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Who we are

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

Our vision

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

Normalised operating profit

£204.2m _{+28%}

Normalised profit before tax

£160.5m _{+38%}

Normalised margin

9.6% _{+63%}

Return on capital employed

13.2% _{+23%}

Highlights of the year

- Normalised margin rose from 5.9% in 2009 to 9.6% in 2010
- Normalised operating profit increased over £44 million to £204.2 million (2009: £159.8m)
- Normalised profit before tax rose 38% to £160.5 million (2009: £116.2m)
- Franchise extensions secured for National Express East Anglia and c2c; potential for future value creation in Rail
- UK Bus returned to industry average margin with operating profit up 36%
- Over US\$30 million annualised cost savings delivered in North America; operating profit up 44%
- Despite a challenging economic backdrop, Spain performed strongly with margin and profit growth
- Dividend restored with a proposed final dividend payment of 6 pence per share

A year of progress

Chairman's letter

I am pleased to report that 2010 has been successful on many fronts for National Express. Following a turbulent 2009, we are rebuilding a high quality business, focused on its core operations and established on a sound financial footing.

In my statement to shareholders 12 months ago I stated that our new Group Chief Executive and his management team would be "implementing and refining our strategy – improving margins, driving cash and delivering selective, value-creating growth". I am delighted to state that in 2010 that is exactly what has been achieved. With shareholder support, we put in place an appropriate capital structure, almost halving debt since December 2008. During 2010 we have steadily restored margins, stabilised and begun to grow revenue, and started to make targeted investment in future growth. These initiatives have generated a strong recovery in Group profitability; we finished 2010 with profits nearly 15% higher than the market's expectations at the start of the year, delivering an improvement in normalised Group profit before tax over 2009 of over £44 million.

Much of the credit for this should go to the management team that is now in place. Since joining the Group in February 2010, Dean Finch has brought clarity and operational focus throughout the Group. Our five divisions have strong leadership, including three appointments of recognised industry leaders during the year and one internal promotion. Together, the Executive has reinvigorated businesses that are now positioned to leverage their strong positions across their markets and to look at targeted opportunities to achieve growth.

Led by Jez Maiden, our Group Finance Director, we have restructured the balance sheet, with two bond issues that have extended the debt maturity profile out to between 2014 and 2020, allowing management to focus on operational execution. In delivering this improvement in performance, the Executive and I have been ably supported by a strong and stable Board. I would like to thank my Board colleagues for their advice and direction as we have restored performance and pride across the Group.

I would particularly like to thank Ray O'Toole, Chief Operating Officer, who decided to retire during the year. He has made a tremendous contribution to the Group over the years, first joining the Board in 1999, and steering our operations through a difficult 2009. I wish him well for the future.

In 2009 the Board made the difficult decision to suspend the dividend to shareholders. Recognising the return to stability of National Express and the improvement in earnings and cash generation, the Board is proposing its restoration, with a final dividend for 2010 of 6 pence per share, payable on 13 May 2011 to shareholders on the register on 26 April 2011. The Board believes the dividend should be set at a level where it is at least two times covered by annual earnings and fully funded from free cash flow. It should also be sustainable and progressive going forward. We have established the initial dividend at a level which is supported by the non-rail business of the Group. As we continue to improve profitability in other businesses and rehabilitate our position in the UK rail industry, we expect to grow the future dividend accordingly.

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

By the end of 2011, we expect to be delivering at least to industry average margins across all our businesses, with industry-leading performance in several areas. Whilst we remain focused on the completion of this business recovery phase, we have begun the next step of our strategy, delivering selective expansion through organic growth, winning new contracts and, in due course, securing targeted bolt-on acquisitions. This next phase will continue to reflect the principles we have established in our recovery – we will deliver operational excellence; we will focus on cash generation; and we will only invest where there are clear returns for shareholders.

Finally, on behalf of the Board, I would like to thank our employees for their hard work and dedication during the year. Their performance and delivery is evident in the results that we report to you here. I would also thank our shareholders for the support that they have shown in the last 15 months and the faith that they have placed in us to achieve our recovery programme. I am confident that National Express Group is now in a strong position to complete its recovery. I look forward to moving on to the next stage of our development.

John Devaney
Chairman

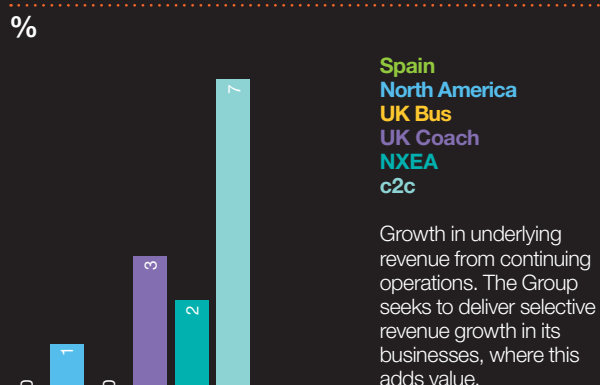
24 February 2011

Measuring success

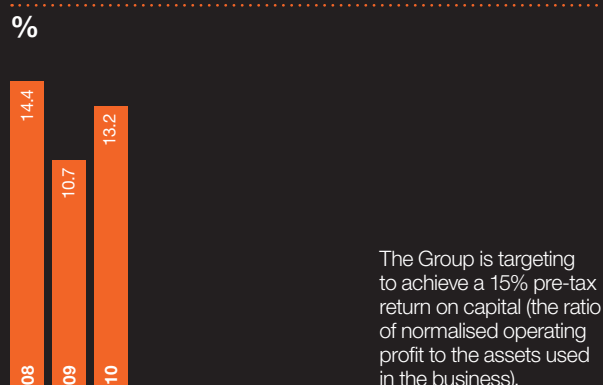
Key performance indicators

Financial KPIs

Underlying revenue growth in 2010



Return on capital employed



Normalised profit before tax



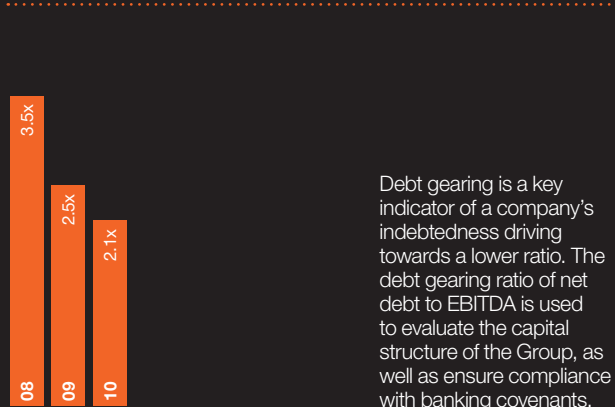
Normalised basic earnings per share



Operating cash generation



Debt gearing ratio

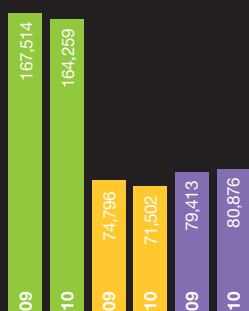


The Group is managed using a set of key performance indicators (“KPIs”) that monitor delivery of performance improvement and ensure that capital is allocated in a disciplined way to support our longer term objectives.

Non-financial KPIs

Mileage

000s

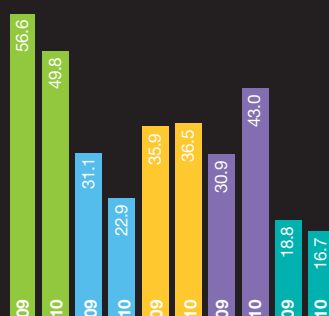


Spain
UK Bus
UK Coach

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

Lost time employee injuries

per 1,000 full-time equivalent employees

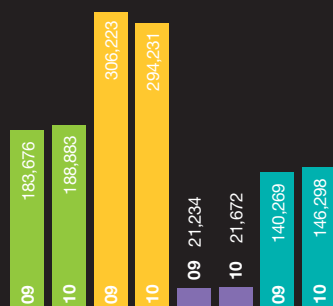


Spain
North America
UK Bus
UK Coach
UK Rail

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

Passenger journeys

000s

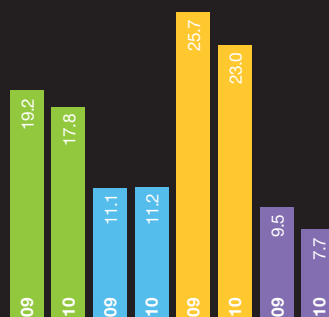


Spain
UK Bus
UK Coach
UK Rail

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

Preventable vehicle accidents

per million miles



Spain
North America
UK Bus
UK Coach

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

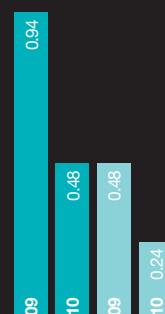
Routes operated in North America



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

Signals passed at danger

per million train miles



NXEA
c2c

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