previously reported cumulative gain or loss is included in the income statement.

Interest bearing loans and borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of issue costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Hedge accounting is adopted where derivatives such as fixed to floating interest rate swaps are held as fair value hedges against fixed interest rate borrowings. Under fair value hedge accounting, fixed interest rate borrowings are revalued at each balance sheet date by the change in fair value attributable to the interest rate being hedged.

1 Accounting policies continued

Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Company expects a provision to be reimbursed the reimbursement is recognised as a separate asset but only when reimbursement is virtually certain.

Pensions

The Company participates in both the National Express Group multi-employer funded defined benefit scheme and a defined contribution scheme. The Company is unable to identify its share of the underlying assets and liabilities of the multi-employer scheme on a consistent and reasonable basis, and therefore has accounted for the scheme as if it were a defined contribution scheme under the requirements of FRS 17, 'Retirement Benefits'.

Share-based payment

In accordance with the transition provisions, FRS 20 has been applied to all grants after 7 November 2002 that were unvested as of 1 January 2005.

The Company awards equity-settled share-based payment to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant by an external valuer using a stochastic model. Non-market-based performance-related vesting conditions are not taken into account when estimating the fair value; instead those non-market conditions are taken into account in calculating the current best estimate of the number of shares that will eventually vest and at each balance sheet date before vesting. The cumulative expense is calculated based on that estimate. Market-based performance conditions are taken into account when determining the fair value and at each balance sheet date before vesting, the cumulative expense is calculated irrespective of whether or not the market conditions are satisfied, provided that all other performance conditions are met.

Deferred tax

Deferred tax is recognised in respect of all material timing differences that have originated, but not reversed, by the balance sheet date. Deferred tax is measured on a non-discounted basis at tax rates that are expected to apply in the periods in which the timing differences reverse based on tax rates and laws enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised where it is more likely than not that there will be suitable taxable profits from which the future reversal of underlying timing differences can be deducted.

Foreign currencies

Foreign currency assets and liabilities are translated into sterling at the rates of exchange ruling at the year end. Foreign currency transactions arising during the year are translated into Sterling at the rate of exchange ruling on the date of the transaction. Any exchange differences so arising are dealt with through the profit and loss account.

Derivative financial instruments

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

In relation to cash flow hedges which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity, and the ineffective portion in the profit and loss account. The gains or losses deferred in equity in this way are recycled through the profit and loss account in the same period in which the hedged underlying transaction or firm commitment is recognised in the profit and loss account.

For derivatives that do not qualify for hedge accounting, including the foreign currency contracts, gains or losses are taken directly to the profit and loss account in the period.

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

The Company has taken advantage of the exemption under FRS 29 for parent company accounts. The disclosures are included within the consolidated accounts.

Notes to the Company Accounts continued

2 Exchange rates

The most significant exchange rates to the pound for the Company are as follows:

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

3 Directors' emoluments

Detailed information concerning Directors' emoluments, shareholdings and options is shown in the Directors' Remuneration Report.

4 Tangible fixed assets

	Plant and equipment £m
Cost:	
At 1 January 2010	2.7
Disposals	(0.7)
At 31 December 2010	2.0
Depreciation:	
At 1 January 2010	2.2
Charge for the year	0.2
Disposals	(0.4)
At 31 December 2010	2.0
Net book value:	
At 31 December 2010	-
At 31 December 2009	0.5

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

	2010 £m	2009 £m
Plant and equipment		
– cost	0.2	0.2
– depreciation	(0.2)	(0.2)
	-	-

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

5 Financial assets: investments

	Investments in subsidiaries £m	Available for sale investments £m	Total £m
Cost or valuation:			
At 1 January and at 31 December 2010	1,271.9	–	1,271.9
Provisions:			
At 1 January 2010	(528.9)	–	(528.9)
Release	23.0	–	23.0
At 31 December 2010	(505.9)	–	(505.9)
Net carrying amount:			
At 31 December 2010	766.0	–	766.0
At 31 December 2009	743.0	–	743.0

The information provided below is given for the Company's principal subsidiaries. A full list of subsidiaries and investments will be annexed to the next Annual Return to Companies House. The principal country of operation in respect of the companies below is the country in which they are incorporated.

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

The following holdings are 100% held directly by the Company:

Incorporated in England and Wales

National Express Holdings Limited	Holding company for UK Coach operating companies
National Express Group Holdings Limited	Holding company for US operating companies
National Express Overseas Limited	Holding company for discontinued Australian business
National Express Trains Limited	Holding company for UK Rail operating companies
National Express Transport Holdings Limited	Holding company for UK Bus and Canadian operating companies
National Express European Holdings Limited	Holding company for Spanish operating companies

Incorporated in Guernsey

National Express Guernsey Limited	Insurance captive
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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

	2010 £m	2009 £m
Interest rate swaps	3.8	–
Foreign exchange forward contracts	0.4	0.3
Financial assets due under one year	4.2	0.3
Interest rate swaps	(5.1)	–
Foreign exchange forward contracts	–	(7.4)
Financial liabilities due over one year	(5.1)	(7.4)
Interest rate swaps	–	(24.2)
Foreign exchange forward contracts	(10.3)	(0.3)
Financial liabilities due under one year	(10.3)	(24.5)

Full details of the Group's financial risk management objectives and policies can be found in note 30 of the consolidated accounts. As the holding company for the Group, the Company faces similar risks over foreign currency and interest rate movements.

The Company has taken advantage of the exemption under FRS 29 for parent company accounts. The disclosures are included within the consolidated accounts.

7 Debtors

	2010 £m	2009 £m
Trade debtors	0.2	0.2
Amounts owed by subsidiary undertakings	1,415.1	1,504.2
Corporation tax recoverable	31.0	12.5
Deferred tax asset (see note 12)	1.6	–
Other debtors	0.3	1.6
Prepayments and accrued income	0.6	1.0
	1,448.8	1,519.5

Included within prepayments is £nil (2009: £0.4m) which is recoverable after more than one year.

8 Cash at bank and in hand

	2010 £m	2009 £m
Other short-term deposits	6.0	11.3
Cash at bank	2.0	–
	8.0	11.3

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Company, and earn interest at the respective short-term deposit rates. The fair value of cash equals the carrying value.

9 Creditors: amounts falling due within one year

	2010 £m	2009 £m
Bank overdraft	152.4	180.4
Bank loans	35.3	239.3
Trade creditors	6.8	8.6
Amounts owed to subsidiary undertakings	753.1	747.0
Accruals and deferred income	9.9	16.4
Other creditors	27.6	6.0
	985.1	1,197.7

Trade creditors are non-interest bearing and are normally settled on 30 day terms and other creditors are non-interest bearing and have an average term of six months.

10 Creditors: amounts falling due after more than one year

	2010 £m	2009 £m
Bank loans	–	445.8
Bonds	565.6	–
	565.6	445.8

11 Provisions for liabilities and charges

	Insurance claims ¹ £m	Eurostar onerous contract ² £m	Other £m	Total £m
At 1 January 2010	5.1	26.9	–	32.0
Charged to profit and loss account	1.4	–	2.4	3.8
Utilised in the year	(1.5)	(8.7)	(0.5)	(10.7)
At 31 December 2010	5.0	18.2	1.9	25.1

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

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

12 Deferred tax

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

	2010 £m	2009 £m
Accelerated capital allowances	0.3	(0.1)
Other timing differences	0.5	(3.6)
Losses carried forward	0.8	–
Net deferred tax asset/(liability)	1.6	(3.7)

The reconciliation of deferred tax balances is as follows:

	£m
Deferred tax liability at 1 January 2010	(3.7)
Credited to profit and loss	5.3
Deferred tax asset at 31 December 2010	1.6

Timing differences associated with Group investments

No deferred tax (2009: £nil) is recognised on the unremitted earnings of subsidiaries and associates, as no dividends have been accrued as receivable, and no binding agreement to distribute the past earnings in future has been entered into by the subsidiaries.

Unrecognised tax losses

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit against future taxable profits is probable. Deferred tax assets that the company has not recognised in the accounts amount to £4.7m (2009: £nil), which arise where the company does not expect to generate sufficient suitable future profits. A deferred tax asset of £1.6m has been recognised in respect of deductible temporary differences carried forward in the company as the Group expects there to be sufficient taxable profits in that jurisdiction against which the assets could be utilised.

Notes to the Company Accounts continued

13 Interest-bearing loans and borrowings

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

	2010 £m	Maturity	Effective interest rate	2009 £m	Maturity	Effective interest rate
Current						
Bank overdraft	152.4	On Demand	LIBOR +1%	180.4	On demand	BASE + 1.0%
Euro bank loans unhedged	–			239.3	2010	EURIBOR + 2.0%
Sterling bank loans	35.3	2014	LIBOR +1.45%	–		
Bank loans	35.3			239.3		
Total current	187.7			419.7		
Non-current						
7 year Sterling Bond	345.0	January 2017	6.54%	–		
10 Year Sterling Bond	220.6	June 2020	6.85%	–		
Bonds	565.6			–		
Sterling bank loans	–			445.8	June 2011	LIBOR + 1.5%
Bank loans	–			445.8		
Total non-current	565.6			445.8		

Details of the Company's interest rate management strategy and interest rate swaps are included in note 30 and note 31 of the consolidated accounts.

14 Called-up share capital

	2010 £m	2009 £m
At 31 December:		
Authorised:		
800,000,000 (2009: 800,000,000) ordinary shares of 5p each ¹	40.0	40.0
Issued called-up and fully paid:		
511,726,026 (2009: 511,726,026) ordinary shares of 5p each	25.6	25.6
Movement in ordinary shares during the year		Number of shares
At 1 January 2009	7.7	154,687,284
Rights Issue ²	17.9	357,038,742
At 1 January 2010 and 31 December 2010	25.6	511,726,026

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

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

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

15 Shareholders' funds and statement of changes in shareholders' equity

	Share capital £m	Share premium £m	Capital redemption reserve £m	Own shares £m	Profit and loss account £m	Total £m
At 1 January 2010	25.6	533.2	0.2	(14.6)	19.1	563.5
Costs of Rights Issue	-	(0.5)	-	-	-	(0.5)
Shares purchased	-	-	-	(1.7)	-	(1.7)
Shares utilised	-	-	-	2.2	(2.2)	-
Share-based payments	-	-	-	-	3.9	3.9
Profit for the year	-	-	-	-	70.6	70.6
At 31 December 2010	25.6	532.7	0.2	(14.1)	91.4	635.8

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

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

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

	Share capital £m	Share premium £m	Capital redemption reserve £m	Own shares £m	Hedging reserve £m	Profit and loss account £m	Total £m
At 1 January 2009	7.7	195.7	0.2	(15.2)	(11.9)	121.8	298.3
Shares issued	17.9	336.7	-	-	-	-	354.6
Shares purchased	-	-	-	(1.8)	-	-	(1.8)
Shares sold	-	-	-	1.3	-	(1.0)	0.3
Reclaim VAT on historic share issue costs	-	0.8	-	-	-	-	0.8
Shares utilised	-	-	-	1.1	-	(1.1)	-
Share-based payments	-	-	-	-	-	1.9	1.9
Tax on share-based payments credited to reserves	-	-	-	-	-	(0.2)	(0.2)
Hedge movements	-	-	-	-	11.9	-	11.9
Dividends	-	-	-	-	-	(15.2)	(15.2)
Loss for the year	-	-	-	-	-	(87.1)	(87.1)
At 31 December 2009	25.6	533.2	0.2	(14.6)	-	19.1	563.5

16 Retirement benefits

The Company participates in both the National Express Group Staff Pension Fund (a multi-employer funded defined benefit scheme) and the WM Pension Scheme (a defined contribution scheme). The Company is unable to identify its share of the underlying assets and liabilities of the multi-employer scheme on a consistent and reasonable basis, and therefore has accounted for the scheme as if it were a defined contribution scheme under the requirements of FRS 17, 'Retirement Benefits'. Contributions to this scheme are determined by independent professionally qualified actuaries. The details of the latest actuarial valuation are detailed in note 34 to the consolidated accounts.

The pension charge for the year amounted to £3.5m (2009: £3.1m).

Notes to the Company Accounts continued

17 Share-based payment

During the year ended 31 December 2010, the Company had the following share-based payment arrangements, which are described in note 7(b) to the consolidated accounts.

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

	2010		2009	
	Number of share options	Weighted average exercise price (p)	Number of share options ²	Weighted average exercise price ² (p)
Options without a nil exercise price:				
At 1 January	30,759	376	35,299	381
Granted during the year	–	–	–	–
Lapsed during the year	(1,600)	479	(4,540)	420
Group transfers during the year	–	–	–	–
Exercised during the year	(2,435)	210	–	–
Outstanding at 31 December ¹	26,724	386	30,759	376
Exercisable at 31 December	20,045	357	22,480	338
Options with a nil exercise price:				
At 1 January	1,897,258	nil	812,210	nil
Granted during the year	1,651,323	nil	1,495,767	nil
Lapsed during the year	(105,321)	nil	(280,186)	nil
Group transfers during the year	–	nil	–	nil
Exercised during the year	(327,295)	nil	(130,533)	nil
Outstanding at 31 December	3,115,965	nil	1,897,258	nil
Exercisable at 31 December	–	–	–	–
Total outstanding at 31 December	3,142,689	–	1,928,017	–
Total exercisable at 31 December	20,045	–	22,480	–

¹ Included within this balance are options over 5,774 (2009: 5,774) shares for which no expense has been recognised in accordance with the transitional provisions of FRS 20, as the options were granted before 7 November 2002. Although there has been subsequent modification to the options, no FRS 20 charge has been recognised as the amounts are not material.

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

The options outstanding at 31 December 2010 had exercise prices that were between 207 pence and 568 pence (2009: between 207 pence and 479 pence) excluding options with a nil exercise price. The range of exercise prices for options was as follows:

Exercise price (p)	2010	2009
0–300	6,142	6,142
300–600	20,582	24,617
	26,724	30,759

The options have a weighted average contractual life of one year (2009: one year). Options were exercised throughout the year and the weighted average share price at exercise was 232 pence (2009: 341 pence).

17 Share-based payment continued

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

	Share options with nil exercise price	
	2010	2009
Risk free interest rate	1.8%–3.0%	2.0%
Expected volatility	52.7%	48.4%
Peer group volatility	49.6%–50.8%	49.9%
Expected option life in years	3 years	3 years
Expected dividend yield	0%	2.7%
Weighted average share price at grant date	229p	91p–210p
Weighted average exercise price at grant date	Nil	nil
Weighted average fair value of options at grant date	202p	91p–194p

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

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

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

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

18 Commitments and contingencies

Operating lease commitments

The Company has entered into operating leases on certain properties. Annual commitments under non-cancellable operating leases are as follows:

	2010 £m	Land and buildings 2009 £m
Operating leases which expire:		
Within one year	0.1	0.2
Within two to five years	0.3	0.5

Contingent liabilities

(a) Guarantees

The Company has guaranteed credit facilities totalling £129m (2009: £56.6m) of certain subsidiaries.

(b) Bonds and letters of credit

In the ordinary course of business, the Group is required to issue counter-indemnities in support of its operations. As at 31 December 2010, there were UK Rail performance bonds of £25.8m (2009: £25.8m) and UK Rail season ticket bonds of £85.0m (2009: £84.4m). The Group has other performance bonds which include the £17.9m (2009: £17.0m) performance bond in respect of Inter-Capital and Regional Rail Limited, performance bonds in respect of businesses in the US of £100.2m (2009: £76.8m) and the rest of Europe of £25.6m (2009: £25.4m). Letters of credit have been issued to support insurance retentions of £39.4m (2009: £59.8m).

19 Related party transactions

The Company has taken advantage of the exemption in paragraph 3c of FRS 8, 'Related party disclosures' from disclosing transactions with wholly owned subsidiaries.

20 Post balance sheet events

There were no post balance sheet events.