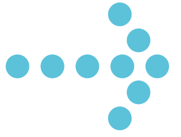
National Express Group

ANNUAL REPORT AND ACCOUNTS 2005



A personal invitation *to travel...*

Investing in businesses with opportunities for growth

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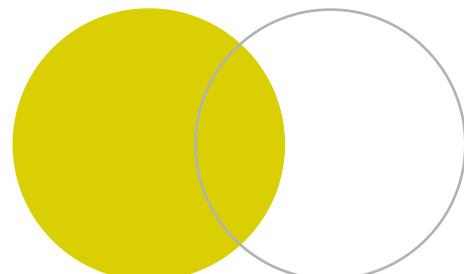

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Who We Are…

National Express Group is a leading public transport provider delivering quality public transport services to the general public in the **UK, North America and Spain.**

We are an international group but believe in local businesses operated at a local level. This means our local management teams understand and meet the needs of their customers and communities.

Operational Highlights…

- Alsa, Spain's largest private coach and bus operator, acquired in December and integration progressing well
- Disposal of North American Public Transit division enabling strategic focus on school bus operations
- Record bid season in United States and completion of key strategic acquisition in Canada
- 2% passenger growth in UK Coaches despite effects of terrorist attacks
- Strong operational performance in Trains division above Government targets, with focus for 2006 on incumbent franchises
- Continued growth in London bus market
- Substantial ongoing investment in fleet and customer facilities

Principal Brands & Services…

UK

COACHES

National Express A network of scheduled coach services to over 1,000 destinations within the UK www.nationalexpress.com

Airlinks Provides contract bus/coach services for airlines and the wider airport community at London airports www.airlinks.co.uk

Eurolines Scheduled coach services from the UK to 500 European destinations www.eurolines.co.uk

BUSES

Travel West Midlands The leading bus operator in the West Midlands covering over 500 routes www.travelwm.co.uk

Travel Coventry Provides 80 bus routes in and around Coventry www.travelcoventry.co.uk

Travel Dundee Operates a comprehensive network of bus services in Dundee www.traveldundee.co.uk

Travel London The Group's London and Surrey bus operations www.travellondonbus.co.uk

The Metro Provides a light-rail link between Wolverhampton and Birmingham City Centre www.midlandmetro.co.uk

TRAINS

National Express Group operates the following train franchises in the UK:

c2c Links South Essex towns with London Fenchurch Street Station www.c2c-online.co.uk

Central Trains Provides high-frequency local train services in the East and West Midlands and long-distance services between the Midlands, East Anglia, North West and the East Coast www.centraltrains.co.uk

Gatwick Express Provides services between Central London and Gatwick Airport www.gatwickexpress.com

Midland Mainline Operates inter-city services between Yorkshire, the East Midlands and London www.midlandmainline.com

'one' Provides a comprehensive rail network of services in East Anglia including commuter services to London and the region's cities, inter-city, cross country, rural lines and Stansted Express services www.onerailway.com

Silverlink Silverlink County operates between London and Northampton. Silverlink Metro operates through North, East and West London www.silverlink-trains.com

Wagn Operates the Great Northern services from Kings Cross and Moorgate to Hertfordshire, Cambridgeshire and Norfolk www.wagn.co.uk

Wessex Trains Operates local and long-distance rail services throughout Cornwall, Devon, Somerset, Dorset, Wiltshire, Hampshire, Gloucestershire and into South Wales www.wessextrains.co.uk

North America

Durham School Services Provides student transportation throughout the United States of America www.durhamschoolservices.com

Stock Transportation Provides student transportation in two provinces of Canada www.stocktransportation.com

Stewart International Airport Located in New Windsor, New York www.stewartintlairport.com

Spain

Alsa Operates coach and bus services throughout Spain with operations also in Portugal and Morocco www.alsa.es

Financial Highlights…

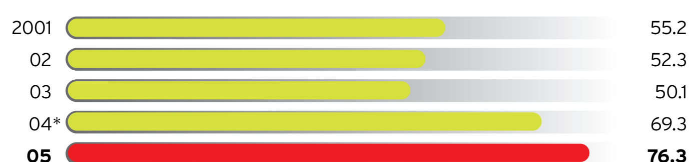
2005 was a strong year for the group

- Revenue of £2.2 billion (2004*: £2.4 billion)
- Group operating profit up 9.6% to £109.5 million (2004*: £99.9 million)
- Normalised** operating profit up 8.5% to £155.5 million (2004*: £143.3 million)
- Normalised** Group operating margin increased to 7% (2004*: 6.1%)
- Profit before tax up 14.6% to £89.3 million (2004*: £77.9 million)
- Normalised** profit before tax up 10.7% to £135.3 million (2004*: £122.2 million)
- Diluted earnings per share from continuing operations up 11.5% to 44.5 pence (2004*: 39.9 pence)
- Normalised** diluted earnings per share up from continuing operations 10.1% to 76.3 pence (2004*: 69.3 pence)
- Final dividend increased by 7.7% to 22.25 pence per share (2004: 20.65 pence per share), making a total dividend for the year of 32.25 pence per share up 7.5% (2004: 30.0 pence per share)
- £29.3 million of shares were purchased by the company in 2005 and share buy-back programme set to recommence
- Net debt of £563.4 million (2004: £136.6 million)

Revenue from continuing operations (£m)

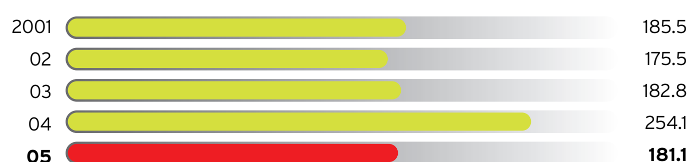
*Normalised operating profit from continuing operations** (£m)*

*Normalised diluted earnings per share (p)***



Full year dividend per share (p)

Cash flow from operations (£m)



Total number of employees at 31 December from continuing operations

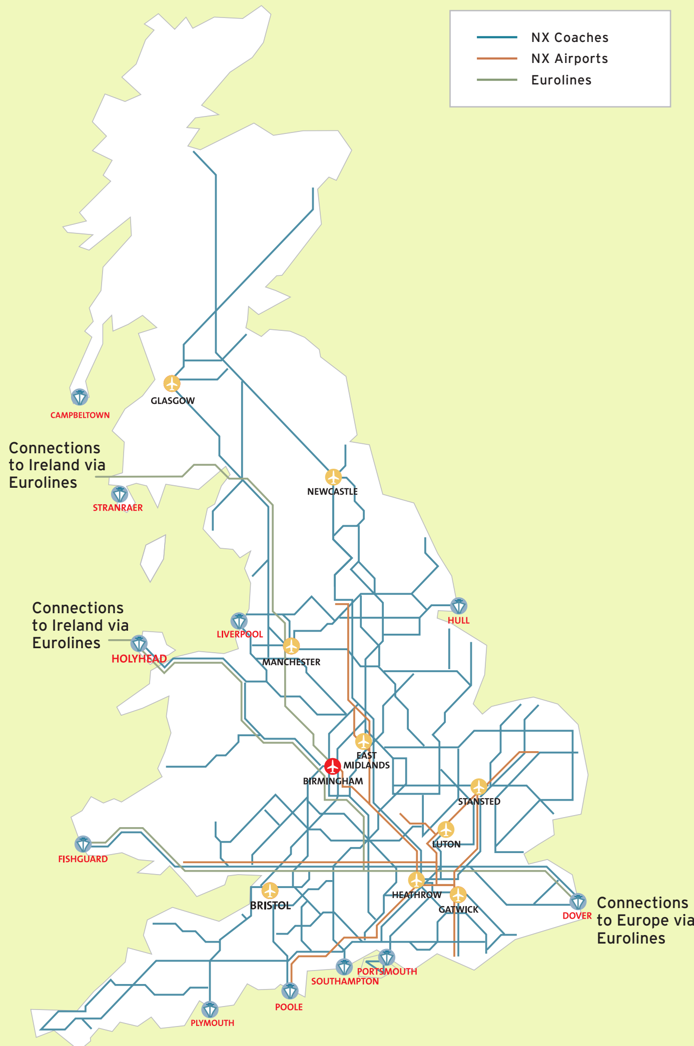
* as restated for the transition to IFRS

** Normalised results are defined as the statutory results before the following as appropriate: profit or loss on the sale of businesses and charges for goodwill impairment, intangible amortisation, property, plant and equipment impairments, profit or loss on disposal of non-current assets, exceptional items and tax relief on qualifying exceptional items.

The financial highlights above refer to the results of continuing businesses in compliance with IFRS.

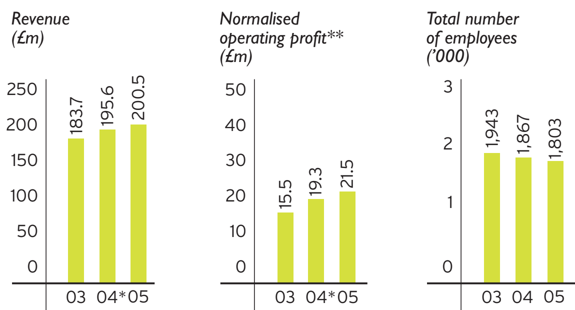
Operations by Geography…

Coaches

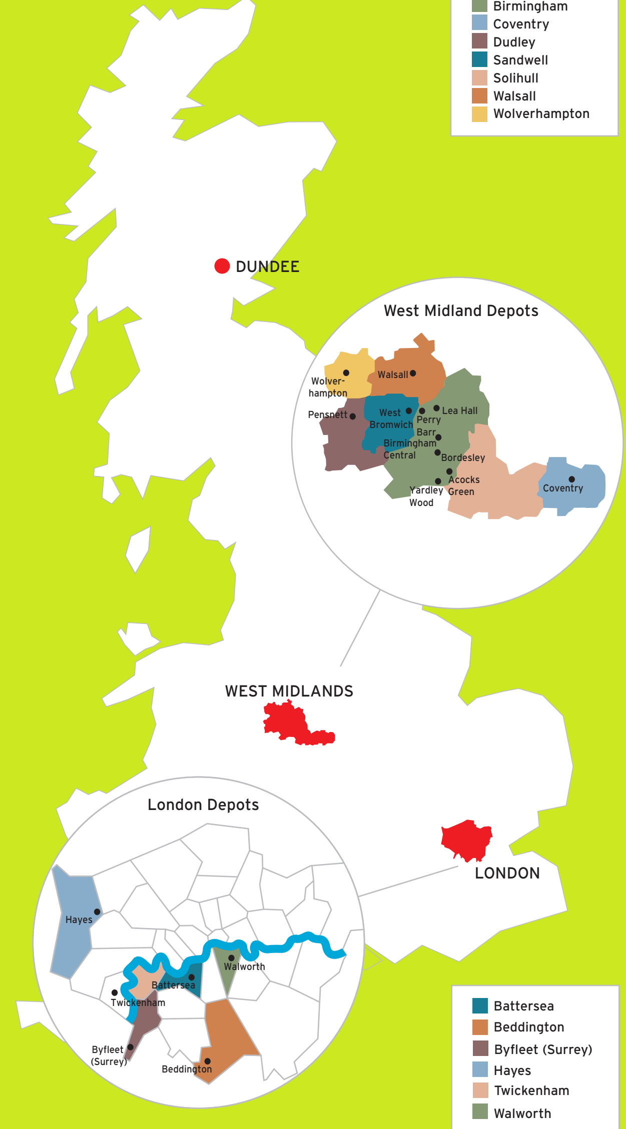


A national integrated network of scheduled and contracted coach services in three business segments – National Express, Airlinks and Eurolines.

- NATIONAL EXPRESS
- AIRLINKS
- EUROLINES

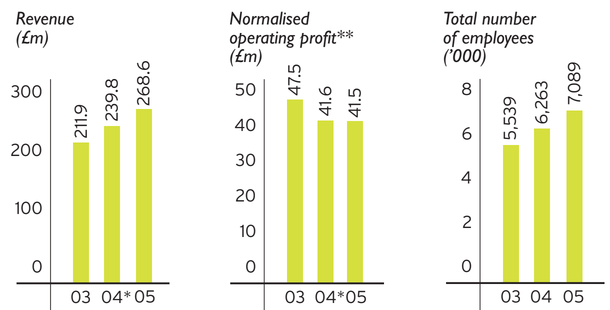


Buses



High-frequency urban bus services operating in the West Midlands, London and Dundee. We also operate Midland Metro, the light-rail service in Birmingham.

- TRAVEL WEST MIDLANDS
- TRAVEL COVENTRY
- TRAVEL DUNDEE
- TRAVEL LONDON
- THE METRO



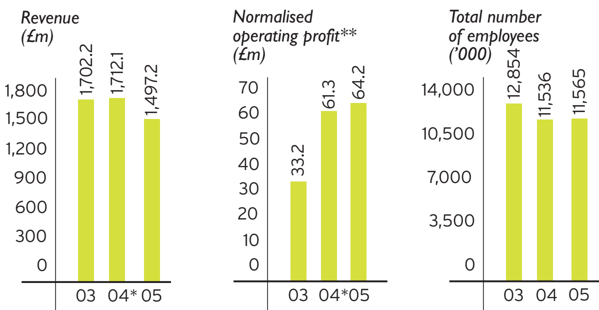
* as restated for the transition to IFRS

** Normalised results are defined as the statutory results before the following as appropriate: profit or loss on the sale of businesses and charges for goodwill impairment, intangible amortisation, property, plant and equipment impairments, profit or loss on disposal of non-current assets, exceptional items and tax relief on qualifying exceptional items.

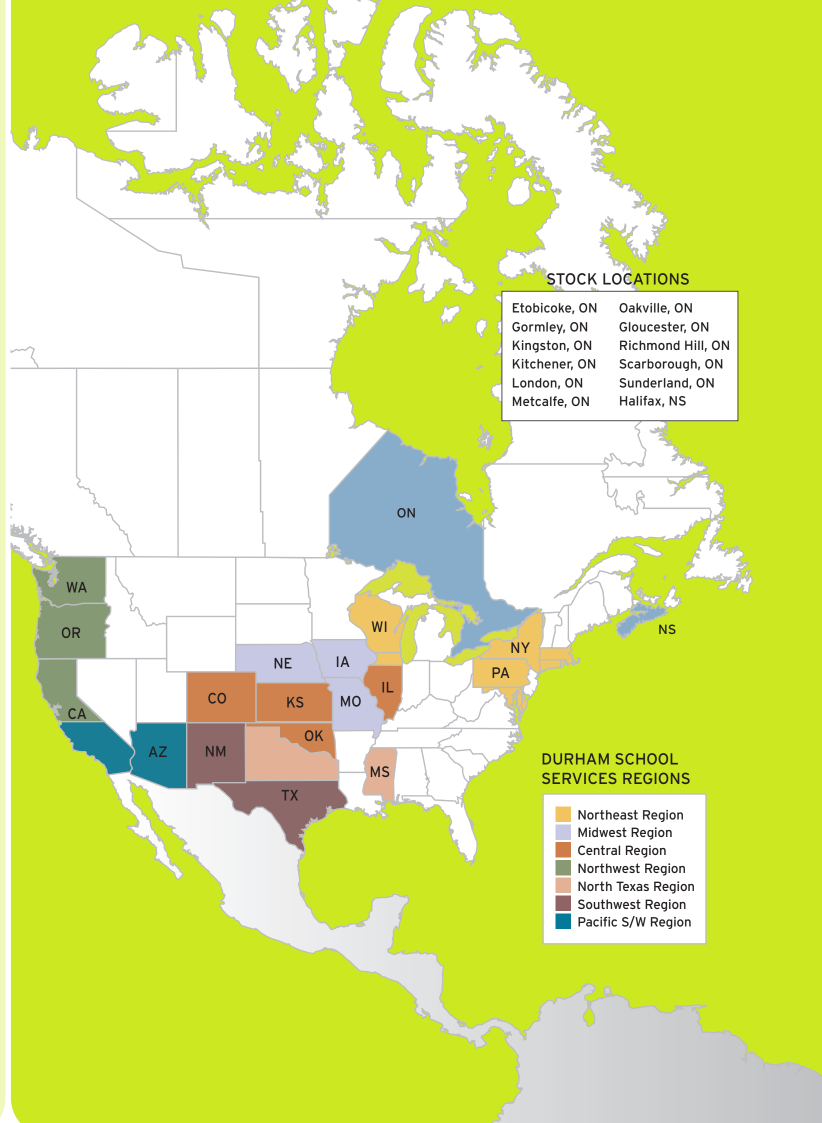
Trains

A range of inter-city, commuter and rural passenger train services.

- C2C
- CENTRAL TRAINS
- GATWICK EXPRESS
- MIDLAND MAINLINE
- 'ONE'
- SILVERLINK
- WAGN
- WESSEX TRAINS

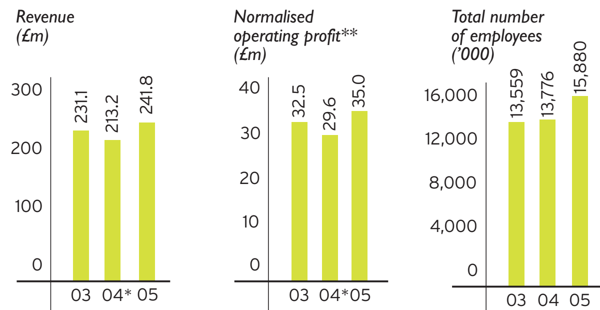


North America



The third largest operator of private school bus services in the United States and the second largest private student bus operator in Canada.

- STUDENT TRANSPORTATION: DURHAM SCHOOL SERVICES, STOCK TRANSPORTATION
- STEWART INTERNATIONAL AIRPORT



How We Operate…

Our principles

- Delivering quality, accessible, value for money services to high safety standards
- Continuously improving standards of punctuality and reliability
- Establishing Quality Partnerships with local authorities
- Integrating different modes of transport
- Reinvesting profits for long-term growth

Our markets

In the UK, we provide bus and train services for key stakeholders such as the Department for Transport, Transport for London and passenger transport executives. Most of our UK Bus and Coach operations are unregulated, allowing us the freedom to develop our own operations.

Our Trains division is regulated and we receive government funding to run these valued public services. However, we believe we can generate further passenger growth by investing in these operations.

In North America, our main customers are school boards for whom we provide school bus services.

In Spain, our customers are local and regional transport agencies. We provide national and regional bus and coach services.

Our values

Our Vision is "Joining up people and places".
We do this by creating the best possible connections – thinking of the whole journey from the moment our customers decide to travel and book their ticket to when they arrive at their ultimate destination.

We have four values:

Easy and simple to do business with…
We form partnerships to help us deliver joined-up and stress-free travel. We make our fares simpler and easier to purchase by promoting a wide choice of booking channels.

Taking the lead…
We have invested in new trains and our services to make our customers' journeys safer, more comfortable and enjoyable. We have also invested in state-of-the-art accessible coaches and in buses which are fitted with the latest CCTV technology in order to improve security.

Open and honest…
We aim to be straightforward in our communications and encourage our employees to be approachable at all times. We welcome feedback from our customers and stakeholders and regularly conduct customer and employee surveys.

Working together…
Ours is a people business. People talk to us – and we listen. We recognise that new ideas are best produced by working together as partners.

Highlights of the Year…

Here are a selection of events and initiatives which took place across our operations during the year.

Walworth bus depot opening with Ken Livingstone, Mayor of London and Val Shawcross, Greater London Assembly Member, joined by Paul McGowan, Managing Director Travel London

Quarter 1

In January, Midland Mainline achieved its best ever punctuality, with 94.3% of trains reaching their destinations on time. Throughout 2005, MML was the most punctual long-distance train operator.

On entering the London bus market in 2004, Travel London worked in partnership with Transport for London to develop a new bus depot in South London. In February, Ken Livingstone, Mayor of London, opened the National Express Group Walworth bus garage in South London.

In March, the Group sponsored a one-day 'Delivering better bus transport' conference in Birmingham. This provided a platform for key stakeholders, including the transport industry, politicians and the media, to discuss how the role of the bus should contribute to integrated transport and economic prosperity in the West Midlands and other major UK conurbations.

The MML Momentum project

Quarter 2

In June, the Group acquired the London bus division of Tellings Golden Miller. These operations in South West London and Surrey have been integrated into Travel London, which now has a fleet of 400 vehicles and operates from six depots.

The Group acquired Northstar Passenger Services, one of Canada's largest operators in the student bus market. Its 800 buses and 850 employees have now been fully integrated into the Group's Canadian operation, Stock Transportation.

Midland Mainline launched its schools education programme – Momentum – in four cities across its Sheffield to London route. Through Momentum, MML works with students as part of the Citizenship and Personal, Social and Health Education national curriculum module.

Labour Party Conference with Tony Blair, Prime Minister

Quarter 3

After extensive research, and having worked closely with the Mobility and Inclusion Unit of the Department for Transport, the Coach division launched its innovative, DDA compliant, fully integrated, easy-access vehicle, the Levante coach, enabling wheelchair users, people with mobility impairments and the elderly to travel in comfort.

To support and raise awareness of local issues around its operations in their respective regions, the Group sponsored the regional West Midlands and South East receptions at the Labour Party Conference in Brighton.

Wessex Trains, in conjunction with its partners, achieved great success at the inaugural National Community Rail Awards, organised by the Association of Community Rail Partnerships. Wessex Trains' Devon and Cornwall Community Rail Partnership was named the overall winner and Community Operator of the Year for its innovative Tamar Valley Carnet Ticket scheme.

Alsa acquired in December

Quarter 4

In recognition of its work with local partners to improve the quality of local bus services, Travel Dundee signed the UK's first Statutory Quality Bus Partnership alongside Dundee City Council and the Scottish Executive. In November Travel Dundee was the winner of the Scottish Public Transport Operator of the Year award at the Scottish Transport Awards.

In December, the Group completed the acquisition of Alsa, Spain's leading private coach and bus operator, gaining an immediate presence in an attractive growth market. Alsa's President, Jorge Cosmen, joined the Group Board as a Non Executive Director.

With a growing presence in the Greater London area, a Group initiative supported the Greater London Authority's Labour Group's annual event at City Hall, attended by a number of Labour MPs, councillors and trades union representatives. This gave the Group the opportunity to promote its London operations.

Chairman's Statement

David Ross
Chairman

"We remain confident that the foundations are in place to enhance shareholder value through organic and acquisitive growth whilst maintaining dividend and share buy-backs."

AS WELL AS ACHIEVING ORGANIC GROWTH ACROSS MOST OF OUR OPERATIONS, WE EXTENDED OUR PRESENCE IN THE PUBLIC TRANSPORT MARKET THROUGH BOTH NEW CONTRACT WINS AND ACQUISITIONS IN EXISTING AND NEW MARKETS.

I am pleased to report the Group's results for the year ended 31 December 2005.

This year will be remembered for the tragic events of the London bus and tube bombings. The Group has many operations in and around London and many of our colleagues were close to, or involved in, the aftermath of the events. Whilst our operations were not directly affected, we are proud that many of our employees played an active role in assisting Londoners during this difficult period. I would like to take this opportunity to thank them for their commitment and their tremendous efforts in reassuring the public, getting services back to normal and working alongside the teams from the emergency services during this difficult time.

In December Alsa, Spain's largest private coach and bus operator, owned by the Cosmen family, joined the Group. In one transaction we achieved critical mass in a major European country which has good growth prospects, gaining sustainable earnings at above average margins.

Alsa is a long established business with an experienced management team who are keen to drive the business forward. The quality of its product delivery has earned Alsa a first class reputation as both an operator and employer in the Spanish public transport market. Operating in the Spanish regulated coach and bus markets, Alsa has extensive contracts, with an average life of nine years, which provides stable earnings. These features provide stability to the Group's earnings. Recognising the opportunities that exist in the enlarged company, the Cosmen family acquired a substantial shareholding in the Group and we are delighted that Jorge Cosmen has joined the Group Board as a Non Executive Director.

This development gives the Group a significant combined coaching operation, enabling the transfer of best practice between two major businesses. Our initial focus has been the integration of Alsa's financial and reporting systems, which is currently on schedule. Our management teams are already working well together to identify cost synergies, particularly in procurement, risk management and IT. We believe there are many opportunities to grow this business by the use of better yield management and improved marketing. In addition, we will be drawing on our experience in the UK coach market to reduce Alsa's cost of sales. The respective cultures of National Express and Alsa have significant similarities which should enable the integration plan to be fully delivered by the end of this year. We are pleased with the progress we have made to date and are confident that we can achieve the benefits identified when we announced this strategic move.

This year we revised our North American strategy to focus on our highly successful school bus operations where our strong reputation with our customers delivers a high quality and reliable earnings stream. Consequently, we sold ATC, our Public Transit business, during the year.

As part of the rail remapping, we have agreed with the Department for Transport ("DfT") to align our Central Trains, Silverlink and Midland Mainline franchises to run until the end of 2007. We are currently in discussions with the DfT to agree the financial arrangements around the new extensions. On the next round of bidding during 2006 we will focus on franchises where we are incumbent and, as a consequence, we have withdrawn from the competition for the South Western franchise.

Following the announcement relating to the GN/Thameslink and Greater Western rail franchises, the employees of Wagn and Wessex Trains will leave the Group on 31 March this year. I would like to thank them for their contribution whilst part of the Group and wish them all the best for the future.

As part of our succession planning process and following a thorough selection process, I am delighted that following the retirement of Brian Jackson, Denis Wormwell was appointed Chief Executive of our UK Bus division in February. Consequently, Paul Bunting moved from Midland Mainline to replace Denis as Chief Executive of our UK Coach division.

THE BOARD

After what will be ten years as Chief Executive, Phil White has decided he will be retiring from the Group by the end of this year. Phil started his career with the Group in 1994 as Finance Director of Travel West Midlands and was appointed Chief Executive of the Group in January 1997. He guided the Group's entry into North America and subsequently into continental Europe with the Alsa transaction. The Board is unanimous in thanking Phil for his contribution over the years and wishes him well for what the next stage in his life will bring. On a personal level I would like to thank Phil most sincerely for his help and support since commencing my tenure as Chairman in May 2004. The process to find a successor is now underway.

I am also pleased to report that this year Phil White has taken on the role as President of the Confederation of Passenger Transport, the national trade association representing the UK bus, coach and light-rail operators.

Furthermore, with the Group's interests in rail, Ray O'Toole joined the British Transport Police Authority as an Authority member.

On 21 September 2005, Barry Gibson was appointed senior independent director following Tim Stevenson's resignation from the Board. I would like to thank Tim for his valuable contribution.

RESULTS AND DIVIDEND

Turnover was £2.2 billion (2004*: £2.4 billion) and normalised Group operating profit increased by 8.5% to £155.5 million (2004*: £143.3 million). After interest and the Group's share of losses from associated undertakings, normalised profit before tax was £135.3 million (2004*: £122.2 million). Normalised diluted earnings per share from continuing operations were 76.3 pence (2004: 69.3 pence).

We are recommending a final dividend of 22.25 pence per ordinary share (2004: 20.65 pence), an increase of 7.7%, to be paid on 26 May 2006 to shareholders on the register at 28 April 2006. Including the interim dividend, the proposed total dividend for the year is 32.25 pence per ordinary share (2004: 30.0 pence). We shall also be recommencing our £100 million share buy-back programme, subject to market conditions.

CURRENT TRADING AND OUTLOOK

The current year has started well. We have experienced good operational performance across all our divisions and achieved early successes in the current US school bid season. We are making good progress with the integration of Alsa and believe this division will play a key role in the Group's future growth prospects.

Chief Executive's Report

Phil White
Chief Executive

"I genuinely believe that we have achieved much this year, positioning the Group well for the future."

THIS YEAR THE CHIEF EXECUTIVE'S REPORT TAKES ON A NEW QUESTION AND ANSWER FORMAT. THIS BRINGS TOGETHER THE QUESTIONS MOST FREQUENTLY ASKED OF CHIEF EXECUTIVE, PHIL WHITE, AND COVERS AREAS SUCH AS HIGHLIGHTS OF THE YEAR AND THE STRATEGIC FOCUS OF THE GROUP.

Q *WHAT HAVE BEEN THE HIGHLIGHTS OF THE PAST YEAR?*

A This has been an excellent year as our results clearly show and, at the same time, there have also been some significant moves for the Group.

The most impressive was undoubtedly the deal which saw us join up with Alsa in the Spanish transport market. Alsa is not only Spain's leading private coach and bus operator – it is also a quality business that I have admired for many years.

I'm pleased to welcome the Alsa management team into the National Express Group. We've wanted to enter a major continental European market for some time, but we needed to find the right way with the right purchase. I believe that Alsa is that 'right purchase' and I'm confident that it brings tremendous opportunities for growth, both organically and through acquisition. Alsa is a long established family business with a very strong, professional, management team that was keen to join the National Express family.

I'm delighted that the Cosmen family has taken a large shareholding in the Group, with Jorge Cosmen joining the Board as a Non Executive Director.

It is our aim to move Alsa from a family owned business to an international organisation while retaining its core values. It is helpful that Alsa, like National Express, believes in local autonomy for management, quality services and supporting its employees through training and development. There is a great willingness on the part of the Alsa management team to be fully integrated into the Group, demonstrated by the tremendous energy that is being put into our integration project.

Another milestone which occurred this year is the Government's proposal to introduce demand management of traffic congestion in our cities as this will have a positive impact on the use of public transport. I would like to congratulate Alistair Darling, Secretary of State for Transport, for having the courage to take this important but tough decision.

Our team has turned in an excellent performance during the year and it has been a privilege to lead them. Our coach, bus, rail and North American student transportation activities have all made great strides in terms of quality performance, customer satisfaction and employee engagement.

Q *AND WHAT HAVE BEEN THE LOW POINTS?*

A The tragic events of 7 July in London were undoubtedly one of the worst events of 2005, particularly as they followed on the back of the excitement of the 2012 Olympics award to London. This was a devastating event for everybody, especially those connected with our capital city, and I want to put on record my appreciation of the emergency services and our staff who coped so admirably in very challenging circumstances. Of course, our difficulties pale into insignificance compared to those who suffered loss or injury and my greatest sympathies are with those families affected. The follow-up alerts on 21 July which were thankfully thwarted, and subsequent alarms in major cities such as Birmingham further damaged confidence in public transport and it has taken many months to regain our customers' trust.

Like everybody in our industry, I am shocked by the level of crime that takes place on our services and around our facilities. Our depots, terminals and stations are part of the fabric of the community and the safety of our customers and employees is of paramount concern. We are actively working with British Transport Police, the Department for Transport and other stakeholders to identify ways to cut crime and improve security.

Q *WHAT HAS BEEN THE MAIN MANAGEMENT FOCUS THIS YEAR?*

A In our day-to-day business, we focus on our customers as they are our top priority. And that's true regardless of whether they're travelling by train to a meeting in London or on a yellow school bus in Toronto. Punctuality, reliability and safety are the keys to our business. We've taken an industry lead in managing the switch from an operations led business to a customer focused business. We look at the journey as a whole experience, from the moment a customer thinks about buying a ticket. It's not just about when they're on board one of our services.

And one key element of ensuring we understand our customers' expectations is being able to get the views of our employees who are in the front-line of our operations. They have first hand experience of what our customers think about the quality of our services. We regularly seek our employees' views to identify those areas where we feel we could do better.

Q *HOW DOES THE GROUP DIFFER FROM ITS PEERS?*

A At National Express Group we have strong local management teams running our businesses. Local decisions are taken by local managers to ensure local delivery. Operational performance is a priority and during this year we made great progress, particularly in our Trains division, as is shown by the industry performance and customer satisfaction figures. We constantly think of ways to work smarter. Our re-engineering process in North America is an illustration of this. We always look at new initiatives to drive our business forward – whether it's looking at new ways to do things such as new pools of recruitment eg Polish drivers, or new technology such as mobile ticketing. There is always a better way to operate – and we are always looking for new ideas.

Q *HOW HAVE YOU GROWN THE BUSINESS?*

A We have seen a steady increase in patronage throughout the year. We are seeing more and more customers wanting niche products, such as our Premier commuter bus service in Birmingham. At the same time, we have introduced a number of fares initiatives – such as airline-type fares on Midland Mainline – that are designed to appeal to a broader range of customer and encourage off-peak travel. We always aim to provide our customers with the best value for money fares, although we have been hit by the increased cost of fuel during the year.

Q *HOW HAVE RELATIONSHIPS WITH KEY STAKEHOLDERS DEVELOPED DURING THE YEAR?*

A Good relationships with stakeholders are absolutely key if we want to develop the quality of services that our customers expect. We can only provide this if we have the right rail and road infrastructure and this is where we need the help of government. Airlines can't operate without airports, trains need tracks and buses and coaches depend on an effective road network.

During the year, we were pleased to sign a Statutory Quality Partnership with Dundee City Council and the Scottish Executive to further improve bus services around Dundee. We also worked closely with Centro and the West Midlands Passenger Transport Authority which are both key partners to the successful operation of our Birmingham bus business.

We hosted a major bus conference in Birmingham looking at the positive initiatives that are taking place in the bus market.

2005 also saw us working closely with central Government on the rail remapping and helping with the establishment of the DfT as the new body responsible for rail refranchising.

Q *WHAT DOES THE GROUP WANT TO BE KNOWN FOR? WHAT DOES IT STAND FOR?*

A Our business values are all about; being easy and simple; being open and honest; taking the lead and working together. These are the foundations for our reputation as a quality business – and that's something we're committed to maintaining and improving.

We aim to deliver for all our stakeholders, especially our passengers. We want to be open and honest and not let people down. We want to be ahead of the game in terms of innovation – introducing new concepts such as the easy-access Levante coach and implementing new technology such as mobile ticketing machines plus a variety of other initiatives that help our customers when they travel with us.

We want to earn the reputation for being good to do business with, whether as a partner, supplier or customer.

For shareholders, we want to be known for providing value, for running a dynamic business efficiently and for achieving solid and sustainable growth.

We aim to be an employer of choice and we need to ensure that we do our best to attract and retain top quality people.

Q *HOW DOES THE GROUP INTEND TO GET FROM WHERE IT IS TO WHERE IT WANTS TO BE?*

A We will continue to focus on giving customers more and better reasons to travel with us more often. We will also continue to test new markets where we can add value to existing businesses and grow them.

As always, our employees will play a vital – in fact THE most vital – role in this process. This is a people business and our front-line employees such as bus and coach drivers and the on-train teams are the face, the eyes and the ears of our business.

Chief Executive's Report (continued)

We greatly value the information that our annual employee survey brings to the business and we use it to make sure that we meet customer and employee needs. In our experience, when our employees are happy, our customers are happy.

Training and development remain central to our business. We have a good track record of investing in our people and this will continue in 2006, making full use of our new customer service academies in Birmingham, Derby and London which provide centres of excellence where skills can be transferred across our people. We are also introducing new training initiatives including a new leadership development programme.

Q *WHAT ARE THE KEY RISKS FOR THE GROUP?*

A We aim to be transparent with all our stakeholders. Our Annual Report and Corporate Responsibility Report highlight the key issues for the Group.

In common with all companies in the transport sector, we face the risk of disruption to our business through circumstances beyond our control.

Of those risks that are directly related to our business, the greatest is that we cease to offer the products that our customers want. No customers means no revenue, profit or, ultimately, no business. We regularly carry out customer satisfaction surveys to make sure we understand their changing expectations.

We also need to ensure that we have the right people in place to build our business, therefore we are investing in recruiting and retaining high quality people.

Q *WHAT ARE THE CHALLENGES FOR THE YEAR AHEAD?*

A I believe the key challenges for 2006 are:

- Developing the customer base across our businesses and having a better understanding of our customers' needs.
- Seeking to grow the business, particularly in the off-peak leisure market.
- Ensuring that Alsa is effectively integrated into the business.
- Transferring best practice between both our coach operations.
- Aiming to keep ahead of our rivals and to anticipate changes in customer demand.
- And finally, continuing to manage our cost base.

From a strategic point of view, we will continue to focus on growing the business, both organically and also by acquisition. We remain open to opportunities, wherever and whenever they are presented. We have to seize opportunities when they arise, as we did with Alsa. I believe we are well placed to achieve these goals.

Q *WHERE WILL THE GROUP BE IN FIVE YEARS' TIME?*

A On a personal level, I have announced my intention to retire this year, after twelve years with the Group, with ten years as Chief Executive. It has been both a challenging and rewarding experience and I am indebted to my colleagues for their support over the years.

In five years' time I think we will have a bigger and better National Express Group. We will continue to grow in UK buses and coaches, with a larger presence in London. Our UK train portfolio will be balanced and deliver quality earnings. We are aiming to be a leading market player in North America and to have a growing business in Spain. In addition we will seek other opportunities in new markets where our core skills can be exploited.

I genuinely believe that we have achieved much this year, positioning the Group well for the future.

COACHES

Paul Bunting
Chief Executive,
NX Coach division

In February 2006, Paul Bunting, previously Managing Director of Midland Mainline, was appointed Chief Executive of the Coach division

REVENUE FOR THE YEAR WAS £200.5 MILLION (2004*: £195.6 MILLION) WITH A NORMALISED OPERATING PROFIT OF £21.5 MILLION (2004*: £19.3 MILLION).

The division experienced an encouraging year as we focused on our core scheduled coaching business. The first half saw good growth on our London bound and airport routes. However, the terrorist incidents in July and the subsequent reduction of inbound leisure journeys into London saw a softening of this growth in the second half. Nevertheless, in the full year passenger growth of 2% was achieved.

Following a detailed market segmentation analysis undertaken early in the year, we are working on strategies to increase further the appeal of coach travel. Our promotion of dynamic pricing continues to play a key role enabling customers to buy value for money tickets. We repeated our successful £9 "Go Anywhere" fares as well as the "Million Seat Sale". These, along with our continued roll-out of funfares, from as little as £1 each way, backed up by national advertising campaigns, have heightened an awareness of coach travel amongst existing and potential customers. We have further extended our sales channels through the increased promotion of the internet which now accounts for 21% of total sales. E-ticket and m-ticket sales increased. Up to nine out of ten purchases on the web are now e-tickets with up to two thirds of all tickets sold via our customer contact centre distributed by either e or m-tickets.

Our investment in coach stations continues. Working in partnership with BAA, we invested £2m to improve Heathrow Central Bus station. The new customer facilities include improved waiting and refreshment areas and a new ticket office and information desk. Further investment is taking place at key locations at Cardiff, Cheltenham, Manchester airport and Southampton with plans for further improvements at Bournemouth, Leicester, Milton Keynes and Wolverhampton. We have drawn up plans for the total redevelopment of Digbeth coach station in Birmingham, our major hub for connecting services and we anticipate construction starting later this year.

We are improving the quality of our product and services. We have been rolling out our state-of-the-art "WOW" coaches, used currently on the London to Birmingham route, onto other key corridors such as Bristol, Cheltenham and Gloucester. NXTV has been fitted on over 40 vehicles and will be rolled-out further by the end of 2006. This year we were proud to launch our first fully accessible coach, the Caetano Levante, enabling wheelchair users and people with mobility impairments to travel by coach. The bespoke vehicle, which has been developed in consultation with the Mobility and Inclusion Unit of the DfT, complies with the new DDA legislation which was introduced at the start of this year. We aim to have a fully wheelchair accessible fleet on the network by the London 2012 Olympic Games.

Last year we were pleased to be awarded contracts for the provision of coaching services for the G8 summit and the EU summit. This year we have extended our provision of transport services to other events including music and sporting events at venues such as the Millennium Stadium, Cardiff.

We are investing in new technology, such as Coachcom, which provides satellite tracking and improved information for customers, drivers and operational control. The new system will also improve seat utilisation by 'checking in' all tickets at the departure point, enabling all coach tickets to be checked in. Coachcom will be rolled-out across the whole fleet from summer 2006.

BUSES

Denis Wormwell
Chief Executive,
NX Bus division

Denis Wormwell was appointed Chief Executive of the Group's Bus division in February 2006. Denis was previously Chief Executive of the Coach division

REVENUE FOR THE PERIOD WAS £268.6 MILLION (2004*: £239.8 MILLION) AND NORMALISED OPERATING PROFIT WAS £41.5 MILLION (2004*: £41.6 MILLION).

We welcomed the early introduction of Centro's concessionary fares scheme providing free travel for men and women over 60 in July 2005. This move helped to reverse the decline in concessionary fare passenger numbers we have experienced over the past two years.

We are pleased with our improved operational performance during the period. This has been achieved by the recruitment of over 400 Polish drivers within our Travel West Midlands "TWM" business. Over 10% of these drivers have already achieved their NVQ qualifications and we are starting to see the first Polish recruits being promoted to traffic controllers. Three out of every five drivers in the West Midlands have NVQ Level 2 qualifications and over four out of five Travel London drivers have been awarded the BTEC accreditation.

Following its launch in January 2005, strong passenger growth of over 20% continues to be experienced on our Premier 997 service linking Walsall and Birmingham. Recent research has confirmed that half of all users actively choose this service over alternatives due to its quality offering, highlighting the opportunities that product segmentation presents. We continue to look for other opportunities where similar growth possibilities exist.

With central Government's renewed focus on reducing urban congestion, we believe the introduction of road pricing in London illustrates the benefits and increased bus patronage that can be achieved on the back of such initiatives. We welcome the launch of the Government's Transport Innovation Fund ("TIF"), focusing on demand management, which highlights the West Midlands as one of the TIF feasibility areas.

Our investment in technology continues with the roll-out of automatic vehicle location ("AVL") equipment and mobile phone based real time information for over 350 vehicles. During 2006, we will roll-out AVL on key routes including the main Outer Circle 11 route in Birmingham. To improve the attractiveness of travelling by bus we have simplified further our ticketing and extended some concessionary ticket offers such as the Early Bird travelcard to non concessionary passengers.

In September 2005, Travel Dundee signed the UK's first statutory quality partnership. This will be launched in April 2006 in partnership with Dundee City Council and the Scottish Executive and will focus on improving bus services within the Dundee area. This has resulted in the introduction of a new cross city link to a major hospital in the city providing a valuable new community service under the Government's Kick Start initiative.

In the last quarter of the year Travel Dundee achieved Investors in People status and in November was awarded "Bus Operator of the Year" at the Scottish Transport Awards.

This year we achieved further growth in our Travel London operation through new contract wins and the acquisition of Tellings Golden Miller's London bus operations which have been integrated into our London business. This has resulted in a much greater presence in the London market, a regulated market where further contract opportunities exist. We operate a fleet of over 400 vehicles operating from six depots at which there remains additional capacity to accommodate future growth.

The Midland Metro continued to perform well with passenger growth of 2%. We are continuing to discuss with Centro the long term development of this system including line extensions and new services.

TRAINS

David Franks
Chief Executive,
NX Trains division

REVENUE FOR THE PERIOD WAS £1,497.2 MILLION (2004*: £1,712.1 MILLION) WITH NORMALISED OPERATING PROFIT OF £64.2 MILLION (2004*: £61.3 MILLION).

2005 saw the launch of a major internal initiative focused on improving punctuality and reliability within the Trains division. This resulted in significant improvements in performance across all our franchises including Central Trains, a highly complex regional train operating company ("TOC"), where considerable progress was made. Five of our TOCs are in the top seven positions in the latest industry public performance measure ("PPM") figures released in January 2006.

The division also made encouraging progress in its customer satisfaction ratings. Gatwick Express consolidated its position at the top of the league tables for customer satisfaction recording an overall satisfaction rating of 93% in the DfT's December 2005 National Passenger Survey, marking the fifth consecutive period when Gatwick has been rated first in the survey. In addition c2c improved its results from 83% to 90% and Midland Mainline showed the greatest increase year-on-year, rising 10 points to 89% this year. Overall the Trains division improved its customer satisfaction scores by three points from 79% last year to 82%.

During the first half of the year, we experienced substantial patronage growth. However, following the terrorist attacks in July, demand for discretionary travel in and out of London was badly affected. We are pleased that passenger numbers returned to pre-July levels towards the end of the year.

Midland Mainline made good progress in the year with passenger growth of 3% and was the most punctual long distance operator for 2005 in the January 2006 PPM figures. This performance was assisted by the introduction of the new Meridian nine car trains. Growth was also achieved through new marketing initiatives, including a summer promotion offering 200,000 seats to London for £15 per person and a new pricing structure launched in October offering travel from Sheffield to London for £6. With Sheffield station being a key hub for our MML services, we have worked in partnership with key stakeholders in Sheffield to improve the ambience and quality of the station. In June a new DDA compliant travel centre was opened including extra ticket windows and a new electronic queuing process.

Gatwick Express performed well despite the impact of 7 July. Strong revenue and cost control ensured the solid performance of the business. We will be discussing the future of this franchise with the DfT following publication of the Brighton Main Line Route Utilisation Strategy.

In December, 'one' introduced its new timetable on the West Anglia route. The changes, the biggest on this route for fifty years, seek to optimise route utilisation to meet the growth at Stansted airport, whilst also catering for growth on the domestic commuting traffic to the City, Stratford and on to Canary Wharf. Due to the complex nature of the changes, stakeholder consultation has been extensive and the majority of users have benefited from the improved scheduling.

NORTH AMERICA

Brian Stock
Chief Executive Officer, NX North America division

REVENUE IN THE DIVISION FOR THE YEAR WAS £241.8 MILLION (2004*: £213.2 MILLION) AND NORMALISED OPERATING PROFIT WAS £35.0 MILLION (2004*: £29.6 MILLION). IN LOCAL CURRENCY, REVENUE WAS US$440.5 MILLION (2004*: US$391.0 MILLION) AND NORMALISED OPERATING PROFIT WAS US$63.7 MILLION (2004*: US$54.3 MILLION).

2005 was a watershed year for our North American business. As well as selling our Public Transit business we experienced our best ever bidding season and won contracts in Connecticut, Missouri and Rhode Island. We achieved a retention rate of contracts of approximately 95%, highlighting strong levels of customer satisfaction. All operations experienced a smooth school startup, a significant feat given the amount of new business won during the year. We are pleased to report that we increased our margins despite the cost pressures that we face.

In September we completed the sale of our Public Transit operations for cash consideration of US$93 million (before working capital adjustments), enabling the division to focus on the provision of and growth in school bus transportation. In August we strengthened our presence in the school bus market in Canada through the acquisition of Northstar, which services school boards. Northstar operates 800 school buses and has 850 employees. It serves 12 school boards and provides entry into new areas such as Simcoe County, north of Toronto. In October we completed the acquisition of Jones Bus Service, which has 650 buses in Wisconsin and Illinois.

During the year we relocated the headquarters of our US operation from Texas to Chicago, providing a better location to manage and grow the division.

Our re-engineering project focusing on improving the cost effectiveness of our operations has been launched across the whole North American division. The key objectives are to improve the cost effectiveness of our operations by reviewing the efficiency of employee rotas, the use of technology and better management of our assets such as fleet.

We believe we are well positioned to capitalise on further growth opportunities at the bid table and through acquisition.

ALSA

Javier Carbajo
Chief Executive,
Alsa Group

ALSA IS SPAIN'S LEADING PRIVATE OPERATOR OF COACH AND BUS SERVICES OPERATING 90 COACH AND 19 BUS CONCESSIONS WITHIN THE SPANISH MARKET.

Alsa joined the Group on 1 December, providing immediate scale in an attractive European growth market. We have consolidated revenue of £18.2 million and operating profit of £2.6 million into the Group's 2005 results.

Alsa is Spain's leading coach and bus operator with annualised turnover of £218 million. It operates exclusive national and regional coach concessions and urban and suburban bus services with 75% of its revenue generated by its coach operations. It also operates 65 international coach routes in Europe.

Spain is Europe's fifth largest passenger transport market and the third biggest coach market. Approximately double the number of passengers travel by coach on long distance concessions in Spain than by rail, with coach representing 11% of the total public transport market. Alsa is the clear leader in coaching with nearly 10% of the market. Alsa's long distance concessions are granted on an exclusive basis by the national government for each route with durations varying between 8 – 20 years. The regional coach network concessions are awarded by regional government.

As Spain's second largest private bus operator, Alsa operates 19 urban bus concessions primarily in Oviedo and Leon, northern Spain. It also operates buses in Porto, Portugal and Marrakech, Morocco.

Alsa is a quality business run by an experienced and long standing management team, known to the Group through the Eurolines partnership. We believe that through close working between Alsa and our National Express sales, marketing and operations teams we can bring further value to both businesses. This acquisition gives the Group critical mass in the Spanish transport market where we believe further opportunities for public transport growth exist.

Financial Review

Adam Walker
Finance Director

"We have achieved another strong set of results, increasing profit before tax by 14.6% to £89.3m."

YEAR AT A GLANCE

We have achieved another strong set of results, increasing profit before tax by 14.6% to £89.3m (2004*: £77.9m), driven by a 9.6% increase in operating profit to £109.5m (2004*: £99.9m). Basic earnings per share from continuing operations improved to 45.2p (2004*: 40.5p).

For the remainder of this report we will refer to normalised results, which we feel reflect the performance of the business more appropriately. Normalised results are defined as the statutory results before the following as appropriate: profit or loss on the sale of businesses and charges for goodwill impairment, intangible amortisation, plant, property and equipment impairments, profit or loss on the disposal of non-current assets, exceptional items and tax relief on qualifying exceptional items.

Normalised group operating profit was up by 8.5% to £155.5m (2004*: £143.3m), on revenue of £2,216.0m (2004*: £2,354.5m) resulting in an increased operating margin of 7.0% (2004*: 6.1%). Normalised profit before tax increased by 10.7% to £135.3m (2004*: £122.2m) driving up normalised diluted earnings per share from continuing operations to 76.3p (2004*: 69.3p), an increase of 10.1%. Net debt increased by £426.8m to £563.4m, principally as a result of the acquisition of Alsa. The proposed full year dividend per share will be increased by 7.5% to 32.25p (2004: 30.0p).

DIVISIONAL REVIEW

Coaches

Our UK Coach operations delivered another year of strong performance, increasing normalised operating profit by 11.4% to £21.5m (2004*: £19.3m). A 2% increase in passenger numbers was driven by promotions such as our 'Million Seat' campaign and improved customer service initiatives increasing revenue by £4.9m to £200.5m (2004*: £195.6m). The terrorist events in July caused passenger decline on key routes going into London during our busy summer months. Nevertheless, the normalised operating margin improved to 10.7% (2004*: 9.9%) reflecting continuing controls over costs, including working with our contractors to mitigate the rising cost of fuel, and the disposal of our low margin Heathrow Airport airside operation.

During the year we started a rail replacement division and a special events division to broaden the reach of our coaching product.

Buses

Revenue increased by 12.0% to £268.6m (2004*: £239.8m) and we generated normalised operating profit of £41.5m (2004*: £41.6m). Divisional operating margins are being diluted by a greater presence in the regulated London market. Revenue, excluding Travel London, increased by £5.0m, however this was offset by increased driver costs and the final share based payment charge of £2.1m in 2005 for the appropriation of shares from the TWM Share Incentive Plan.

The acquisition of the London bus operations of Tellings Golden Miller contributed normalised operating profit of £0.8m and revenue of £12.4m. This brings our share of the London bus market to 5%.

The early introduction of the national concessionary fares scheme in Birmingham by Centro has helped to reverse the recent decline in patronage from this key part of our passenger group. The Group's fuel hedging policy has mitigated the impact of rising prices in 2005, however, 2006 will see an increase in fuel costs as new hedges have been put in place. Fuel costs will increase by £7m this year and are the principal reason why we introduced an above inflationary fares increase this year.

Trains

Normalised operating profit increased to £64.2m (2004*: £61.3m) on reduced revenue of £1,497.2m (2004*: £1,712.1m), as a result of changes in our portfolio of TOCs. This resulted in improved margins of 4.3% (2004*: 3.6%).

* As restated for the transition to IFRS

Divisional review

	Revenue		Normalised operating profit	
	2005 £m	2004* £m	**2005 £m**	2004* £m
UK Coach	**200.5**	195.6	**21.5**	19.3
UK Bus	**268.6**	239.8	**41.5**	41.6
UK Train	**1,497.2**	1,712.1	**64.2**	61.3
Inter-segment sales	**(10.3)**	(6.2)	**–**	–
North American Bus	**241.8**	213.2	**35.0**	29.6
Alsa	**18.2**	–	**2.6**	–
Central functions	**–**	–	**(9.3)**	(8.5)
	2,216.0	2,354.5	**155.5**	143.3

The terrorist activities in July had an impact on discretionary rail travel over the summer months, however this loss in revenue was partly mitigated by existing revenue and profit share arrangements with DfT Rail. As a result, rail passenger revenue was up 3.3% on a like-for-like basis, having been 5.4% ahead at June. Our franchises continue to appear at the top of the TOC league tables for performance and customer satisfaction, which has contributed to our ability to stimulate customer demand.

On 31 March 2006, our Wessex and Great Northern franchises will leave the Group. As part of the DfT current re-mapping exercise, Central Trains, Silverlink and Midland Mainline will run until November 2007. We are currently negotiating new financial arrangements for these franchises.

North America

In local currency, North America increased normalised operating profit to US$63.7m (2004*: US$54.3m). Revenue has increased by US$49.5m to US$440.5m (2004*: US$391.0m), improving our margins to 14.5% (2004*: 13.9%). The strengthening dollar increased revenue by £4.9m year on year and operating profit by £0.8m.

Revenue in our Student Transportation business increased by 12.7% through the benefit of new routes operated and acquisitions during the year. The 2005 US bid environment remains competitive but we were delighted with our best ever bid season, winning new business with annualised revenue of US$29m. We achieved high retention of existing contracts showing our mix of value for money and customer service is proving successful with the School Boards. Our Canadian operations continued to perform well boosted by the acquisitive growth in the Ontario and Ottawa regions. Existing fuel hedges continue to the end of 2006.

The acquisitions of Aboutown, Northstar and Jones consolidates the Group's position as the third largest student transportation operator in North America. Annualised turnover for these acquisitions is £26.2m.

We relocated our US head office from Austin to Chicago during the summer and are pleased that such a move was well controlled, given the large number of recruitment, systems and timing issues it presented.

In accordance with IFRS 5, 'Non-current assets held for sale and discontinued operations', the trading results for Public Transit have been reclassified into one line in the income statement.

Alsa

Alsa's results were consolidated from 1 December. In local currency it contributed €3.8m (£2.6m) to normalised operating profit. The government have announced a tariff increase of 3.3% on concessions from 1 December 2005 to cover the above inflation impact of fuel costs which have been fully hedged in 2006.

Our integration programme has commenced and is proceeding in line with expectations. Initial focus has been on financial and reporting systems and we are pleased with the efforts being made to ensure a seamless transition. Valuation work on intangibles and key assets is underway and we will complete the work for inclusion in our next financial statements.

JOINT VENTURES AND ASSOCIATES

The total charge for associates was £8.8m (2004: £3.4m).

At the year end we held a 33% investment in Altram LRT Limited ("Altram"). Altram has operated the Midland Metro since June 1999. Our share of the operating loss for 2005 was £0.2m (2004: £0.2m). On 2 March 2006, we received clearance from the Office of Fair Trading regarding our acquisition of the outstanding 67% shareholding. Completion is expected to occur by the end of March. Altram's results will be disclosed within the Bus Division in 2006.

We hold a 40% investment in Inter-Capital and Regional Rail Limited ("ICRRL"). ICRRL is contracted to manage the operations of Eurostar UK to 2010. Our share of the operating loss for the year was £8.6m (2004: £3.2m). The cash outflow of £1.7m in 2005 comprises the Group's share of funding for the 2004 losses. On 1 March 2006, the Secretary of State made a statement requesting expressions of interest for London and Continental Railways ("LCR"), which owns Eurostar UK. If a sale is concluded we would expect to recover the book value for our preference shares in the LCR Group.

The results of the joint ventures and associates acquired with Alsa were immaterial for the period from acquisition to 31 December 2005.

FINANCE COST

Net interest payable decreased to £11.4m (2004*: £17.7m), principally reflecting a lower level of net debt in the first half of the year when compared to 2004 and the termination of a US$200m interest rate swap as reported in our Annual Report and Accounts 2004. This was offset by the strengthening of the US dollar which increased the cost of servicing our US dollar denominated financing.

After excluding £5.1m (2004*: £15.9m) for discontinued operations, continuing normalised operating profit before depreciation and other non-cash items ("EBITDA") was £212.5m (2004*: £194.7m) and continuing EBITDA finance cover improved to 20.2 times (2004*: 11.5 times).

Financial Review (continued)

GOODWILL AND INTANGIBLES

The impairment charge for the year on the goodwill arising from the acquisition of Prism Rail PLC in September 2000 was £33.3m (2004*: £33.3m). Although IFRS 3, 'Business Combinations', prohibits the amortisation of goodwill, the train franchises acquired with Prism have finite lives, and therefore the goodwill will be impaired in line with the remaining cash flows.

Amortisation of £4.9m (2004*: £2.4m) was charged on the intangible asset that arises from the Group's right to operate its rail franchises £2.4m (2004*: £1.9m) and on contracts acquired in UK Bus £0.9m (2004*:£nil) and North America £1.6m (2004*: £0.5m).

The goodwill and intangible assets, of £421.4m, arising on the Alsa acquisition are provisionally classified as goodwill at 31 December 2005 and these will be allocated during 2006 after the valuation work is complete.

EXCEPTIONAL ITEMS

Exceptional items totalled £7.8m (2004*: £7.7m), of which £3.5m was incurred in relation to restructuring and redundancies in the UK Trains division following a review of our rail franchise portfolio.

In North America £2.8m was incurred in respect of the relocation of the divisional head office from Texas to Chicago in the year. The balance comprises £1.5m of costs incurred in a reorganisation of our Birmingham operations.

DISCONTINUED OPERATIONS

As disclosed in the Annual Report and Accounts 2004, the Group's remaining bus operations in Australia are now in administration and are no longer controlled by the Group.

The Group received proceeds of £25.4m from the administrator in December and it is possible that further amounts will be received but it is not practicable to forecast the amount or timing of any receipt.

As anticipated in our Interim report, our Public Transit business was sold on 1 September 2005, for net proceeds of £49.6m.

TAXATION

The total tax charge of £27.5m (2004*: £22.8m) on profit before tax of £89.3m (2004*: £77.9m) represents an effective rate of 30.8% (2004*: 29.3%). The tax charge on normalised profit of £135.3m (2004*: £122.2m) was £29.5m (2004*: £26.4m), which represents an effective rate of 21.8% (2004*: 21.6%).

We expect our normalised tax rate to increase over the medium term to reflect the higher tax rates in overseas jurisdictions.

CASH FLOW

The Group continues to generate strong cash flow with a cash inflow from operations of £188.8m (2004: £247.9m). The fall reflects the working capital timing reversals highlighted last year in connection with performance and profit share payments. This cash flow was used to maintain high levels of investment across the Group, particularly in North America where most of the capital expenditure relates to new bidding work.

OPERATING CASH FLOW

Operating cash flow represents "Cash generated from operations" plus "Proceeds from disposal of property, plant and equipment" less "Finance lease additions" and "Purchase of property, plant and equipment" as set out in note 39 and the cash flow statement.

Operating Cash Flow

	UK Bus £m	UK Coaches £m	UK Trains £m	North American Bus £m	Alsa £m	Central functions £m	Total £m
Normalised operating profit	41.5	21.5	64.2	35.0	2.6	(9.3)	155.5
Normalised operating profit of discontinued operations	–	–	–	3.8	–	–	3.8
Depreciation	12.2	5.3	15.4	22.5	0.9	0.5	56.8
Amortisation of leasehold property prepayment	0.1	–	–	0.7	–	–	0.8
Amortisation of fixed asset grants	–	–	(0.9)	–	–	–	(0.9)
Profit on disposal	(1.2)	(0.5)	–	(0.3)	–	–	(2.0)
Share based payments	2.2	0.1	0.3	0.2	–	0.8	3.6
EBITDA	**54.8**	**26.4**	**79.0**	**61.9**	**3.5**	**(8.0)**	**217.6**
Working capital movement	2.8	(0.1)	(20.2)	(2.0)	(4.1)	(3.5)	(27.1)
Eurostar	–	–	–	–	–	(1.7)	(1.7)
Net cash inflow from operations	**57.6**	**26.3**	**58.8**	**59.9**	**(0.6)**	**(13.2)**	**188.8**
Net capital expenditure	(44.5)	(8.2)	(24.8)	(33.3)	(0.6)	0.8	(110.6)
Operating cash flow before one-offs	**13.1**	**18.1**	**34.0**	**26.6**	**(1.2)**	**(12.4)**	**78.2**
Exceptional items							(7.7)
Operating cash flow							**70.5**

Reconciliation of net debt

	2005 £m	2004 £m
Operating cash flow	70.5	187.5
Net interest	(22.0)	(20.3)
Taxation	(26.7)	(3.2)
Share buy back	(29.3)	–
Financial investments & shares	8.4	2.6
Acquisitions and disposals	(359.1)	22.8
Dividends	(41.6)	(36.4)
Net funds flow	**(399.8)**	**153.0**
Foreign exchange	(27.0)	18.2
Funds flow post exchange	(426.8)	171.2
Opening effective net debt	(136.6)	(307.8)
Closing effective net debt	**(563.4)**	**(136.6)**

Net capital expenditure was £110.6m (2004: £66.5m) including £57.0m (2004: £16.2m) of additions purchased under finance leases offset by £8.1m of proceeds from disposals. The finance lease expenditure included £37.8m (2004: £0.2m) in UK Buses that arose from the conversion of operating lease arrangements to finance leases in the year.

Net interest paid of £22.0m (comprising the cash outflow of £21.8m adjusted for loan fee amortisation of £0.2m) increased in the year following the termination of a US$200m interest rate swap during the year.

The receipt of tax rebates in respect of prior years in 2004 resulted in reduced tax payments last year.

Acquisitions and disposals includes the acquisition of the Alsa Group of £367.4m, other acquisitions of £65.5m, net proceeds of £49.6m from the sale of ATC, £25.4m from the disposal of Bosnjak Group and other items, including cash disposed, of £1.2m. The 2004 inflow includes £26.4m from the disposal of three Australian Bus subsidiaries in October 2004.

DIVIDEND

An interim dividend of 10.0p per share was paid in October 2005 and a final dividend of 22.25p per share will be paid in May 2006, bringing the total dividend for the year to 32.25p. This is a 7.5% increase in total dividends declared compared to 2004. This dividend is covered 2.5 times (2004*: 2.3 times) by normalised profits after tax.

PENSIONS

The Group's principal defined benefit pension schemes are all in the UK. The most recent triennial actuarial valuations were carried out at 31 March 2004 and 31 March 2002 for the two Bus schemes, 5 April 2004 for Coaches and 31 December 2004 for the Train schemes. These valuations showed funding levels of 88% to 107% on the Bus schemes, 65% on the Coach scheme and 86% to 95% on the Train schemes. Approximately 1,400 (20%) Bus division employees are members of the two schemes, which have been closed for some years, and some 450 members of staff are members of the Coach division scheme which was closed in June 2002. New employees in the Bus and Coach division are offered membership of defined contribution pension schemes. In the Trains division approximately 11,000 employees are members of the Train schemes.

The balance sheet includes provision for the deficits of the defined benefit schemes in the group which includes the Railways Pension Scheme ("RPS"), where our main obligation is to pay the contributions agreed with the scheme actuary over the life of our franchise.

Overall, the IAS 19, 'Employee Benefits', deficits have increased as the increased values of the financial assets, reflecting the improvements in global equities, have been offset by increased liabilities arising from decreases in the discount rate and in the case of the RPS, an increase in the longevity assumptions. In the coach scheme the deficit increased to £14.9m (2004: £11.0m). In the Bus schemes, the deficit has increased slightly to £37.8m (2004: £36.2m). The RPS deficit increased by £16.3m to £34.2m, mainly due to the change in the longevity assumptions and the reduction in the discount rate.

FACILITIES

One of the Group's banking facilities expires in October 2006. We are working with the Group's banks to put in place a new banking arrangement over the next two to three months.

ACCOUNTING POLICIES

IFRS

The Group's Annual Report and Accounts for the year ended 31 December 2005 has been prepared using accounting policies that comply with International Accounting Standards ("IAS") and International Financial Reporting Standards ("IFRS").

We released our restated 2004 results under IFRS on 27 June 2005 and issued our first set of interim results under IFRS on 28 July 2005. It has been a significant additional workload for the Group Finance team and shareholders will note a number of changes in presentation of our primary statements and significant additional disclosure. Due to the length of the disclosures required under the new financial standards, the Group will prepare a summary report and accounts for the 2006 year end. Shareholders will have the option whether to receive the full annual report and accounts or the summary version.

We believe that one of the principal benefits of IFRS is to provide consistency in accounting standards across geographic areas and industries. With this in mind, we have worked with our peers to produce a consistent approach to the unique difficulties generated by the RPS to the requirements of IAS 19.

Adam Walker
Finance Director

Corporate Responsibility

Reliable, resourceful and responsible…

Corporate responsibility is at the heart of the National Express Group; it's about what we do and how we do it. During 2005, we continued to make a positive contribution to the quality and accessibility of public transport in the communities where we operated.

Transport is fundamental to the success of communities. It affects productivity, stability and growth, and by influencing the movement of people and goods it has a wide social impact on the economy.

At National Express Group, we provide a socially inclusive service with environmental benefits. We believe we provide a solution to many of the sustainability issues that concern key stakeholders. By the very nature of what we do, we contribute to communities.

We recognise that we need to legitimately influence the views of policy makers by promoting policies that benefit public transport. In February we held our first bus conference which focused on ways in which we can stimulate further growth in the bus market. Well attended by a range of key stakeholders with interests in the growth of public transport, the conference provided an excellent platform for the sharing of best practice across the industry. This year, we have worked with the Department for Transport to develop the UK rail system for the future through its "Making the Case for Rail" initiative. Operationally, we believe that improving service performance, which was a key focus in 2005, will encourage more customers onto the rail network. Overseas, our North American and Spanish divisions pride themselves on the provision of first class services.

SAFETY

In 2005 we continued to reduce the risk of passenger and employee injuries across our operations. Following the launch of the Group's first combined Health, Safety and Environment Plan in 2004, the 2005/06 plan seeks to encourage continuous improvement. During 2005, the Group's safety philosophy, policy and resources were reviewed by an independent third party, Arthur D Little. This report concluded that there were many positive aspects to the Group's approach.

The London bombings in July 2005 illustrated that public transport remains a target for terrorist attack. However, supported by many selfless contributions to passenger safety by our employees, and backed by the determination of customers, travel patterns have on the whole returned to normal.

OPERATIONS

We operate a devolved business with all our operations managed locally. We are committed to constant improvement in our services and track our performance through both independent and industry monitoring. A wide range of key performance indicators are used to manage the business. The major issues are: punctuality, reliability, safety, value for money, accessibility and comfort of our customers.

We also continue to focus on how technology and innovation can make public transport more accessible. Through the development of our new 'Levante' vehicle, coach travel is for the first time easy for customers with mobility issues.

"Corporate responsibility is at the heart of the Group; it's about what we do and how we do it."

Top
The new easy-access Levante coach

Middle
Winners of the Express Awards, the Group's reward and recognition scheme

Bottom
Crystaleye technology providing onboard monitoring

"There are considerable economic, social and environmental benefits of using public transport. We believe encouraging customers to use these services is good for society as a whole."

ENVIRONMENT

On a per passenger kilometre basis, the train, coach and bus services operated by our Group are significantly more environmentally friendly than journeys undertaken using a car. Using public transport instead of the car is the single best way in which to reduce our individual environmental footprint.

New technology can play a key role in helping us to improve our environmental performance. However, bus and coach prioritisation on roads and the efficient running of the rail network can also have a dramatic impact on emissions performance. In addition, if we can reduce journey times then more people will be attracted to our services – which will further improve our performance on a per passenger kilometre basis. The significant environmental issues which impact our business are: emission of greenhouse gases; emission of local atmospheric pollutants; incidents and prosecutions; and depot infrastructure & land contamination.

PEOPLE

During 2005, our primary objective was to engage more actively with employees at all levels. Understanding our employees in greater depth will enable managers to develop the business. We believe there is a strong correlation between employee satisfaction and customer satisfaction and during the year we placed greater focus on analysing the results from these two areas.

Although contact with employees is generally undertaken at a local level, we have developed initiatives which we believe benefit all our subsidiaries. Our Human Resources Forum shares best practice across the Group. Our key people challenges are: employee satisfaction; succession planning; training and development; recruitment and retention, industrial relations, diversity and equal opportunities.

PLANNING FOR THE FUTURE

In developing transport for the future, we must consider the requirements of users, whether business, commuter or leisure travellers. Transport planning requires long-term strategy, as demonstrated by the way in which a quality transport network was instrumental in winning the 2012 Olympics. As a major service provider and employer in the area, we look forward to playing an important part in this.

We constantly look for ways to improve our products. However, we believe there are still further opportunities to improve the utilisation of the existing infrastructure such as through the use of 'smart' technology; and through the increased roll-out of priority schemes for public transport and better use of road space. We also believe that as national and regional transport infrastructure is developed, the planning system needs to show greater linkage between the provision of housing and the location of jobs.

For a full account of our progress on the social, ethical, environmental, employee and community challenges that face our business please see our 2005 Corporate Responsibility Report. It is available for download at www.nationalexpressgroup.com

Board of Directors *and company secretary*

Clockwise, from top left:

David Ross

Phil White CBE

Ray O'Toole

Sir Andrew Foster

Tony McDonald

Tim Score

Barry Gibson

Sue Lyons OBE

Adam Walker

Jorge Cosmen

David Ross Chairman David Ross joined the Board in February 2001 as a Non Executive Director and became Chairman in May 2004. He is Non Executive Deputy Chairman of The Carphone Warehouse Group PLC, Chairman of Gondola Holdings PLC and a Non Executive Director of Trinity Mirror PLC, Big Yellow Group PLC and Cosalt PLC. David is a chartered accountant. Aged 40.

Phil White CBE Chief Executive Phil White has extensive experience of the transport business gained over many years. He is a chartered accountant and worked for South and West Yorkshire Passenger Transport Executive and Yorkshire Rider in various senior finance roles. In July 1994 he was appointed Group Finance Director of West Midlands Travel Limited becoming Managing Director in November 1995. He was appointed to the Board of National Express Group in January 1996 and became the Group's Chief Executive in January 1997. He is the 2006 President of the Confederation of Passenger Transport. Aged 56.

Ray O'Toole Chief Operating Officer Ray O'Toole joined the Board in November 1999 as Chief Operating Officer. He has 30 years' operational experience in transport. He spent the early part of his career in various engineering management positions at Greater Manchester Passenger Transport Executive. He joined National Express from FirstGroup plc, where he was responsible for its operations in Yorkshire and the North West as both Divisional Director and Group Engineering Director. He has been elected a member of the British Transport Police Authority this year. Aged 50.

Sir Andrew Foster Non Executive Director Sir Andrew was appointed to the Board in August 2004. He has had an extensive career in the public sector having served as Chief Executive of the Audit Commission for England and Wales between 1992 and 2003. Before this he was Deputy Chief Executive of the NHS and is currently Deputy Chairman of the Royal Bank of Canada Europe Limited and a Non Executive Director of the Sports Council, Nestor Health Care, PruHealth and Liberata IT Outsourcing. Aged 61.

Tony McDonald Company Secretary Tony McDonald was appointed Company Secretary in May 2000. Prior to joining the Group he held senior legal positions with the in-house legal teams at Guardian Royal Exchange and BP and in private practice with Slaughter and May. He is a qualified solicitor. Aged 45.

Tim Score Non Executive Director Tim Score was appointed to the Board in February 2005. He is Chief Financial Officer at ARM Holdings plc. Before joining ARM he worked as Finance Director of Rebus Group Limited which he joined in 1999. Between 1997 and 1999, he was Group Finance Director of William Baird plc, which he joined from LucasVarity plc. He is a chartered accountant. Aged 45.

Barry Gibson Non Executive Director Barry Gibson joined the Board in November 1999 and became the Senior Independent Director in September 2005. He served on the Board at BAA plc as Group Retailing Director. Until October 2001 he was the Group Chief Executive of Littlewoods Organisation plc. He is also a Non Executive Director of William Hill PLC and Homeserve plc. Aged 54.

Sue Lyons OBE Non Executive Director Sue Lyons joined the Board in May 2001. Her career has been principally with Rolls Royce which she joined in 1975 and where she held the position of Managing Director, Defence (Europe). In 1998 she received an OBE for services to the engineering industry and in 1999 she was awarded the European Woman of Achievement Award – Business Category. Sue is also a Non Executive Director of Wagon plc and AWG plc. Aged 53.

Adam Walker Finance Director Adam Walker joined the Board in March 2003, as Finance Director. He joined the Group in October 2001 as Corporate Development Director working closely with the Group's operational subsidiaries on developing their financial strategies. Prior to joining the Group he was Director of Corporate Finance at Arthur Andersen and an Associate Director at NatWest Markets. He is a chartered accountant. Aged 38.

Jorge Cosmen Non Executive Director Jorge Cosmen was appointed to the Board on 1 December 2005 at the time of the Alsa transaction. He was Corporate Manager for the Alsa Group from 1995, becoming Chairman in 1999. Between 1986 and 1995 he worked in sales, distribution and banking. He is a Business Administration graduate and has an International MBA from the Instituto de Impresa in Madrid. Aged 37.

Divisional Heads

Paul Bunting Chief Executive, Coach Division Paul Bunting joined the Group in 2004 as Managing Director at Midland Mainline from Stagecoach, where he was Business Development Director for the UK Bus Division. Prior to that Paul has held a number of senior positions within the rail industry, principally in planning and marketing roles in both InterCity and Regional Railway businesses. Aged 46.

Javier Carbajo Chief Executive, Alsa Group Javier Carbajo joined the Group in December 2005 when National Express acquired Alsa. A graduate in economics and with an MBA, Javier has been with Alsa for 27 years during which time he has held management positions in most areas of the business. In 1999 he was appointed Chief Executive of Enatcar following its acquisition by Alsa. In 2003 he was appointed CEO of Alsa Group. Aged 53.

David Franks Chief Executive, Trains Division David Franks joined the Group in January 2003 as Trains Divisional Director (North). He was appointed as Chief Executive of the Trains Division in February 2004. David has over 30 years' experience in the rail industry and immediately prior to joining National Express he was Managing Director of South Central at the GoAhead Group. Aged 48.

Brian Stock Chief Executive Officer North America Brian joined the Group in 2002 through the acquisition of Stock Transportation. He has overseen the North American student bus operations since March 2003 and was appointed as Chief Executive of the Group's North American operations in October 2004. Brian has had over 25 years in the bus industry. Prior to joining the Group, Brian was President of Stock Transportation and responsible for guiding the business to become the fifth largest school bus company in North America. Aged 46.

Denis Wormwell Chief Executive, Bus Division Denis Wormwell joined the Group as Chief Executive, Coach Division in January 2002. In February 2006 he was appointed as successor to Brian Jackson as Chief Executive of the Group's Bus Division. Prior to joining the Group, Denis spent many years within the holiday industry both overseas and in the UK building successful leisure brands such as Club 18-30 and JMC. He joined the company from Thomas Cook Group where he was Sales and UK Service Delivery Director. Aged 44.

Directors' Report

The Directors are pleased to present their Annual Report and the audited accounts for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES

The principal activity of the Group is the provision of mass passenger transport services.

REVIEW OF THE BUSINESS

A review of the Group's activities, the principal events during the year and the future development of the Group is given in the Chairman's statement, the Chief Executive's Report and the Operating and Financial Reviews set out on pages 8 to 21.

RESULTS AND DIVIDENDS

The profit before tax for the year ended 31 December 2005 was £89.3m. (2004: £77.9m restated) and a loss/profit attributable to equity shareholders of £2.8m (loss) (2004: £62.2m restated) was transferred to reserves.

The Directors recommend a final net dividend of 22.25p per share which, together with the interim net dividend of 10.0p per share paid on 7 October 2005, gives a total net dividend for the year of 32.25p per share (2004: 30.0p). If approved by shareholders, the final dividend will be paid on 26 May 2006 to shareholders on the register at 28 April 2006.

DIRECTORS

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

David Ross
Phil White
Jorge Cosmen (appointed 1 December 2005)
Sir Andrew Foster
Barry Gibson
Sue Lyons
Ray O'Toole
Tim Score (appointed 21 February 2005)
Tim Stevenson (resigned 21 September 2005)
Adam Walker

Ray O'Toole and Adam Walker will retire by rotation at the Annual General Meeting and, being eligible, will offer themselves for re-election. Jorge Cosmen will stand for election at the Annual General Meeting following his appointment to the Board on 1 December 2005. Tim Stevenson resigned as a Director of the Company on 21 September 2005.

The names and brief biographies of the current Directors appear on pages 24 and 25. Details of the remuneration of the Directors, their interests in shares of the Company and service contracts are contained in the Report on Directors' remuneration on pages 33 to 39.

DIRECTORS' LIABILITY INSURANCE

The Company maintains Directors' and Officers' Liability Insurance in respect of legal action that might be brought against its Directors. The Companies (Audit, Investigations and Community Enterprise) Act 2004 came into force on 6 April 2005. This Act extends the indemnities allowable by a company to its directors. At this years' AGM the Company is asking shareholders to approve an amendment to the Company's articles of association to allow the granting of indemnities in line with the new statutory provisions.

EMPLOYMENT POLICIES

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

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

EMPLOYEE INVOLVEMENT

The Group encourages employee involvement in its affairs. Subsidiary companies produce a range of internal newsletters and circulars which keep employees abreast of developments. In addition, the Group-wide *express* magazine is aimed at keeping employees in touch with the worldwide activities of the Group. Senior management within the Group meets regularly to review strategic developments. In December 2005 a management conference entitled 'The Way We Work Together' was held to listen to feedback given from employee focus groups. Dialogue takes place regularly with trade unions and other employee representatives on a wide range of issues.

Employee satisfaction is tracked through an annual employee survey. Results from the 2005 survey have been fed back to employees and action plans at local level rolled-out. A number of Group initiatives were launched in 2005 for frontline staff. For example, the 'Express Awards' reward outstanding employee activities in and out of the workplace and the 'Express benefits' package gives UK employees competitive discounts with leading retailers.

Directors' Report

ENVIRONMENTAL POLICY

Details of the Group's environment policy and environmental initiatives are to be found in the separate Corporate Responsibility Report issued with the Annual Report and Accounts.

CHARITABLE AND POLITICAL CONTRIBUTIONS

Charitable donations made during the year totalled £286,000. (2004: £328,000) which included a donation of £40,000 to the Asian Tsunami appeal. It is the Group's policy not to make political donations and accordingly none were made in the year.

CREDITORS' PAYMENT POLICY AND PRACTICE

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

Trade creditor days of the Company for the year ended 31 December 2005 were 24 days (2004: 26 days) based on the ratio of Company trade creditors at the end of the year to the amounts invoiced during the year by trade creditors.

SUBSTANTIAL SHAREHOLDINGS

The Company has been notified of the following holders of 3% or more of its issued share capital for the purpose of Section 198 of the Companies Act 1985, as at 7 March 2006:

Barclays Bank PLC	20,358,394	14.92%*
European Express Enterprises Ltd	16,580,175	11.02%*
Standard Life Group	13,752,075	10.08%*
AVIVA Plc	5,573,333	4.07%*
Legal & General Group plc	4,528,145	3.00%*

* Percentages as at date of notification

ANNUAL GENERAL MEETING

The Annual General Meeting will be held on 24 May 2006. Shareholders will be asked to approve five items of special business, details of which are given in the Notice of Meeting accompanying this report.

PURCHASE OF OWN SHARES

The Company was granted authority at the Annual General Meeting in 2005 to purchase its own shares up to an aggregate value of 10% of the issued nominal capital. This authority expires at this year's Annual General Meeting and a resolution will be proposed for its renewal.

A limited share buy back programme was implemented in 2005 and during the period 28 February 2005 to 17 May 2005 the Company made the following purchases of its ordinary 5p shares:

	Number of shares	% age of issued share capital	Nominal value	Average purchase price
Shares purchased	3,300,000	2.39%	£165,000	£8.80
Shares cancelled	2,900,000	2.10%	£145,000	–
Shares put into Treasury	400,000	0.29%	£20,000	–

GOING CONCERN

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

By order of the Board

Tony McDonald
Secretary
9 March 2006

Corporate Governance

THE BOARD AND ITS PRINCIPAL COMMITTEES

Details of the Board and its principal committees are set out below. Attendance at meetings by individual directors during 2005 is shown next to the Director's name. All of the Committees are authorised to obtain legal or other professional advice as necessary, to secure the attendance of external advisers at its meetings and to seek information required from any employee of the Company in order to perform its duties. The full terms of reference of the Committees are available on the Company's website at www.nationalexpressgroup.com.

The Board of Directors

Fifteen meetings were held during the year.

David Ross Chairman (15)
Jorge Cosmen Non Executive Director (1)+
Sir Andrew Foster Non Executive Director (13)
Barry Gibson Senior Independent Director (from 21 Sept 2005) (15)
Sue Lyons Non Executive Director (15)
Tim Score Non Executive Director (13)+
Tim Stevenson Senior Independent Director (to 21 Sept 2005) (10)*
Phil White Chief Executive (15)
Ray O'Toole Chief Operating Officer (15)
Adam Walker Finance Director (15)

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

+ Tim Score and Jorge Cosmen were appointed to the Board on 21 February 2005 and 1 December 2005 respectively

* Tim Stevenson resigned from the Board on 21 September 2005

There is a formal schedule of matters reserved for the Board's attention which includes the review and approval of Group strategy and policies, major business acquisitions or disposals, major capital projects, Group budgets, significant changes to accounting policies, capital structure and dividend policy.

Audit Committee

Five meetings were held during the year.

Tim Score Chairman (appointed Chairman April 2005) (4)
Tim Stevenson Chairman (resigned as Chairman April 2005) (2)
Sir Andrew Foster (5)
Barry Gibson (5)

The Committee oversees the process for selecting the external auditor, assesses the continuing independence of the external auditor and recommends approval of the audit fee to the Board. It will ensure that provision of non audit services does not impair the external auditors' independence or objectivity. It will discuss with the external auditor the nature and scope of the audit and any issues or concerns arising from the audit process. The Committee reviews the internal audit programme, considers major findings of the internal audit investigations and reviews management's financial reporting and risk management. The Committee reviews the half-year and annual financial statements and the effectiveness of the Company's internal control and risk management systems.

Remuneration Committee

Eight meetings were held during the year.

Barry Gibson Chairman (8)
Sue Lyons (8)
Tim Score (appointed to committee 14 Dec 2005) (0)
Tim Stevenson (resigned Sept 2005) (6)

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

Nomination Committee

Two meetings were held during the year.

David Ross Chairman (2)
Sir Andrew Foster (2)
Sue Lyons (2)

The Committee is responsible for identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise. It will give full consideration to succession planning, and keep under review the leadership needs of the organisation, both executive and non executive. The Committee will review the time required from a Non Executive Director and use performance evaluation to assess whether the Non Executive is spending enough time to fulfil their duties.

Safety and Environment Committee

Four meetings were held during the year.

Sue Lyons Chairman (4)
Jorge Cosmen (appointed to committee 1 Dec 2005) (1)
Sir Andrew Foster (3)
Barry Gibson (4)
David Ross (3)
Tim Score (appointed to committee Feb 2005) (4)
Tim Stevenson (resigned from committee Sept 2005) (3)

The Committee reviews the Group's safety and environment practices, procedures and record.

Corporate Governance

The Board supports the highest standards of corporate governance and ethical practices within all its operations and continues to review its policies on an ongoing basis. The Board has endorsed a set of principles which establish the framework for how its businesses operate. Key to these is working in an open and honest manner. The Company supports the Combined Code on Corporate Governance published in July 2003 (the 'Combined Code').

STATEMENT OF COMPLIANCE WITH THE COMBINED CODE

In the opinion of the Directors the Group has complied with the Combined Code throughout the year apart from:

- the Audit Committee did not have a member with recent and relevant financial experience from 5 May 2004, when David Ross resigned from the Committee, until the appointment of Tim Score to the Committee in February 2005.
- The Board has not completed a performance evaluation process during the current year. It has however, undertaken preliminary work in preparation for an evaluation exercise involving external consultants in 2006 and led by the Senior Independent Director.

APPLYING THE PRINCIPLES OF GOOD GOVERNANCE

The Board of Directors, Chairman and Chief Executive

The Directors believe it is essential for the Group to be led and controlled by an effective Board that provides entrepreneurial leadership within a framework of sound controls. The Board is responsible for setting the Group's strategic aims, its values and standards and ensuring the necessary financial and human resources are in place to achieve its goals.

The Board consists of the Chairman, three Executive and five Non Executive Directors. The offices of Chairman and Chief Executive are held separately and the division of responsibilities between the Chairman and Chief Executive is shown below.

Main responsibilities of the Chairman include:

- chairing and managing the business of the Board;
- together with the Chief Executive, leading the Board in developing the strategy of the business and ensuring this is effectively implemented by the Executive management team;
- ensuring that there is effective dialogue with investors concerning mutual understanding of objectives;
- in conjunction with the Nomination Committee, taking responsibility for the composition and replenishment of the Board;
- periodically reviewing with the Board its working practices and performance; and
- ensuring there is effective contribution from the Non Executive Directors and a constructive relationship between the Executive and Non Executive Directors.

Main responsibilities of the Chief Executive include:

- the development and implementation of management strategy;
- the day to day management of the Group;
- managing the executive management team; and
- fostering relationships with key stakeholders.

Barry Gibson is the Senior Independent Director. The Board considers all of the Non Executive Directors to be independent other than Jorge Cosmen, and considered David Ross to be independent prior to his appointment as Chairman. Mr Cosmen is not considered to be independent by the Board due to his close links with the Alsa business and significant interests in the shares of the Company. The Non Executives bring a variety of different experiences and considerable knowledge to assist with Board decisions. Non Executive Directors do not participate in any of the Company's share option or bonus schemes and their service is non-pensionable. Short biographies of the Directors are to be found on page 25.

The Board meets at least eight times during the year. In 2005 the Board held an off site strategy meeting and visited businesses in Canada. There is a formal schedule of matters reserved for the Board's decision, the main terms of which are shown on page 28 together with the attendance record of the Directors. During the year the Chairman met on several occasions with the Non Executives without the Executive Directors present to allow informal discussions on a variety of issues.

The Executive Directors are responsible for the day-to-day management of the Group's businesses, implementation of its strategy, policies and budgets and its financial performance. Executive management meetings, involving the Executive Directors and senior management from the divisions are held regularly to discuss current issues.

The Company purchases liability insurance to cover the Directors and officers of the Company and its subsidiaries.

COMMITTEES OF THE BOARD

The Board has established a number of committees with defined terms of reference and receives reports of their proceedings. The principal committees are the Remuneration Committee, the Nomination Committee, the Audit Committee and the Safety and Environment Committee. The members of each committee, attendance and main duties are shown on page 28. In addition there is an Executive Committee with authority to approve routine matters of business and a Treasury Committee which reviews the Group's banking facilities, treasury reports and tax matters.

APPOINTMENTS TO THE BOARD

The Nomination Committee leads the process for Board appointments and makes recommendations to the Board. The Committee will prepare a description of the role and requirements for any particular appointment based on its evaluation of the Board as a whole.

The terms and conditions of appointment of the Non Executive Directors are available for inspection at the Company's registered office during normal business hours and at the Annual General Meeting of the Company. The Non Executive Directors disclose to the Board their other significant commitments.

External advisers are normally appointed when recruiting Board members; they use as a basis for their search a description of the role and capabilities required for a particular appointment proposed by the Nomination Committee.

Corporate Governance

THE WORK OF THE NOMINATION COMMITTEE

Before making a recommendation for an appointment to the Board the Nomination Committee will:

- prepare a job specification and a description of the capabilities required for a particular post;
- consider the current composition of the Board and mix of skills and experience; and
- where appropriate, and in particular where a vacancy for a Non Executive Director arises, use an external search consultancy and/or open advertising.

Tim Score was appointed as a new Non Executive Director in February 2005 following the recognition by the Committee that there was a need for a Non Executive with recent and relevant financial experience. External consultants were used for this appointment.

On completion of the Spanish Alsa transaction in December 2005 Jorge Cosmen was appointed to the Board as a Non Executive Director. The Board considers his appointment to this position as key in facilitating the successful integration of Alsa within the Group, in providing an interface between the two businesses and in providing input to the Board on the Spanish market. It was therefore not appropriate to use an external search agency for this appointment.

During the year the committee has undertaken work in relation to both succession planning and skills assessment of senior management throughout the Group for which purpose external consultants were retained.

INFORMATION AND PROFESSIONAL DEVELOPMENT

Reports from the Executive Directors, which include in-depth financial information, are circulated to Board members prior to every Board meeting. Senior management and advisers give presentations to the Board on significant matters during the year.

Under the direction of the Chairman, the Company Secretary is responsible for ensuring Board procedures are followed and applicable rules and regulations are complied with and advises the Board on governance matters. All Directors have access to the advice and services of the Company Secretary and the appointment or removal of the Company Secretary is a matter for the Board as a whole. There is a procedure in place for any Director to take independent professional advice where considered necessary.

On appointment, Directors are offered an appropriate training course and are thereafter encouraged to keep abreast of matters affecting their duties as a Director and to attend training courses relevant to their role. A formal induction process is in place for new Directors the aims of which are to:

- build an understanding of the nature of the Company, its business and the markets in which it operates;
- establish a link with the Group's employees;
- build an understanding of the Group's main relationships including stakeholders and customers.

The induction process includes:

- a series of meetings with Directors and senior management tailored to the individual's needs, including site visits and meetings with divisional Chief Executives;
- provision of key information on Group policies and procedures;
- an appropriate Director's training course;
- an opportunity, if requested by the individual or shareholders, for the Director to meet with major shareholders/fund managers.

PERFORMANCE EVALUATION

The Board undertook preliminary interviews during 2005 with the Directors in preparation for an external evaluation process which is scheduled to take place in the first half of 2006. This exercise covers the performance evaluation of the Chairman, the Board and its committees.

RE-ELECTION

In accordance with the Company's Articles of Association all Directors submit themselves for election at the Annual General Meeting following their appointment and thereafter by rotation at least once every three years. Non Executive Directors are appointed for specific terms, subject to re-election. Non Executive Directors will only be put forward for re-election if, following performance evaluation, the Board believes the Director's performance continues to be effective and demonstrates commitment to the role.

REMUNERATION AND SERVICE CONTRACTS

The report on Directors' remuneration including details of remuneration policy and service contracts is set out on pages 33 to 39.

ACCOUNTABILITY AND AUDIT

Statements of the respective responsibilities of the Directors and Auditors are set out on pages 32 and 40.

Internal Control

The Board's responsibilities

The Board has overall responsibility for the Group's system of internal control and for reviewing its effectiveness. The Board maintains full control and direction over appropriate strategic, financial, operational and compliance issues and has put in place an organisational structure with formally defined lines of responsibility, delegated authorities and clear operating processes. The systems that the Board has established are designed to safeguard both the shareholders' investment and the assets of the Group, and are described below.

Corporate Governance

Key elements of the control framework

Strategic and financial planning – an annual budgeting and strategic planning process has been established whereby each division and constituent operating companies assesses its competitive position and goals, taking account of the strategic risks faced. This strategy is translated into a financial plan with clear milestones and performance indicators.

Performance management – the performance of each division and operating company against its plan is closely monitored by a formal monthly reporting process and by the attendance of the Executive Directors at monthly divisional board meetings.

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

Capital investment – a clear process is in place for the approval of capital expenditure, which includes detailed appraisal of the benefits of the proposed investment and any associated key risks. Material capital expenditure requires Board approval.

Health and Safety – Health and safety standards and benchmarks have been established in all our businesses and the performance of operating companies in meeting these standards is closely monitored.

Risk management reporting process – each division and operating company evaluates its internal control environment and key risks, and the results are cascaded through management levels and the Audit Committee before being presented to the Board. This process is reviewed on a regular basis to ensure the validity and relevance of the key risks reported and presented to the Board on a quarterly basis, unless exceptional issues arise. The review covers strategic, financial, compliance and risk management controls. These procedures are mandated and designed to manage the risk in order to ensure that the operations achieve their business objectives.

Internal audit – the internal control system is independently monitored and supported by an outsourced internal audit function. The internal audit function reports to management and the Audit Committee on the Group's financial and operational controls, and reviews the extent to which its recommendations have been implemented.

Board-level reporting on internal control – during the year the Audit Committee has reviewed regular reports from the internal audit department, the external auditors, and executive management on matters relating to internal control, financial reporting and risk management. The Audit Committee provides the Board with an independent assessment of the Group's financial position, accounting affairs and control systems. In addition, the Board receives regular reports on how specific risks that are assessed as material to the Group are being managed.

Review of internal control effectiveness

The system of internal control and risk management, described above, has been in place for the year under review and up to the date of approval of this Annual Report and Accounts. Such a system is designed to manage, rather than to eliminate, the risks inherent in achieving the Group's business objectives, and can therefore provide only reasonable and not absolute assurance against material misstatement or loss. The effectiveness of this system has been regularly reviewed by the Directors in line with the Guidance for Directors on the Combined Code published by the Financial Reporting Council (Turnbull guidance).

Audit Committee and Auditors

The members of the Audit Committee, attendance and main duties are shown on page 28.

THE WORK OF THE AUDIT COMMITTEE

The Committee meets at least three times a year and receives papers for consideration in advance of the meeting. The papers reflect the agenda prepared by the Secretary in conjunction with the Committee Chairman. There are a number of standing items considered during the year such as consideration of the internal and external audit reports, review of the preliminary and interim announcements and review of the Annual Report and Accounts.

Other items that were considered and discussed during the year included a review of progress on implementation of the new International Financial Reporting Standards and the resulting restatement of the accounts, annual fitness checks within the subsidiaries, the external auditor plan for 2005 and the external auditor's fees.

At the invitation of the Committee, and as appropriate to the matters under discussion, meetings may be attended by the Executive Directors and internal and external auditors. Full minutes are kept by the Secretary of the matters considered and decisions taken by the Committee. Outside of the meeting process the Committee Chairman has regular contact with the Executive Directors, other committee members and the auditors on a variety of topics.

Corporate Governance

The Audit Committee assesses and reviews on a regular basis the independence of the external auditors. As part of their determination the Audit Committee considers a report by the external auditor on the firm's independence which is required in order to carry out their professional duties and responsibilities as auditors. The majority of non audit work undertaken by the external auditors during the year relates to three items. These were tax advisory services, advice on the implementation of International Financial Reporting Standards and financial due diligence work on the Alsa transaction. All of these items the Committee believes would be impractical and costly to provide through another party. The Committee has an approved policy on the provision of non-audit services. The policy sets the approvals policy for the following types of service:

- services that are considered to have 'general pre-approval' by the Audit Committee, by virtue of the approval of the policy;
- services that require 'specific pre-approval', on a case-by-case basis, before any work can commence; and
- services that cannot be supplied by the external auditors ('prohibited services').

In deciding whether or not to grant approval for the provision of specific services by the external auditors, the Audit Committee includes in its consideration the following factors:

i) whether the external auditing firm is best placed to provide an effective and efficient service, given its familiarity with the Company's processes, systems and people; and
ii) the level of non-audit fees paid to the external auditors in the year as a proportion of the annual external audit.

WHISTLE BLOWING POLICY

A Group 'whistle blowing' policy has been issued to all Group companies to ensure a consistent approach across the Group.

RELATIONS WITH SHAREHOLDERS

Dialogue with Institutional Shareholders

The Company maintains regular dialogue with its institutional shareholders and fund managers through a variety of meetings and presentations throughout the year. Presentations are given by the Executive Directors following the full year and half year results to institutional investors, analysts and brokers which the Non Executive Directors may attend. In addition, the Company's brokers provide confidential feedback to the Company on the views of the major institutions following the interim and final results. A biennial independent review of the Company's major investors is undertaken which asks for feedback on financial performance and management. The next review will be in 2006.

During the year written responses are given to correspondence received from shareholders and all shareholders receive copies of the Annual Report and Accounts and Interim Report. The Company has introduced an electronic communications facility to enable shareholders to receive documentation such as the Annual Report and Accounts electronically and also to cast their votes by proxy electronically. The Company has also introduced an electronic proxy appointment service for CREST members.

The Company's website, www.nationalexpressgroup.com, houses wide ranging information about the Group, including the final and interim announcements, Annual Report and Accounts, press releases, share price data and links to subsidiary company websites.

The Annual General Meeting

The Annual General Meeting provides an opportunity for all shareholders to question the Chairman and Directors on a variety of topics, and information is provided at the meeting on different aspects of the Group's activities. All of the Company's Directors are present at the meeting. Proxy votes, including the number of abstentions, are displayed on the resolutions following the result on a display of hands. Notice of the Annual General Meeting and related papers are sent to shareholders at least 20 working days before the meeting.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Annual Report contains the accounts and Directors' remuneration report in accordance with applicable United Kingdom law and International Financial Reporting Standards as adopted by the European Union. The Directors are required to prepare accounts for each financial year that present fairly the financial position of the Company and of the Group and the financial performance and cash flows of the Group for that period. In preparing those accounts the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- present information and accounting policies in a manner that provides relevant, reliable and comparable information; and
- state that the Company has complied with applicable accounting standards, subject to any material departures disclosed and explained in the accounts.

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

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Report on Directors' Remuneration

This report has been approved by the Board and the Remuneration Committee. The report will be put to shareholders at the 2006 Annual General Meeting for consideration and approval.

REMUNERATION COMMITTEE

The members of the Remuneration Committee (the Committee) throughout the year, all of whom were independent, and their attendance at meetings are shown on page 28. The terms of reference of the Committee are available on the Company's website at www.nationalexpressgroup.com.

The Committee is responsible for determining the fees of the Chairman and the remuneration and conditions of employment of the Executive Directors. It also approves the remuneration and conditions of employment of the Divisional Chief Executives and Company Secretary and reviews the remuneration of the senior management team.

The Committee has appointed independent remuneration consultants, New Bridge Street Consultants LLP (NBSC), to advise on all aspects of senior executive remuneration. NBSC has no other connection with the Group other than in the provision of advice on executive and employee remuneration. In addition, the Committee has appointed an independent consultant, Graham Abbey of 7days Limited, to assist the Committee particularly with the development of strategy on remuneration policy. The Chief Executive provides guidance to the Committee on remuneration packages for senior executives employed by the Group (but not in respect of his own remuneration).

The Committee's recommendations in 2005 were all accepted and implemented by the Board.

REMUNERATION OF NON EXECUTIVE DIRECTORS

The fees of the Non Executive Directors are set by the Board as a whole following an annual review. The review takes account of fees paid for similar positions in the market, the time commitment required from the Director (estimated as 20 days per year for Non Executive Directors other than the Chairman) and any additional responsibilities undertaken, such as acting as Chairman to one of the Board committees or Senior Independent Director. Non Executive Directors are not eligible to receive pension entitlements or bonuses and may not participate in share option schemes. For 2005 the basic fee for acting as a Non Executive Director was £35,000 a year. An additional fee of £5,000 was paid for chairing one of the Board Committees. An extra fee of £5,000 is paid to the Senior Independent Director. The Chairman, David Ross, has elected to take all of his fees as National Express shares.

REMUNERATION POLICY FOR EXECUTIVE DIRECTORS

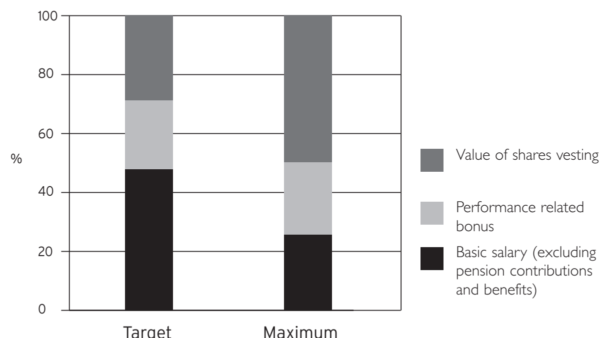
The Committee's remuneration policy is based on the following broad principles:

- to provide a competitive remuneration package to attract and retain quality individuals;
- to align remuneration to drive the overall objectives of the business;
- to align the interests of management with the interests of shareholders; and
- to provide the foundation for overall reward and remuneration beyond the specific roles governed by the Remuneration Committee

The objective of this policy is aligned with the recommendation of the Combined Code on Directors' Remuneration. That is to provide a level of remuneration "to attract, retain and motivate directors of the quality required to run the company successfully, but avoid paying more than is necessary for this purpose. A significant proportion of Executive Directors' remuneration should be structured so as to link rewards to corporate and individual performance."

The policy in relation to subsequent years will be kept under review to ensure that it reflects changing circumstances. In implementing its policy, the Committee has given full consideration to the Principles of Good Governance of the Combined Code with regard to Directors' remuneration.

A substantial proportion of the Executive Directors' pay is performance related. The table below shows the balance between fixed and performance related pay at target and maximum performance levels. Maximum performance assumes achievement of maximum bonus and full vesting of shares under the LTIP.



Report on Directors' Remuneration

ELEMENTS OF REMUNERATION

Summary of the components of the Executive Directors' remuneration.

	Objective	Performance Period	Policy
Basic salary	To position at a competitive level for similar roles within comparable markets	Annually	Individual pay levels (using comparable mid-market data for guidance) are determined by reference to the individual's performance, experience in post and potential.
Performance related bonus	Incentivise delivery of performance objectives	1 year	A discretionary bonus scheme is in operation with payments based on the Group's normalised profit* with the extent to which budget is exceeded determining the level of bonus payable.
Pension	To provide competitive benefits inline with with market practice and to act as a retention mechanism and reward long service	Ongoing	The policy is to provide market competitive retirement benefits. Only basic salary is pensionable.
Long Term Incentive Plan	To drive performance, aid retention and align the interests of Executive Directors with shareholders	3 years	Half of any award is subject to EPS growth. The remaining half is subject to the relative shareholder return of the Company (TSR) compared against a bespoke peer group.
Other benefits	To provide competitive benefits in line with market practice	Ongoing	Executive Directors receive a fully expensed car, private health and long term sickness insurance. A cash alternative may be provided according to individual circumstances.

* Normalised profit is profit before tax, goodwill, intangible amortisation and exceptional items

(i) Basic salary

The salary of individual Executive Directors is reviewed at 1 January each year. Account is taken of the performance of the individual concerned, together with any change in responsibilities that may have occurred and the rates for similar roles in a comparator group of companies. The comparator group for the 2005 financial year was made up of three distinct groups of companies. These were a group of transport sector companies drawn from the FTSE 250 with a median market capitalisation of £900m, a group of companies drawn from the FTSE 250 generally with a market capitalisation range from £530m to £1,500m and a sub-sector of the transport sector containing companies more directly comparable to the Company in terms of turnover, staff numbers and/or scope of operations. For 2006 the comparator groups will be based on a similar group of transport sector companies drawn from the FTSE 250.

(ii) Performance-related bonus

Bonus payments for 2005 were based on the Group's normalised profit* with the maximum bonus payable at 60% of basic salary for achieving 112% of budget. Between 100% of budget and 112% the amount of bonus payable was on a straight-line basis with a 25% bonus payable for achieving budget. No bonus was payable if budget was not achieved. An additional bonus of up to 15% of basic salary was payable dependent upon the Group meeting certain customer service objectives.

Following a benchmarking exercise undertaken by New Bridge Street Consultants the maximum bonus payable to Executive Directors has been increased from 75% to 100% of basic salary for 2006. 70% of the bonus payable is based on financial targets and 30% on non-financial targets. No bonus is payable unless the Group's normalised profit* before tax budget is achieved.

(iii) Pensions

Under the terms of their service agreements, Executive Directors are entitled to become members of one of the Group pension schemes or, if preferred, to receive payment of a fixed percentage of salary.

The Committee reviewed the pension arrangements of the Executive Directors during the year in light of the new pension regime coming into force from April 2006 and the introduction of an overall £1.5 million (indexed) life time allowance.

Phil White is a member of an approved defined contribution pension scheme. The pension received on retirement will depend on the total contributions paid, the investment return and the cost of buying an annuity. Ray O'Toole and Adam Walker are members of the National Express Group Staff Pension Plan which is a defined benefit scheme. The benefits from approved pension plans are subject to Inland Revenue limits. Benefits agreed with the Directors which exceed these limits are provided through unfunded unapproved arrangements for Ray O'Toole and Adam Walker and a funded unapproved arrangement for Phil White. Life assurance of four time's basic annual salary is provided. Spouse's pensions are provided in accordance with the terms of the appropriate scheme.

(iv) Incentive scheme and share options

(a) Long term incentive arrangements

The Committee reviews the incentive arrangements offered to Directors on an annual basis to ensure they remain in line with emerging best practice in corporate governance and are appropriate to the needs of the business. As a result of the review in 2004 the Committee recommended the implementation of a new long term incentive plan (LTIP) to replace the previous annual award of share options which the Committee considered no longer met the goals of retention and incentivisation. The LTIP was approved by shareholders at the 2005 Annual General Meeting. The LTIP consists of annual awards of performance and matching shares. Details of the plan are provided below.

Report on Directors' Remuneration

Performance Shares
Executive Directors are eligible to receive a conditional award of shares up to an equivalent of 1 x their annual basic salary. The vesting of the award is conditional on meeting the performance conditions set out below.

Matching Shares
Executive Directors are also eligible to receive awards of matching shares that are based on a personal investment in National Express Group shares funded either through a personal investment (for example using an annual bonus award) or through pledging of shares already held. The maximum "investment/pledge" is 30% of gross salary per annum. Matching awards are based on the ratio of 100 shares for every 30 shares purchased. This is a two for one ratio on a gross of income tax basis. Matching share awards are also conditional on the performance conditions set out below.

If a participant ceases employment before vesting for a "compassionate" reason (eg redundancy, retirement, sale of business out of the company's group) his awards will ordinarily vest. The extent of vesting will be determined by the pro-rata application of the performance conditions up to the date of cessation unless the Committee determines that it would be inappropriate to apply a pro-rata reduction. Awards lapse on cessation of employment for any other reason.

Performance Conditions
There are two distinct performance conditions applying to each award. First, the performance condition attached to one-half of an award (Part 'A') is based on the Company's normalised diluted earnings per share ('EPS') growth performance in excess of inflation over a fixed three year period (three financial years commencing with the financial year in which the award is made). The performance condition attached to the other half of an award (Part 'B') is based on the Company's total shareholder return performance over the same fixed three year period relative to the total shareholder return of a comparator group of over 20 transport companies taken predominantly from the FTSE Industrial Transportation and FTSE Travel & Leisure sectors. The companies comprising the comparator group have been chosen on the basis of their comparability to National Express Group (based on their size and scope of business operations). There is no ability to retest either performance condition.

For the awards made in 2005 Parts A and B will vest in accordance with the tables below:

Average annual growth in the Company's normalised diluted EPS in excess of inflation ('CPI')	Percentage of Part A that vests
Less than 3%	0%
3%	30%
6%	100%
Between 3% and 6%	30% – 100% pro-rata

Note: CPI is a weighted measure of inflation calculated to reflect the scope of the Group's international operations and is currently based two-thirds on UK CPI and one-third on US CPI.

Rank of the Company's Total Shareholder Return against a Comparator Group	Percentage of Part B that vests
Below median	0%
Median	30%
20th percentile	100%
Between median and 20th percentile	30% and 100% – pro-rata

EPS and TSR were chosen for the LTIP as the most appropriate measures of National Express's long term performance since EPS remains an important growth measure and driver and TSR improves shareholder alignment and is consistent with Company objectives of providing long term returns to shareholders.

(b) Executive share options – plan discontinued
The Executive Share Option Plan has been used on an annual basis to grant options to Executive Directors and senior executives in the Group. Following a review in 2004 of incentives provided to senior management the Remuneration Committee recommended that the executive share option grant should be replaced by an annual award made under the long term incentive plan described above. The last grant of executive share options was made in 2004. Executive share options are normally exercisable between three and ten years following its grant, but only if the specified performance condition has been satisfied. There are a limited set of circumstances, such as leaving employment due to injury, disability or redundancy, when performance conditions will not apply to the exercise of an option.

The performance conditions that apply to existing executive share option grants are shown below.

Performance conditions attaching to the grant of executive share options to Executive Directors made in 2004

Tier of option grant	Value of option grant as a percentage of salary	Compound normalised diluted EPS growth target per annum
1	Up to 50%	RPI plus 4%
2	51-100%	RPI plus 5%
3	101-150%	RPI plus 6%
4	151-200%	RPI plus 10%

Straight-line vesting of options will occur if normalised EPS growth falls between the above targets. To the extent that the performance condition is not met in full over years 0-3 the option will lapse and there will be no re-testing.

Performance conditions attaching to the grant of executive share options to Executive Directors in 2002 and 2003

Tier of option grant	Value of option grant as a percentage of salary	Compound normalised diluted EPS growth target per annum
1	Up to 50%	RPI plus 4%
2	51-100%	RPI plus 6%
3	101-150%	RPI plus 8%
4	151-200%	RPI plus 10%

Straight-line vesting of options will occur if normalised EPS growth falls between the above targets. In relation to Tier 1 and 2 awards, if the performance condition is not met in full over years 0-3, performance can be retested annually over years 0-4 and 0-5 (but measured from a fixed base of the financial year immediately prior to grant). To the extent that the performance condition is not met in full by then, the option will lapse. There will be no opportunity to retest Tier 3 and Tier 4 grants.

No variations were made to the terms and conditions or performance targets of any existing awards of share options during the year.

(c) Savings Related Share Option Scheme (Sharesave Scheme)
The Company operates an Inland Revenue approved Sharesave Scheme which is open to all UK employees, including the Executive Directors, who have completed at least six months' service at the date of grant. The options are exercisable after three years at a discount of 10% of the market value of the shares at the time of grant.

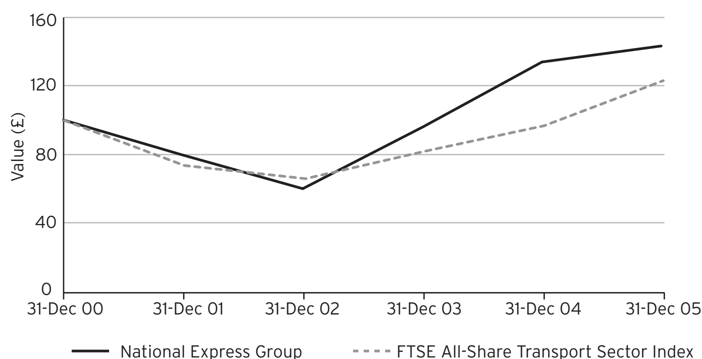
Report on Directors' Remuneration

Performance criteria

The Committee believes that budgeted profit and/or earnings per share (EPS) growth as performance measures for the discretionary bonus scheme and long term incentives provide a transparent and accessible method of gauging the performance of the Company. The Company calculates performance against these performance measures by reference to the profit or earnings per share figures appearing in the Company's audited accounts, which the Company believes to be the most transparent and objective measure of the Company's profit or earnings per share. The Committee also monitors the Group's Total Shareholder Return (TSR) against both the Transport All-Share Index as a measure against its peer group and the FTSE Mid 250 Index, representing a broad equity market index of which the Company is a constituent member. For 2005 the Company has used TSR as a second performance measure for the long term incentives of Executive Directors as outlined above.

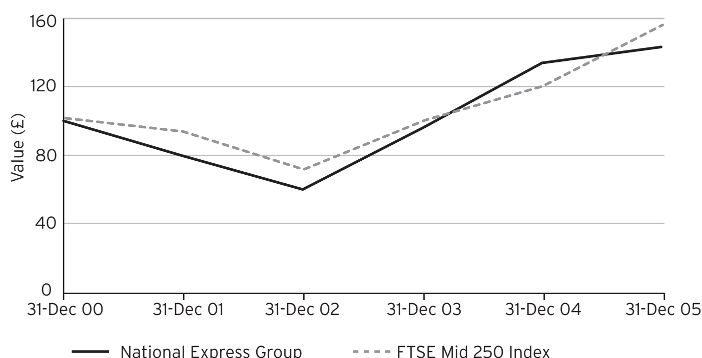
The following graphs show a comparison of National Express Group PLC total cumulative shareholder return against that achieved by the Transport All-Share Index and the FTSE Mid 250 Index. These graphs have been selected because the Company is a constituent of each index and the Committee, therefore, feels that these are the most appropriate indices to represent the Company's relative performance.

Total shareholder return versus FTSE All-Share Transport Index



Graph 1 looks at the value, by end of 2005, of £100 invested in National Express Group on 31 December 2000 compared with £100 invested in the FTSE All-Share Transport Sector Index. The other points plotted are the values at intervening financial year-ends.

Total shareholder return versus FTSE Mid 250 Index



Graph 2 looks at the value, by the end of 2005, of £100 invested in National Express Group on 31 December 2000 compared with the value of £100 invested in the FTSE Mid 250 Index. The other points plotted are the values at intervening financial year-ends

DIRECTORS' SERVICE CONTRACTS

Executive Directors

The service contract of Phil White is dated 21 May 2003 and the service contracts of Ray O'Toole and Adam Walker are dated 11 September 2003. These contracts are terminable on 12 months' notice from the Company and six months' notice from the Director, thereby reflecting market practice and the balance that should be struck between providing contractual protection to the Directors that is fair and the interests of shareholders. The service contracts contain a provision, exercisable at the option of the Company, to pay an amount on early termination of employment equal, in the case of Ray O'Toole and Adam Walker, to one year's salary and in the case of Phil White, one year's salary and benefits. The Company will use the payment in lieu of notice provisions when the speed, certainty and protection of restrictive covenants afforded by such clauses are thought to be in the best interests of the Company and the circumstances surrounding the departure of the relevant director justify their use. The service contracts of Ray O'Toole and Adam Walker have a further provision that, where the Company initiates a termination, other than for cause, within six months of a change of control taking place, the Company will exercise its option to make a payment in lieu of notice of an amount equal to the salary and benefits that the Director would have received during the notice period. In any event the Committee's policy is that payments to Directors on termination should reflect the circumstances that prevail at the time, also taking account of the Director's duty to mitigate if appropriate.

Under the terms of their service agreements, Board approval is required before any external appointment may be accepted by an Executive Director.

Non Executive Directors

The Non Executive Directors do not have service contracts with the Company but are appointed for fixed three-year terms. All Directors are required to stand at least once every three years for re-appointment by shareholders. The appointment dates of the Non Executive Directors are:

Jorge Cosmen – 1 December 2005
Sir Andrew Foster – 1 August 2004
Barry Gibson – 17 November 1999
Sue Lyons – 23 May 2001
David Ross – 1 February 2001
Tim Score – 21 February 2005

Senior Executive Remuneration

The Remuneration Committee reviews and notes the salaries of senior executives within the group. The salaries of this group of employees by band are as follows:

Salary Band	Number of Executives 2005
£150,001 – £200,000	4
£100,001 – £150,000	22
£70,000 – £100,000	53

Report on Directors' Remuneration

INFORMATION SUBJECT TO AUDIT: DIRECTORS' REMUNERATION

Directors' emoluments

	Salary/fees £000	Performance related bonus £000	Benefits[1] £000	**Total 2005[2] £000**	Total 2004[2] £000
Executive Directors					
Phil White	450	337	223	**1,010**	991
Ray O'Toole	325	179	24	**528**	560
Adam Walker	300	166	23	**489**	468
Non Executive Directors					
David Ross (Chairman)	150[3]	–	–	**150**	112
Jorge Cosmen	3			**3**	–
Sir Andrew Foster	35			**35**	15
Barry Gibson	41	–	–	**41**	40
Sue Lyons	40			**40**	40
Tim Score (appointed 21 Feb 2005)	34	–	–	**34**	–
Former Non Executive Director					
Tim Stevenson (resigned 21 September 2005)	34	–	–	**34**	45

1 Benefits in kind include a company car, fuel and health insurance and pension contributions payable above the earnings cap to Phil White of £182,272.
2 Total remuneration excludes pension contributions which are shown below.
3 David Ross has elected to take his Chairman's fees as National Express Group shares.

PENSIONS

Pension benefits earned by Directors in the year to 31 December 2005 from both the approved and unapproved plans were:

	Age	NRA+	Accrued benefit at 1 Jan 2005 £000	Increase in period (net of indexation) £000	Transfer value of increase in period £000	Accrued benefit at 31 Dec 2005 £000	Transfer value at 1 Jan 2005 £000	Transfer value at 31 Dec 2005 £000	Movement in transfer value during period less director's contributions £000	Employer contribution to defined contribution plan £000
Ray O'Toole	50	60	20.9	7.0	86.4	28.5	229.3	351.8	109.6	–
Adam Walker	38	60	15.9	8.4	60.8	24.8	98.7	179.3	65.1	–
Phil White	56	62	–	–	–	–	–	–	–	42.7

+ Normal Retirement Age

DIRECTORS' SHAREHOLDINGS

Directors' interests and transactions

The beneficial and non beneficial interests of the Directors in office as at 31 December 2005 are shown below:

	At 31 December 2005 or date of leaving	At 1 January 2004 or on appointment	Change from 31 December 2005 to 7 March 2006
Executive Directors			
Ray O'Toole	19,236	14,500	–
Adam Walker	9,700	5,300	–
Phil White	165,408	165,408	–
Non Executive Directors			
Jorge Cosmen (appointed 1 December 2005)	18,506,130	15,665,329	18,997,483
Sir Andrew Foster	–	–	–
Barry Gibson	3,000	3,000	–
Sue Lyons	2,072	2,072	–
David Ross	634,926	603,393	636,666
Tim Score (appointed 21 February 2005)	–	–	–

In order to align the interests of the Directors more closely with the shareholders, the Remuneration Committee has also determined that the Executive Directors should build up a share fund equal to at least one year's salary over a period of five years.

EXECUTIVE SHARE OPTION AWARDS

	Note	At 1 Jan 2005	During year Granted	Exercised	Lapsed	**At 31 Dec 2005**	Option price	Market price at date of exercise	Date from which exercisable	Expiry date
Phil White										
	(i)	12,870	–	12,870	–	**–**	540.0p	888.0p	27.04.03	27.04.10
	(ii)	5,128	–	–	–	**5,128**	585.0p*	–	05.07.05	05.07.12
	(iii)	97,436	–	–	34,188	**63,248**	585.0p*	–	05.07.05	05.07.12
	(iii)	169,598	–	–	–	**169,598**	398.0p	–	18.03.06	18.03.13
	(iii)	132,159	–	–	–	**132,159**	681.0p	–	12.05.07	12.05.14
Ray O'Toole										
	(i)	8,415	–	8,415	–	**–**	540.0p	888.0p	27.04.03	27.04.10
	(ii)	5,128	–	–	–	**5,128**	585.0p*	–	05.07.05	05.07.12
	(iii)	62,820	–	–	22,649	**40,171**	585.0p*	–	05.07.05	05.07.12
	(iii)	113,065	–	–	–	**113,065**	398.0p	–	18.03.06	18.03.13
	(iii)	92,511	–	–	–	**92,511**	681.0p	–	12.05.07	12.05.14
	(iv)	453	–	453	–	**–**	417.0p	922.0p	01.12.05	01.06.06
Adam Walker										
	(ii)	5,128	–	–	–	**5,128**	585.0p*	–	05.07.05	05.07.12
	(iii)	14,530	–	–	–	**14,530**	585.0p*	–	05.07.05	05.07.12
	(iii)	75,377	–	–	–	**75,377**	398.0p	–	18.03.06	18.03.13
	(iii)	76,358	–	–	–	**76,358**	681.0p	–	12.05.07	12.05.14
	(iv)	453	–	–	–	**453**	417.0p	–	01.12.05	01.06.06

Notes

(i) Options granted under the 1996 National Express Group Executive Share Option Scheme

(ii) Options granted under the 2002 National Express Group Executive Share Option Plan Part 1 Approved

(iii) Options granted under the 2002 National Express Group Executive Share Option Plan Part 2 Unapproved

(iv) Options granted under the National Express Group Savings Related Share Option Scheme

* Performance hurdle not yet passed as at 31 December 2005

Report on Directors' Remuneration

LONG TERM INCENTIVE PLAN (LTIP) AWARDS

In 2005 performance shares of 1 x salary were awarded to Executive Directors as nil cost options under the Long Term Incentive Plan (LTIP). In addition 100 matching shares were awarded for every 30 investment shares pledged or invested by the Director under the share matching element of the LTIP. Further details of the LTIP and the applicable performance conditions are shown on page 35.

	LTIP Share Awards	At 1 Jan 2005	During year			At 31 Dec 2005	Market price on date of award	Market price on date of exercise	Date from which exercisable	Expiry date
			Awarded	Exercised	Lapsed					
Phil White										
	Performance Shares	–	48,859	–	–	**48,859**	921.0p	–	27.06.08	27.12.08
	Matching Shares	–	116,580	–	–	**116,580**	921.0p	–	27.06.08	27.12.08
Ray O'Toole										
	Performance Shares	–	35,287	–	–	**35,287**	921.0p	–	27.06.08	27.12.08
	Matching Shares	–	56,613	–	–	**56,613**	921.0p	–	27.06.08	27.12.08
Adam Walker										
	Performance Shares	–	32,573	–	–	**32,573**	921.0p	–	27.06.08	27.12.08
	Matching Shares	–	32,333	–	–	**32,333**	921.0p	–	27.06.08	27.12.08

Note: For the purposes of the EPS performance conditions, CPI has been calculated to have been 2.5% during the year ending 31 December 2005.

In addition to their individual interests in shares the Executive Directors were, for Companies Act purposes, regarded as interested in the 340,055 shares held at 7 March 2006 by the National Express Group Employee Benefit Trust in respect of the Long Term Incentive Plan.

The Register of Directors' Interests maintained by the Company contains full details of the Directors' holdings of shares and options over shares in the Company. The aggregate gain between the option price and market price on date of exercise of share options by the Directors during the year was £76,359.

The mid-market price of the Company's ordinary shares at 31 December 2005 was 866.25p (2004: 825.5p) and the range during the year ended 31 December 2005 was 741.27p to 937p.

By Order of the Board
J M B Gibson
Director and Chairman of the Remuneration Committee
9 March 2006

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

We have audited the group financial statements of National Express Group PLC for the year ended 31 December 2005 which comprise the Group Income Statement, the Group Balance Sheet, the Group Cash Flow Statement, the Group Statement of Recognised Income and Expense and the related notes 1 to 40. These group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of National Express Group PLC for the year ended 31 December 2005 and on the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for preparing the Annual Report and the group financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union as set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the group financial statements give a true and fair view and whether the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you if, in our opinion, the Directors' Report is not consistent with the group financial statements, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding director's remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited group financial statements. The other information comprises only the Chairman's Statement, the Chief Executive's Statement, the Financial Review, the Corporate Governance Statement, the Statement of Director's Responsibilities, the unaudited part of the Report on Directors' Remuneration and the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the group financial statements. Our responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the group financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the group financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the group financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the group financial statements.

OPINION

In our opinion the group financial statements:

- give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2005 and of its profit for the year then ended; and

- have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

Ernst & Young LLP
Registered auditor
London
9 March 2006

Group Income Statement

For the year ended 31 December 2005

	Note	Total before goodwill impairment, intangible amortisation & exceptional items 2005 £m	Goodwill impairment, intangible amortisation & exceptional items 2005 £m	Total 2005 £m	Total before goodwill impairment, intangible amortisation & exceptional items 2004* £m	Goodwill impairment, intangible amortisation & exceptional items 2004* £m	Total 2004* £m
Continuing Operations							
Revenue	4	**2,216.0**	**–**	**2,216.0**	2,354.5	–	2,354.5
Operating costs before goodwill impairment, intangible amortisation & exceptional items		**(2,060.5)**	**–**	**(2,060.5)**	(2,211.2)	–	(2,211.2)
UK Trains goodwill impairment	5	**–**	**(33.3)**	**(33.3)**	–	(33.3)	(33.3)
Intangible amortisation	5	**–**	**(4.9)**	**(4.9)**	–	(2.4)	(2.4)
Exceptional items	5	**–**	**(7.8)**	**(7.8)**	–	(7.7)	(7.7)
Total operating costs		**(2,060.5)**	**(46.0)**	**(2,106.5)**	(2,211.2)	(43.4)	(2,254.6)
Group operating profit		**155.5**	**(46.0)**	**109.5**	143.3	(43.4)	99.9
Loss on disposal of non-current assets		**–**	**–**	**–**	–	(0.9)	(0.9)
Profit from operations		**155.5**	**(46.0)**	**109.5**	143.3	(44.3)	99.0
Share of post tax results from associates and joint ventures accounted for using the equity method		**(8.8)**	**–**	**(8.8)**	(3.4)	–	(3.4)
Finance income	9	**10.8**	**–**	**10.8**	13.2	–	13.2
Finance costs	9	**(22.2)**	**–**	**(22.2)**	(30.9)	–	(30.9)
Profit before tax		**135.3**	**(46.0)**	**89.3**	122.2	(44.3)	77.9
Tax expense	10	**(29.5)**	**2.0**	**(27.5)**	(26.4)	3.6	(22.8)
Profit after tax for the year from continuing operations		**105.8**	**(44.0)**	**61.8**	95.8	(40.7)	55.1
(Loss)/profit for the year from discontinued operations	11	**3.8**	**(68.3)**	**(64.5)**	9.3	(5.8)	3.5
(Loss)/profit for the year		**109.6**	**(112.3)**	**(2.7)**	105.1	(46.5)	58.6
(Loss)/profit attributable to equity shareholders		**109.5**	**(112.3)**	**(2.8)**	106.1	(43.9)	62.2
Profit/(loss) attributable to minority interests		**0.1**	**–**	**0.1**	(1.0)	(2.6)	(3.6)
		109.6	**(112.3)**	**(2.7)**	105.1	(46.5)	58.6
(Loss)/earnings per share:							
– basic (loss)/earnings per share	13			**(2.0p)**			45.7p
– diluted (loss)/earnings per share	13			**(2.0p)**			45.0p
Earnings per share from continuing operations:							
– basic earnings per share	13			**45.2p**			40.5p
– diluted earnings per share	13			**44.5p**			39.9p

* Results are restated for the transition to International Financial Reporting Standards. See note 40.

Dividends of £41.6m were paid during the year (2004: £36.4m). Dividends of £47.0m were proposed for approval during the year (2004: £40.9m).

Group Balance Sheet

At 31 December 2005

	Note	2005 £m	2004* £m
Assets			
Non-current assets			
Intangible assets	14	719.4	352.8
Property, plant and equipment	15	507.2	333.5
Investment property	16	–	–
Financial assets – Other investments	18	11.4	10.2
Financial assets – Derivative financial instruments	18	0.6	–
Investments accounted for using the equity method	19	4.8	–
Other receivables	21	26.2	30.5
Deferred tax asset	28	23.0	18.3
		1,292.6	745.3
Current assets			
Inventories	22	18.7	16.1
Trade and other receivables	23	301.8	301.8
Financial assets – Derivative financial instruments	18	6.7	–
Current tax assets		11.3	–
Cash and cash equivalents	24	145.5	143.1
		484.0	461.0
Disposal group assets classified as held for sale	11	–	33.8
Total assets		1,776.6	1,240.1
Non-current liabilities			
Financial liabilities – Borrowings	29	(495.5)	(251.8)
– Derivative financial instruments	29	(8.3)	–
Deferred tax liability	28	(27.1)	(4.5)
Other non-current liabilities	26	(6.1)	(3.0)
Defined benefit pension liability	36	(88.8)	(65.7)
Provisions	27	(41.3)	(36.4)
		(667.1)	(361.4)
Current liabilities			
Trade and other payables	25	(533.1)	(514.5)
Financial liabilities – Borrowings	29	(214.4)	(30.3)
– Derivative financial instruments	29	(13.4)	–
Current tax liabilities		(24.0)	(36.8)
Provisions	27	(12.3)	(23.4)
		(797.2)	(605.0)
Liabilities directly associated with disposal group assets classified as held for sale	11	–	(6.9)
Total liabilities		(1,464.3)	(973.3)
Net assets		312.3	266.8
Shareholders' equity			
Called up share capital	33	7.5	7.0
Share premium account	34	174.2	47.5
Capital redemption reserve	34	0.2	–
Own shares	34	(5.1)	(5.1)
Other reserves	35	24.5	13.3
Retained earnings	34	108.1	203.2
Total shareholders' equity		309.4	265.9
Minority interest in equity		2.9	0.9
Total equity		312.3	266.8

* Results are restated for the transition to International Financial Reporting Standards. See note 40.

P M White Chief Executive
A C Walker Finance Director
9 March 2006

Group Statement of Cash Flows

For the year ended 31 December 2005

	Note	2005 £m	2004* £m
Cash generated from operations	39	**181.1**	254.1
Tax paid		**(26.7)**	(3.2)
Net cash from operating activities		**154.4**	250.9
Cash flows from investing activities			
Payments to acquire businesses, net of cash acquired		**(218.8)**	12.6
Deferred consideration for businesses acquired		**(0.3)**	(4.5)
Purchase of property, plant and equipment		**(61.7)**	(69.2)
Proceeds from disposal of property, plant and equipment		**8.1**	18.8
Payments in respect of businesses disposed		**–**	(1.5)
Receipts from disposal of businesses, net of cash disposed		**71.3**	24.7
Interest received		**10.8**	13.1
Receipts from sale of shares for employee schemes		**3.5**	0.1
Net cash used in investing activities		**(187.1)**	(5.9)
Cash flows from financing activities			
Proceeds from issue of ordinary shares		**4.9**	2.5
Purchase of own shares		**(3.5)**	–
Share buy back		**(25.8)**	–
Interest paid		**(32.6)**	(31.6)
Repayment of maintenance bond at ScotRail		**–**	(18.7)
Finance lease principal payments		**(20.0)**	(15.8)
Repayment of loan notes		**(6.7)**	(0.9)
Loans advanced/(repaid)		**148.1**	(93.1)
Dividends paid		**(41.6)**	(36.4)
Net cash from/(used in) financing activities		**22.8**	(194.0)
(Decrease)/increase in cash and cash equivalents		**(9.9)**	51.0
Opening cash and cash equivalents	24	**147.2**	96.8
(Decrease)/increase in cash and cash equivalents		**(9.9)**	51.0
Foreign exchange		**2.7**	(0.6)
Closing cash and cash equivalents	24	**140.0**	147.2

* Results are restated for the transition to International Financial Reporting Standards. See note 40.

Group Statement of Recognised Income and Expense

For the year ended 31 December 2005

	Note	2005 £m	2004* £m
Income and expense recognised directly in equity			
Exchange differences on retranslation of foreign operations		50.3	(28.0)
Exchange differences on retranslation of foreign currency borrowings		(45.5)	29.8
Actuarial losses on defined benefit pension plans	36	(32.0)	(2.3)
Gains on cash flow hedges taken to equity		14.5	–
		(12.7)	(0.5)
Transfers to the income statement			
Exchange differences on disposal of foreign operations		1.5	–
On cash flow hedges		(9.4)	–
		(7.9)	–
Tax on exchange differences on retranslation of foreign operations		7.1	(4.1)
Deferred tax on share based payments		1.4	0.8
Deferred tax on actuarial gains/(losses)		9.0	(0.2)
Deferred tax on cash flow hedges		(1.4)	–
Tax on items taken directly to or transferred from equity		16.1	(3.5)
Net losses recognised directly in equity		(4.5)	(4.0)
(Loss)/profit for the financial year		(2.8)	62.2
Profit/(loss) attributable to minority interests		0.1	(3.6)
Total recognised (expense)/income for the year		(7.2)	54.6
(Expense)/income attributable to equity shareholders		(7.3)	58.4
Income/(expense) attributable to minority interests		0.1	(3.8)
		(7.2)	54.6
Effects of changes in accounting policy:			
Equity shareholders:			
Net loss on hedges on first-time adoption of IAS 39		(18.4)	–
Tax recognised on hedges on first-time adoption of IAS 39		5.6	–
		(12.8)	–

* Results are restated for the transition to International Financial Reporting Standards. See note 40.

Notes to the Accounts

1 CORPORATE INFORMATION

The consolidated accounts of National Express Group PLC for the year ended 31 December 2005 were authorised for issue in accordance with a resolution of the directors on 9 March 2006 and the balance sheets were signed on the board's behalf by PM White and AC Walker. National Express Group PLC is a 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 and the Financial Review that accompany these accounts.

2 ACCOUNTING POLICIES

Statement of compliance

These accounts have been prepared in accordance with International Financial Reporting Standards ("IFRS") and the International Financial Reporting Interpretations Committee's ("IFRIC") interpretations as adopted by the European Union ("EU"), and with those parts of the Companies Act 1985 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 36, including the impact on the Group's reported financial performance and position of adopting this accounting treatment as required by IAS 1. The Company has taken advantage of the exemption provided under section 230 of the Companies Act 1985 not to publish its individual income statement and related notes.

Basis of preparation

As a company registered and listed in an EU country, National Express Group PLC has been required to adopt IFRS with effect from 1 January 2005. The results for the year ended 31 December 2005 represent the Group's first annual report and accounts prepared in accordance with its accounting policies under IFRS. Previously the Group reported under UK generally accepted accounting policies ("UK GAAP"). UK GAAP to IFRS reconciliations of equity for 1 January 2004 and 31 December 2004, and of profit for the year ended 31 December 2004 are summarised in note 40.

As noted above, the Group has taken the extremely rare decision to depart from the requirement of IAS 19 'Retirement 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 36.

A summary of the Group's accounting policies applied in preparing the accounts for the year ended 31 December 2005 are set out below. The most significant accounting policy changes arising on the transition to IFRS, along with the policies applied on the transition to IFRS on 1 January 2004 are set out in note 40.

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 ultimately may differ from those estimates.

The key sources of estimation uncertainty that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are the measurement and impairment of indefinite life intangible assets (including goodwill) and measurement of defined benefit pension obligations. The measurement of intangible assets other than goodwill on a business combination involves estimation of future cash flows and the selection of a suitable discount rate. The Group determines whether indefinite life intangible assets are impaired on an annual basis 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 choosing 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 36).

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

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 into line any dissimilar accounting policies that may exist.

All intercompany balances and transactions have been eliminated in full.

On acquisition of a business, the acquisition 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. 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.

2 ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

Minority interests represent the portion of profit or loss and net assets in subsidiaries that is not held by the Group and is presented separately from parent shareholders' equity in the consolidated balance sheet.

Interests in joint ventures

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

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 and the income statement an appropriate share of their results after tax.

Accounts of jointly controlled entities are prepared for the same reporting period as the Group and where necessary adjustments are made to bring the accounting policies in line with those of the Group. Adjustments are also 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, or significant influence in, the joint venture.

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 Group accounts include the appropriate share of these associates' results and reserves based on their latest accounts under the equity method.

Revenue recognition

Rendering of services

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

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

UK Trains revenue includes amounts attributed to the train operating companies ("TOCs"), based principally on agreed models of route usage, by Railway Settlement Plan Limited (which administers the income allocation system within the UK rail industry), in respect of passenger receipts. In addition, franchise agreement receipts from the Strategic Rail Authority ("SRA"), the Department for Transport Rail Division ("DfT Rail") and local Passenger Transport Executives ("PTEs") are treated as revenue. Franchise agreement payments to the SRA/ DfT Rail are recognised in operating costs. UK Coach revenue comprises amounts receivable generated from ticket sales. UK Bus and European Coach & Bus (Alsa) 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. The attributable 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 local authorities 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.

Interest income

Revenue is recognised as interest accrues using the effective interest method.

Government grants

Government grants relating to property, plant and equipment are included in non-current 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 provide 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 distinct geographical segments which are operating in separate economic environments.

The Group's segments comprise: UK Buses; UK Coaches; UK Trains; North American Bus; European Coach & Bus (Alsa); and Central functions. These segments are described in more detail in the Operating Review and the Financial Review accompanying these accounts. Operations in our North America – Public Transit segment and our Australia Bus segment were discontinued in 2005 and 2004 respectively. The assets of the operations are disclosed in 'disposal group assets classified as held for sale' and liabilities disclosed in 'liabilities directly associated with disposal group assets classified as held for sale' reflecting the fact that the carrying amount will be recovered principally through a sale and not through continuing use.

Notes to the Accounts

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 or 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 lease.

Borrowing costs

Borrowing costs are recognised as an expense when incurred in accordance with the benchmark accounting treatment under IAS 23, 'Borrowing Costs'.

Exceptional items

Exceptional items are material items of income or expenditure which 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. Exceptional items include, but are not restricted to, reorganisation, redundancy and start-up costs for significant contracts.

Property, plant and equipment

All property, plant and equipment is stated at historic cost less accumulated depreciation and any impairment.

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

The carrying value of items of property, plant and equipment are 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. 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.

Investment property

Any of the Group's properties that are surplus to requirements are classified as investment properties, being held for long-term investment to earn rental income.

Investment properties are measured initially at cost, and subsequently remeasured to fair value, reflecting market conditions at the balance sheet date. Gains or losses arising from the changes in fair values of investment properties are included in the income statement as they arise.

2 ACCOUNTING POLICIES (continued)

Intangible assets

Intangible assets acquired separately are capitalised at cost and when acquired in a business combination are capitalised at fair value at the date of acquisition. Following initial recognition, the historic cost model is applied to intangible assets. Where amortisation is charged on finite life assets, this expense is taken to the income statement through operating expenses.

Finite life intangible assets have a residual value of nil and are amortised on a straight-line basis over their estimated useful lives as follows:

Customer contracts	– over the life of the contract (between 1 and 5 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 assets are examined on an annual basis and adjustments, where applicable, 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 which are presumed to automatically be renewed, based on historical experience of the market in which the contract operates.

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 in value. If an acquisition gives rise to negative goodwill this is credited directly to the consolidated income statement.

In accordance with IFRS 3, 'Business Combinations', goodwill is not amortised. All goodwill is subject to an annual test of impairment and an impairment charge recognised as required. The net book value of goodwill that was capitalised in the restated balance sheets at both 1 January 2004 (the date of transition to IFRS) and 31 December 2004 has been tested for impairment.

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 the associated goodwill is included in the carrying amount of the operation when determining the gain or loss on the disposal of the operation.

Impairment of non-current assets

Property, plant and equipment, intangible assets, financial assets and other 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 flows.

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.

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 unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase. Future amortisation is then adjusted to allocate the asset's revised carrying amount over its remaining useful economic life.

Financial assets

The Group determines the classification of its financial assets at initial recognition and re-evaluates the designation at each year end. When financial assets are recognised initially, they are measured at fair value. As explained in note 40 the Group followed the transitional provisions of IFRS 1 to adopt IAS 32, 'Financial instruments: Disclosure and Presentation' and IAS 39, 'Financial instruments: Recognition and Measurement' from 1 January 2005. Prior to 1 January 2005 the Group held investments at historic cost less any provision for impairment.

2 ACCOUNTING POLICIES (continued)

Financial assets (continued)

Held to maturity investments

Non-derivative financial assets with fixed or determinable payments are classified here when the Group has the intention and ability to hold to maturity. These financial assets are held at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the investments are derecognised or impaired as well as through amortisation.

Loans and receivables

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as either fair value through profit or loss or available for sale. Such assets are carried at amortised cost. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired as well as through amortisation.

Available for sale financial assets

Available for sale financial assets are non-derivative financial assets that are designated as such, or that are not classified in any of the other categories. 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.

Fair values

Where there is no active market for the Group's financial assets, fair value is determined using valuation techniques including recent commercial transactions and discounted cash flow analyses. Otherwise assets are carried at amortised cost.

Inventories

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

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.

Pre-contract costs

Pre-contract costs associated with securing new rail franchises are expensed as incurred except where it is virtually certain that a franchise will be awarded, in which case 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.

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. All are carried on the balance sheet at cost.

Interest-bearing loans and borrowings

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

Gains and losses are recognised in the income statement when the liabilities are derecognised or impaired, as well as through the amortisation process.

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 rate that reflects current market assessments of the time value of money and the risks specific to the liability. The amortisation of the discount is recognised as a finance cost. Where the Group expects a provision to be reimbursed the reimbursement is recognised as a separate asset but only when reimbursement is virtually certain.

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.

2 ACCOUNTING POLICIES (continued)

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 36 including the departure from IAS 19 required for the Group's RPS obligations as outlined in the Statement of Compliance.

The liability in respect of defined benefit schemes comprises the total 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 by independent actuaries using the projected unit credit method for financial reporting purposes. The present value of the obligation is determined by the estimated future cash outflows 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 expected return on assets of funded defined benefit schemes and the interest on pension scheme liabilities comprise the finance element of the pension cost and are also included in operating costs. In accordance with the amendment to IAS 19, actuarial gains and losses arising from experience adjustments, changes in actuarial assumptions and amendments to pension plans are charged or credited to the statement of recognised income or expense 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% employer and 40% 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 payments

The Group applied the requirements of IFRS 2, 'Share-based Payment' with effect from 1 January 2004. In accordance with the transitional provisions, IFRS 2 has been applied to all equity-settled awards granted after 7 November 2002 that were unvested as of 1 January 2005.

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant including market based performance conditions. Fair value is determined by an external valuer using the 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 vest. At each balance sheet date, before vesting, the cumulative expense is calculated based on the Group's estimate of the number of shares that will eventually vest, and the movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity.

Share capital, share premium and dividends

Ordinary shares are classified as equity. Where the Company purchases 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. Where 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 issued. Any consideration subsequently received on sale or re-issue is included in shareholders' equity.

Dividends are recorded as a liability in the period in which the liability to pay shareholders arises.

Current tax and deferred tax

Current tax is provided on taxable profits earned according to the local rates applicable where the profits are earned. Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

Deferred tax is provided in full, using the liability method, 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, (except on the initial recognition of non-deductible goodwill and in respect of investment in subsidiaries where the Group is able to control the reversal of the temporary difference and it is probable 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.

2 ACCOUNTING POLICIES (continued)

Current tax and deferred tax (continued)

Deferred tax assets are recognised where their recovery is considered more likely than not in that there will be suitable taxable profits from which the future reversal of 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.

Deferred tax is recognised directly in equity if the underlying transaction giving rise to the temporary difference is recognised directly in equity.

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 are 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 finance or provide a hedge against 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.

Derivative financial instruments

The Group followed the transitional provisions of IFRS 1 and the accounting policy after 1 January 2005 is as follows:

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.

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 income statement. The gains or losses deferred in equity in this way are recycled through the income statement in the same period in which the hedged underlying transaction or firm commitment is recognised in the income statement.

Foreign currency forward currency contracts are used to hedge our 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.

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

Hedge accounting is discontinued when the hedging instrument expires, is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that date any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecast transaction occurs, or transferred to the income statement if the forecast transaction is no longer expected to occur.

The accounting policy applied prior to 1 January 2005 is as follows:

The Group uses interest rate swaps to hedge interest rate exposures and fuel swaps to hedge fuel price exposures. The Group considers that these derivative instruments qualify for hedge accounting when certain criteria are met. The Group's criteria for these swaps are that the instrument must be related to an asset, liability or future obligation and it must change the character of the interest rate or fuel price by converting a variable rate to a fixed rate or vice versa. These swaps are not revalued to fair value or included in the Group balance sheet at the period end.

New standards adopted early

The Group has implemented the following standards earlier than required and restated the prior year comparatives in line with them:

IAS 19 Amendment (EU adopted) – Actuarial Gains and Losses, Group Plans and Disclosures
IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

2 ACCOUNTING POLICIES (continued)

New standards and interpretations not applied

During the year, the IASB and IFRIC have issued the following standards and interpretations with an effective date after the date of these accounts:

International Accounting Standards (IAS/IFRS)

IFRS 4	Insurance Contracts (Amendment to IAS 39 and IFRS 4)	1 January 2006
IFRS 7	Financial Instruments: Disclosures	1 January 2007
IAS 1	Amendment – Presentation of Financial Statements: Capital Disclosures	1 January 2007
IAS 39	Fair Value Option	1 January 2006
IAS 39	Amendments to IAS 39 – Transition and Initial Recognition of Financial Assets and Financial Liabilities (Day 1 profits)	1 January 2006
IAS 39	Cash Flow Hedge Accounting	1 January 2006
IAS 39	Amendment to IAS 39 and IFRS 4 – Financial Guarantee Contracts	1 January 2006

International Financial Reporting Interpretations Committee (IFRIC)

IFRIC 4	Determining whether an arrangement contains a lease	1 January 2006

Upon adoption of IFRS 7 the Group will need to disclose the fair value of its financial instruments and its risk exposure in greater detail although there will be no effect on reported income or net assets. Apart from this the Directors do not anticipate the adoption of these standards and interpretations will have a material impact on the Group's accounts in the period of initial application.

3 EXCHANGE RATES

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

	2005 Closing rate	2005 Average rate	2004 Closing rate	2004 Average rate
US dollar	**1.72**	**1.82**	1.92	1.84
Canadian dollar	**2.00**	**2.20**	2.31	2.38
Euro	**1.45**	**1.47**	n/a	n/a
Australian dollar	**2.35**	**2.39**	2.45	2.48

The 2005 average rate for Euros reflects the average rate since the Alsa acquisition.

If the results for the year to 31 December 2004 were retranslated at the average exchange rates for the year to 31 December 2005, North America would have achieved normalised operating profit of £29.9m on revenue of £215.5m, compared to normalised operating profit of £29.6m on revenue of £213.2m as reported (note 5).

Normalised results are defined as the statutory results before the following as appropriate: profit or loss on the sale of businesses and charges for goodwill impairment, intangible amortisation, property, plant and equipment impairments, profit or loss on disposal of non-current assets, exceptional items and tax relief on qualifying exceptional items.

4 REVENUE

	2005 £m	2004 £m
Rendering of services	**2,208.8**	2,346.0
Rental income	**7.2**	8.5
Revenue	**2,216.0**	2,354.5
Finance income	**10.8**	13.2
Total revenue	**2,226.8**	2,367.7

During the year, franchise agreement receipts from the SRA/ DfT Rail and PTEs amounted to £337.0m (2004: £497.0m) in UK Trains.

Notes to the Accounts

5 SEGMENTAL ANALYSIS

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

Normalised results are defined as the statutory results before the following as appropriate: profit or loss on the sale of businesses and charges for goodwill impairment, intangible amortisation, property, plant and equipment impairments, profit or loss on disposal of non-current assets, exceptional items and tax relief on qualifying exceptional items.

Analysis by class and geography of business

	External revenue 2005 £m	Inter-segment sales 2005 £m	Segment revenue 2005 £m	External revenue 2004 £m	Inter-segment sales 2004 £m	Segment revenue 2004 £m
UK Bus	**268.6**	**–**	**268.6**	239.8	–	239.8
UK Trains	**1,497.2**	**–**	**1,497.2**	1,712.1	–	1,712.1
UK Coach	**190.2**	**10.3**	**200.5**	189.4	6.2	195.6
Inter-segment sales elimination	**–**	**(10.3)**	**(10.3)**	–	(6.2)	(6.2)
UK operations	**1,956.0**	**–**	**1,956.0**	2,141.3	–	2,141.3
North American Bus	**241.8**	**–**	**241.8**	213.2	–	213.2
European Coach & Bus (Alsa)	**18.2**	**–**	**18.2**	–	–	–
Revenue from continuing operations	**2,216.0**	**–**	**2,216.0**	2,354.5	–	2,354.5
Discontinued operations	**100.8**	**–**	**100.8**	214.5	–	214.5
Total revenue	**2,316.8**	**–**	**2,316.8**	2,569.0	–	2,569.0

Inter-segment sales represent rail replacement services provided to UK Trains 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.

Notes to the Accounts

5 SEGMENTAL ANALYSIS (continued)

	Continuing			Discontinuing	Continuing			Discontinuing
	Normalised operating profit 2005 £m	Goodwill impairment, intangible amortisation & exceptional items 2005 £m	Segment result 2005 £m	Segment result 2005 £m	Normalised operating profit 2004 £m	Goodwill impairment, intangible amortisation & exceptional items 2004 £m	Segment result 2004 £m	Segment result 2004 £m
UK Bus	**41.5**	**(2.4)**	**39.1**		41.6	(0.4)	41.2	
UK Trains	**64.2**	**(39.2)**	**25.0**		61.3	(42.4)	18.9	
UK Coach	**21.5**	**–**	**21.5**		19.3	–	19.3	
UK operations	**127.2**	**(41.6)**	**85.6**		122.2	(42.8)	79.4	
North American Bus	**35.0**	**(4.4)**	**30.6**		29.6	(0.6)	29.0	
European Coach & Bus (Alsa)	**2.6**	**–**	**2.6**		–	–	–	
Central functions	**(9.3)**	**–**	**(9.3)**		(8.5)	–	(8.5)	
Result from continuing operations	**155.5**	**(46.0)**	**109.5**		143.3	(43.4)	99.9	
Result from discontinued operations				**(56.4)**				(7.3)
Total result			**109.5**	**(56.4)**			99.9	(7.3)
(Loss)/profit on disposal of non–current assets			**–**	**–**			(0.9)	0.8
Profit from operations			**109.5**	**(56.4)**			99.0	(6.5)
Share of post tax results from associates			**(8.8)**	**–**			(3.4)	–
(Loss)/gain on sale of discontinued operations				**(6.6)**				8.9
Cumulative exchange differences transferred from reserves				**(1.5)**				–
Net finance costs			**(11.4)**	**(0.2)**			(17.7)	(0.4)
Profit before tax			**89.3**	**(64.7)**			77.9	2.0
Tax (expense)/credit			**(27.5)**	**0.2**			(22.8)	1.5
Profit/(loss) for the year			**61.8**	**(64.5)**			55.1	3.5

Exceptional items are those items of financial performance that the Group believes should be separately disclosed to assist in the understanding of the financial performance achieved by the Group and in making projections of future results.

5 SEGMENTAL ANALYSIS (continued)

Goodwill impairment, intangible amortisation, property, plant and equipment impairment and exceptional items can be analysed by class and geography of business as follows:

	Goodwill impairment 2005 £m	Intangible asset amortisation 2005 £m	Property, plant & equipment impairment 2005 £m	Exceptional items 2005 £m	Total other items 2005 £m
UK Bus	–	0.9	–	1.5	2.4
UK Trains	33.3	2.4	–	3.5	39.2
North American Bus	–	1.6	–	2.8	4.4
Total continuing operations	33.3	4.9	–	7.8	46.0
Discontinued operations	60.0	–	–	0.2	60.2
Total	93.3	4.9	–	8.0	106.2

	Goodwill impairment 2004 £m	Intangible asset amortisation 2004 £m	Property, plant & equipment impairment 2004 £m	Exceptional items 2004 £m	Total other items 2004 £m
UK Bus	–	–	–	0.4	0.4
UK Trains	33.3	1.9	–	7.2	42.4
North American Bus	–	0.5	–	0.1	0.6
Total continuing operations	33.3	2.4	–	7.7	43.4
Discontinued operations	10.6	–	6.1	0.2	16.9
Total	43.9	2.4	6.1	7.9	60.3

In the year to 31 December 2005 exceptional items were incurred in UK Bus for business reorganisation costs, in UK Trains for staff redundancy programmes and business reorganisations and in North America in respect of the divisional head office relocation.

In the year to 31 December 2004 UK Trains exceptional items were incurred at 'one' (integration of the three legacy TOCs resulted in redundancy charges and start up costs, together with the cost of the Competition Commission review), Qjump (redundancy, property and pension charges following the merger with Trainline.com) and Maintrain (redundancy costs incurred as a result of the decision to cease tendering for external work and focus on improving service to Central Trains and Midland Mainline). The balance of exceptional items comprised the cost of reorganisations at UK Bus (£0.4m) and North America (£0.1m).

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

	Assets 2005 £m	Liabilities 2005 £m	Capital expenditure 2005 £m	Assets 2004 £m	Liabilities 2004 £m	Capital expenditure 2004 £m
UK Bus	203.0	(174.8)	46.8	150.4	(137.8)	32.2
UK Trains	290.5	(411.6)	28.3	348.6	(441.4)	25.4
UK Coach	48.1	(45.1)	10.1	44.3	(42.4)	4.8
Intercompany elimination	(2.5)	2.5	–	(0.7)	0.7	–
UK operations	539.1	(629.0)	85.2	542.6	(620.9)	62.4
North American Bus	473.9	(77.0)	34.7	469.3	(65.1)	23.7
European Coach & Bus (Alsa)	559.0	(63.5)	0.6	–	–	–
Central functions	39.6	(55.7)	0.2	42.4	(36.7)	0.2
Unallocated	199.5	(673.6)	–	172.6	(264.3)	–
Intercompany elimination	(34.5)	34.5	–	(20.6)	20.6	–
Total continuing operations	1,776.6	(1,464.3)	120.7	1,206.3	(966.4)	86.3
(Liabilities directly associated with)/disposal group assets classified as held for sale	–	–	1.4	33.8	(6.9)	0.4
Total	1,776.6	(1,464.3)	122.1	1,240.1	(973.3)	86.7

Capital expenditure comprises solely fixed asset additions as disclosed in note 15.

5 SEGMENTAL ANALYSIS (continued)

Unallocated assets and liabilities comprise the following items:

	Unallocated assets 2005 £m	Unallocated liabilities 2005 £m	Unallocated assets 2004 £m	Unallocated liabilities 2004 £m
Cash	**145.5**	**–**	143.1	–
Other debt receivables	**1.0**	**–**	1.0	–
Current tax	**11.3**	**(24.0)**	–	(36.8)
Available for sale investments (Other investments)	**11.4**	**–**	10.2	–
Derivative financial assets/(liabilities)	**7.3**	**(21.7)**	–	–
Non finance lease borrowings	**–**	**(600.8)**	–	(223.0)
Deferred tax	**23.0**	**(27.1)**	18.3	(4.5)
Total	**199.5**	**(673.6)**	172.6	(264.3)

Included within each segment's result are the following non-cash charges:

	Depreciation 2005 £m	Other non-cash items 2005 £m	Depreciation 2004 £m	Other non-cash items 2004 £m
UK Bus	**12.2**	**2.0**	10.4	0.7
UK Trains	**15.4**	**35.1**	21.9	28.5
UK Coach	**5.3**	**(0.4)**	5.9	0.2
UK operations	**32.9**	**36.7**	38.2	29.4
North American Bus	**21.2**	**3.1**	18.2	1.0
European Coach & Bus (Alsa)	**0.9**	**–**	–	–
Central functions	**0.5**	**0.8**	0.9	0.3
Total continuing operations	**55.5**	**40.6**	57.3	30.7
Discontinued operations	**1.3**	**60.0**	6.3	15.9
Total	**56.8**	**100.6**	63.6	46.6

Other non-cash items include the following (credits)/charges:

	2005 £m	2004 £m
Amortisation of fixed asset grants	**(0.9)**	(6.5)
Amortisation of long-leasehold property prepayment	**0.8**	0.6
Profit on disposal of property, plant and equipment	**(2.0)**	(0.6)
Share based payments	**3.6**	0.6
Other non-cash items within normalised operating profit	**1.5**	(5.9)
Goodwill impairment	**93.3**	43.9
Property, plant and equipment impairment	**–**	6.1
Intangible asset amortisation	**4.9**	2.4
Onerous contract provision in exceptional items	**0.9**	–
Loss on disposal of non-current assets	**–**	0.1
Other non-cash items not in normalised operating profit	**99.1**	52.5
Total	**100.6**	46.6

An operating cash flow by segment is included in the Financial Review.

6 OPERATING COSTS

		2005 £m	2004 £m
Materials and consumables		**83.1**	100.8
Staff costs (including exceptional items of £3.0m (2004: £2.5m))		**711.7**	719.8
Depreciation	– Owned assets	**46.8**	48.1
	– Leased assets	**8.7**	9.2
Amortisation of leasehold property prepayment		**0.8**	0.6
Amortisation of fixed asset grants		**(0.9)**	(6.5)
Operating lease charges	Rolling stock: capital element	**175.9**	199.2
	Rolling stock: non-capital element	**76.7**	90.1
	Public service vehicles	**8.9**	8.6
	Other	**6.6**	10.1
	– Plant and equipment	**268.1**	308.0
	Fixed track access	**189.1**	296.8
	Other	**82.4**	80.5
	– Land and buildings	**271.5**	377.3
Pre-contract bid costs: UK Trains		**6.1**	1.5
External charges (including exceptional items of £4.8m (2004: £5.2m))		**672.4**	660.1
Operating costs before amortisation and impairment		**2,068.3**	2,218.9
UK Trains goodwill impairment		**33.3**	33.3
Intangible amortisation		**4.9**	2.4
Total operating costs – continuing operations		**2,106.5**	2,254.6

The TOCs have fixed track access contracts with Network Rail Infrastructure Limited for access to the railway infrastructure (tracks, stations and depots). 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, and the non-capital element of the lease charges includes heavy maintenance charges, risk and charges based on mileage.

Operating costs include £73.1m (2004: £41.7m) of franchise agreement payments to the SRA/ DfT Rail.

Included within external charges are fees paid to our auditors in respect of audit services of £1.4m (2004: £0.9m). In addition, external charges include fees paid to our auditors in respect of non-audit services of £0.2m (2004: £0.5m) in the UK and £0.1m (2004: £0.5m) overseas; £0.2m (2004: £0.5m) of these non-audit fees were in respect of tax services. Fees of £1.2m (2004: £nil) were capitalised with respect to acquisitions.

Total depreciation of £1.3m (2004: £6.3m) not included above was charged as part of discontinued operations.

7 EMPLOYEE BENEFIT COSTS

(a) Staff costs

	2005 £m	2004 £m
Wages and salaries	**626.0**	635.4
Social security costs	**54.7**	52.2
Pension costs (see note 36)	**27.5**	31.6
Expense of equity-settled share based payments (see note 8)	**3.5**	0.6
	711.7	719.8

In addition, wages and salaries of £65.3m (2004: £128.0m), social security costs of £4.8m (2004: £8.8m), pension costs of £1.0m (2004: £3.7m) and share based payments of £0.1m (2004: £nil) were incurred in discontinued operations.

The average number of employees, in continuing and discontinued operations and including Executive Directors, during the year was as follows:

	2005	2004
Managerial and administrative	**3,701**	4,061
Operational	**35,807**	39,592
	39,508	43,653

Included within wages and salaries are exceptional costs of £3.0m (2004: £1.5m), and included within pension costs are exceptional costs of £nil (2004: £1.0m).

7 EMPLOYEE BENEFIT COSTS (continued)

(a) Staff costs (continued)

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.

	2005 £m	2004 £m
Fees	**0.3**	0.3
Basic salaries	**1.1**	1.1
Benefits	**0.3**	0.3
Performance related bonuses	**0.7**	0.7
Pensions contributions	**0.2**	0.2
	2.6	2.6

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

(b) Share schemes

(i) Executive Share Option Plan

The Company operates tax approved and unapproved executive share option schemes open to Group employees in senior management positions and executive directors. Options granted by this Plan have a maximum term of between seven and ten years. The options vest after three years subject to the satisfaction of certain performance criteria 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 (iii). There are no cash settlement alternatives.

(ii) 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 the 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. The latest scheme matured on 1 December 2005. There are no cash settlement alternatives.

(iii) Long Term Incentive Plan (LTIP)

The LTIP was introduced in 2005 on the recommendation of the Remuneration Committee to replace the annual award of executive share options to executive directors and the executive committee. Under the LTIP a Performance Award to acquire a specified number of shares for free may be made to the employee. In addition a Matching Award may be made, as described in (iv). Performance conditions are attached to the vesting of Performance and Matching Awards based on the achievement of target growth in earnings per share and on 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.

(iv) 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 (iii). 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 gross basis. 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.

(v) 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 three months of vesting. There are no cash settlement alternatives at present.

(vi) 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 at present.

(vii) TWM Share Incentive Plan (the "SIP")

The TWM SIP exists for the benefit of WMT employees. At the end of the year all the National Express Group PLC shares held for the benefit of the Trustee were fully issued (2004: 206,411 unissued). Dividends on shares held in the SIP forfeited shares account are waived. There are no cash settlement alternatives at present.

7 EMPLOYEE BENEFIT COSTS (continued)

(b) Share schemes (continued)

Details of options or awards outstanding as at 31 December 2005 under the share schemes outlined above are as follows:

	Number of share options 2005	Number of share options 2004	Exercise price	Future exercise periods
Executive Share Option Plan	**4,196,358**	5,454,394	398p-1224p	2006-2014
Savings Related Share Option Scheme	**120,323**	1,580,826	417p	2006
Long Term Incentive Plan	**559,485**	–	nil	2008-2009
Share Matching Plan	**75,720**	–	nil	2008-2009
Deferred Annual Share Bonus Scheme	**81,094**	11,002	nil	2007-2008
WMT Long Service Option Scheme	**491,027**	559,081	398p-1224p	2006-2015
	5,524,007	7,605,303		

8 SHARE BASED PAYMENTS

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

	2005 £m	2004 £m
Expense arising from share and share option plans – continuing operations	**3.5**	0.6
– discontinued operations	**0.1**	–
	3.6	0.6

During the year ended 31 December 2005, the Group had seven share based payment arrangements, which are described in note 7.

Included in the charge for share based payment transactions is £2.1m (2004: £nil) which relates to share options granted under the TWM SIP which vested immediately. No charge has been included in respect of options granted in 2004 under the TWM SIP in accordance with the transitional provisions in IFRS 2 as these options had vested as of 1 January 2005.

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:

	2005		2004	
	Number of share options	Weighted average exercise price (p)	Number of share options	Weighted average exercise price (p)
Options without a nil exercise price:				
At 1 January[1]	**7,594,301**	**587**	8,238,485	568
Granted during the year	**49,534**	**883**	1,104,346	682
Lapsed during the year	**(979,569)**	**658**	(1,111,156)	612
Exercised during the year	**(1,856,558)**	**471**	(637,374)	470
Outstanding at 31 December[1]	**4,807,708**	**620**	7,594,301	587
Exercisable at 31 December	**1,632,374**	**786**	2,218,870	807
Options without a nil exercise price:				
At 1 January	**11,002**	**nil**	–	–
Granted during the year	**711,271**	**nil**	11,002	nil
Lapsed during the year	**(5,974)**	**nil**	–	–
Outstanding at 31 December	**716,299**	**nil**	11,002	nil
Exercisable at 31 December	**–**	**–**	–	–
Total outstanding at 31 December	**5,524,007**		7,605,303	
Total exercisable at 31 December	**1,632,374**		2,218,870	

[1] Included within this balance are options over 2,360,125 (2004: 4,786,081) shares that have not been recognised in accordance with the transitional provisions of IFRS 2 as the options were granted before 7 November 2002 and have not been subsequently modified.

8 SHARE BASED PAYMENTS (continued)

The options outstanding at 31 December 2005 had exercise prices that were between 398p and 1224p (2004: between 398p and 1224p) excluding options with a nil exercise price. The range of exercise prices for options was as follows:

Exercise price (p)	2005	2004
350-650	**2,640,007**	4,799,146
650-950	**1,870,461**	2,446,435
950-1250	**297,240**	348,720
	4,807,708	7,594,301

The options have a weighted average contractual life of 6 years (2004: 6 years). Options were exercised regularly throughout the year and the weighted average share price at exercise was 863p (2004: 702p).

The fair value of share options granted during the year under the TWM SIP was measured using the market price at the grant date. The weighted average fair value of the remaining share options granted during the year was calculated using a stochastic model, with the following assumptions and inputs:

	Share options without nil exercise price		Share options with nil exercise price	
	2005	2004	2005	2004
Risk free interest rate	**4.3%-4.8%**	4.7%-5.1%	**4.8%**	4.8%
Expected volatility	**27.6%-28.0%**	28.0%	**25.0%-27.0%**	29.0%
Expected option life in years	**8 years**	8 years	**3 years**	3 years
Expected dividend yield	**3.4%**	3.7%-3.9%	**3.3%-3.7%**	3.9%
Weighted average share price	**871p-888p**	685p-716p	**838p-906p**	679p
Weighted average exercise price	**875p-888p**	681p-716p	**0p**	0p
Weighted average fair value of options granted	**175p-183p**	139p-149p	**561p-821p**	606p

Experience to date has shown that approximately 15% (2004: 15%) of options are exercised early, principally due to redundancies. This has been incorporated into the calculation of the expected option life for the share options without nil exercise price.

Expected volatility in the table above was determined from historic volatility over the last eight 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

	2005 £m	2004 £m
Bank interest payable	**(16.3)**	(23.0)
Finance lease interest payable	**(4.7)**	(6.6)
Other interest payable	**(0.3)**	(0.5)
Unwind of insurance provision discounting	**(0.9)**	(0.8)
Finance costs	**(22.2)**	(30.9)
Finance income: Bank interest receivable	**10.8**	13.2
Net finance costs	**(11.4)**	(17.7)

10 TAXATION

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

	2005 £m	2004 £m
Current taxation:		
UK corporation tax – continuing operations	19.5	22.2
Overseas taxation – continuing operations	(1.2)	2.7
Overseas taxation – discontinued operations	(0.2)	(1.5)
Current income tax charge	18.1	23.4
Amounts overprovided in prior years – UK	(9.5)	(2.2)
Amounts overprovided in prior years – Overseas	–	(0.1)
Total current income tax	8.6	21.1
Deferred taxation (see note 28):		
Origination and reversal of timing differences – continuing operations	18.7	0.2
Total tax charge	27.3	21.3
The tax charge in the income statement is disclosed as follows:		
Income tax expense on continuing operations	27.5	22.8
Income tax credit on discontinued operations	(0.2)	(1.5)
	27.3	21.3
The tax expense on continuing operations is disclosed as follows:		
Tax charge on profit before goodwill impairment, intangible amortisation and exceptional items	29.5	26.4
Tax credit on goodwill impairment and exceptional items	(2.0)	(3.6)
	27.5	22.8

(b) Tax on items charged to equity

	2005 £m	2004 £m
Current taxation:		
Credit/(charge) on exchange movements offset in reserves	7.1	(4.1)
Deferred taxation:		
Deferred tax credit on share based payments	1.4	0.8
Deferred tax credit/(charge) on actuarial losses	9.0	(0.2)
Deferred tax charge on cash flow hedges	(1.4)	–
	9.0	0.6

10 TAXATION (continued)

c) Reconciliation of the total tax charge

	2005 £m	2004 £m
Profit from continuing operations before taxation	**89.3**	77.9
(Loss)/profit from discontinued operations	**(64.7)**	2.0
Accounting profit before income tax	**24.6**	79.9
Notional charge at UK corporation tax rate of 30%	**7.4**	24.0
Non-deductible exceptional expenditure	**–**	0.2
Non-deductible goodwill impairment and intangible amortisation	**11.5**	10.7
Utilisation of unrecognised tax losses	**–**	(1.8)
Prior year adjustments within current and deferred tax	**(12.0)**	(2.3)
Release of non-taxable grants	**–**	(1.7)
Effect of overseas tax rates	**2.3**	–
Reinvestment relief	**(2.8)**	–
Loss/(profit) on sale of businesses	**20.4**	(2.7)
US financing deduction	**(0.9)**	(4.7)
Permanent disallowables	**1.4**	(0.4)
Total tax charge reported in the income statement	**27.3**	21.3

(d) Temporary differences associated with group investments

No deferred tax (2004: £nil) is recognised on the unremitted earnings of overseas subsidiaries and associates. The Group has determined that undistributed profits of its overseas subsidiaries will not be distributed in the near future. In any case the temporary difference associated with group investments is £nil (2004: £nil) as a result of insufficient funds being available.

(e) Unrecognised tax losses

There is no recognition of the deferred tax asset in relation to the excess overseas tax losses on the grounds that there is insufficient evidence to determine that they are recoverable. Overseas deferred tax assets that the Group has not recognised in the accounts amount to £37.6m (2004: £36.4m), of which £0.8m will expire between 2012 and 2020. In addition, there are capital losses of £30.2m (2004: £2.4m) which have not been recognised, recoverability of which is dependent on capital gains arising. The majority of the increase to the deferred tax on capital losses in the year relates to the disposal of the North American Public Transit operations of £27.9m.

(f) Deferred tax included in the income statement

	2005 £m	2004 £m
Accelerated capital allowances	**14.3**	2.0
Short term timing differences	**5.2**	0.9
Utilisation of losses	**(0.8)**	(2.7)
	18.7	0.2

Details on the balance sheet position of deferred tax are included in note 28.

Notes to the Accounts

11 DISCONTINUED OPERATIONS

The Group decided to exit its non-core markets in North American Public Transit and Australia Bus in 2005 and 2004 respectively.

The Group's North American Public Transit operation (trading as ATC) was disposed of on 1 September 2005 and has been classified in discontinued operations.

In the year ended 31 December 2004 the Group sold National Bus Company (Victoria) Pty Limited, National Bus Company (Queensland) Pty Limited and Transport Management Group Pty Limited on 1 October 2004. The Group also announced the voluntary administration of the Bosnjak Holdings Group (comprising the Group's remaining operations in Australia) on 31 January 2005.

The results of the Group's discontinued operations are presented below. Normalised results are defined as the statutory results before the following as appropriate: profit or loss on the sale of businesses and charges for goodwill impairment, intangible amortisation, plant, property and equipment impairments, profit or loss on disposal of non-current assets, exceptional items and tax relief on qualifying exceptional items. The results for the Australia Bus and Bosnjak Group are immaterial in 2005 other than the proceeds from the administration as disclosed in note 20.

	2005	2004		
	N. American Public Transit £m	N. American Public Transit £m	Australia Bus £m	Total £m
Revenue	**100.8**	152.1	62.4	214.5
Operating expenses	**(97.0)**	(145.0)	(59.9)	(204.9)
Normalised operating profit	**3.8**	7.1	2.5	9.6
Finance income	**–**	–	0.3	0.3
Finance costs	**(0.2)**	(0.4)	(0.3)	(0.7)
Normalised profit before tax	**3.6**	6.7	2.5	9.2
Tax on normalised profit	**0.2**	–	0.1	0.1
Normalised profit	**3.8**	6.7	2.6	9.3
Goodwill impairment	**(60.0)**	–	(10.6)	(10.6)
Property, plant and equipment impairment	**–**	–	(6.1)	(6.1)
Exceptional items	**(0.2)**	(0.2)	–	(0.2)
	(60.2)	(0.2)	(16.7)	(16.9)
Profit on disposal of non-current assets	**–**	–	0.8	0.8
(Loss)/gain on sale of discontinued operations	**(6.6)**	–	8.9	8.9
Cumulative exchange differences transferred from reserves	**(1.5)**	–	–	–
	(68.3)	(0.2)	(7.0)	(7.2)
Tax – related to exceptional and other items	**–**	1.4	–	1.4
	(68.3)	1.2	(7.0)	(5.8)
(Loss)/ profit for the year from discontinued operations	**(64.5)**	7.9	(4.4)	3.5

Notes to the Accounts

11 DISCONTINUED OPERATIONS (continued)

The major classes of assets and liabilities of discontinued operations measured at the lower of carrying amount and fair value less costs to sell as at 31 December are as follows:

	2005 £m	2004 £m
Assets:		
Property, plant and equipment	–	25.4
Inventories	–	0.2
Trade and other receivables	–	4.1
Cash and cash equivalents	–	4.1
Disposal group assets classified as held for sale	–	33.8
Liabilities:		
Trade and other payables	–	(4.2)
Financial liabilities - Borrowings	–	(2.7)
Liabilities directly associated with disposal group assets classified as held for sale	–	(6.9)
Net assets attributable to discontinued operations	–	26.9

Cash flows and (loss)/earnings per share from discontinued operations are as follows:

	2005 £m	2004 £m
Net cash inflow from operating activities	**3.6**	9.1
Net cash inflow from investing activities	**47.0**	24.7
Net cash outflow from financing activities	–	(2.5)
(Loss)/earnings per share		
Basic from discontinued operations	**(47.2p)**	5.2p
Diluted from discontinued operations	**(46.5p)**	5.1p

12 DIVIDENDS PAID AND PROPOSED

Declared and paid during the year	2005 £m	2004 £m
Ordinary final dividend for 2004 paid of 20.65p per share (2003: 17.5p per share)	**28.1**	23.6
Ordinary interim dividend for 2005 paid of 10.0p per share (2004: 9.35p per share)	**13.5**	12.8
	41.6	36.4
Proposed for approval (not recognised as liability as at 31 December)		
Ordinary final dividend for 2005 of 22.25p per share (2004: 20.65p per share)	**33.5**	28.1

13 EARNINGS PER SHARE

	2005	2004
Basic earnings per share – continuing operations	**45.2p**	40.5p
Basic (loss)/earnings per share – discontinued operations	**(47.2p)**	5.2p
Basic (loss)/earnings per share – total	**(2.0p)**	45.7p
Normalised basic earnings per share – continuing operations	**77.4p**	70.4p
Diluted earnings per share – continuing operations	**44.5p**	39.9p
Diluted (loss)/earnings per share – discontinued operations	**(46.5p)**	5.1p
Diluted (loss)/earnings per share – total	**(2.0p)**	45.0p
Normalised diluted earnings per share – continuing operations	**76.3p**	69.3p

Normalised earnings per share are defined as the statutory earnings per share before the following: profit or loss on the sale of businesses and charges for goodwill impairment, intangible amortisation, property, plant and equipment impairments, profit or loss on disposal of non-current assets, exceptional items and tax relief on qualifying exceptional items.

Basic loss per share is calculated by dividing the loss attributable to equity shareholders of £2.8m (2004: profit of £62.2m) by the weighted average number of ordinary shares in issue during the year, excluding those held by employees' 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 weighted average number of ordinary shares is detailed as follows:

	2005	2004
Basic weighted average shares	**136,591,474**	136,166,921
Adjustment for dilutive potential ordinary shares	**2,017,744**	2,039,292
Diluted weighted average shares	**138,609,218**	138,206,213

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

Normalised profits for the financial year are:

	2005 £m	2005 Basic EPS p	2005 Diluted EPS p	2004 £m	2004 Basic EPS p	2004 Diluted EPS p
(Loss)/profit attributable to equity shareholders	**(2.8)**	**(2.0)**	**(2.0)**	62.2	45.7	45.0
Loss/(profit) from discontinued operations	**64.5**	**47.2**	**46.5**	(7.1)	(5.2)	(5.1)
Profit from continuing operations attributable to equity shareholders	**61.7**	**45.2**	**44.5**	55.1	40.5	39.9
Goodwill impairment on continuing operations	**33.3**	**24.4**	**24.1**	33.3	24.4	24.1
Intangible asset amortisation	**4.9**	**3.6**	**3.5**	2.4	1.8	1.7
Exceptional items	**7.8**	**5.7**	**5.6**	7.7	5.7	5.6
Loss on disposal of non-current assets	**–**	**–**	**–**	0.9	0.7	0.6
Tax relief on goodwill and exceptional items	**(2.0)**	**(1.5)**	**(1.4)**	(3.6)	(2.7)	(2.6)
Normalised profit attributable to equity shareholders	**105.7**	**77.4**	**76.3**	95.8	70.4	69.3

Profit/loss from discontinued operations comprises the results as disclosed in note 11 net of minority interests of £3.6m in the year to 31 December 2004.

14 INTANGIBLE ASSETS

	Customer contracts £m	Rail franchise £m	Finite life assets £m	Contractual relationships £m	Goodwill £m	Indefinite life assets £m	Total £m
Cost or valuation:							
At 1 January 2005	0.9	13.0	**13.9**	2.5	372.0	**374.5**	**388.4**
Additions through business combinations	12.9	–	**12.9**	13.3	442.2	**455.5**	**468.4**
Attributable to discontinued operations	–	–	**–**	–	(96.6)	**(96.6)**	**(96.6)**
Foreign exchange	0.8	–	**0.8**	1.1	31.4	**32.5**	**33.3**
At 31 December 2005	**14.6**	**13.0**	**27.6**	**16.9**	**749.0**	**765.9**	**793.5**
Aggregate amortisation and impairment:							
At 1 January 2005	0.4	1.9	**2.3**	–	33.3	**33.3**	**35.6**
Charge for year	2.5	2.4	**4.9**	–	–	**–**	**4.9**
Annual impairment charge for the year on finite life goodwill	–	–	**–**	–	33.3	**33.3**	**33.3**
Impairment charge for the year	–	–	**–**	–	60.0	**60.0**	**60.0**
Attributable to discontinued operations	–	–	**–**	–	(60.0)	**(60.0)**	**(60.0)**
Foreign exchange	0.3	–	**0.3**	–	–	**–**	**0.3**
At 31 December 2005	**3.2**	**4.3**	**7.5**	**–**	**66.6**	**66.6**	**74.1**
Net carrying amount:							
At 31 December 2005	**11.4**	**8.7**	**20.1**	**16.9**	**682.4**	**699.3**	**719.4**
At 1 January 2005	0.5	11.1	**11.6**	2.5	338.7	**341.2**	**352.8**

	Customer contracts £m	Rail franchise £m	Finite life assets £m	Contractual relationships £m	Goodwill £m	Indefinite life assets £m	Total £m
Cost or valuation:							
At 1 January 2004	–	1.0	**1.0**	–	404.6	**404.6**	405.6
Acquisitions through business combinations	0.9	–	**0.9**	2.5	2.0	**4.5**	5.4
Franchise entry	–	12.0	**12.0**	–	–	**–**	12.0
Disposal of businesses	–	–	**–**	–	(6.2)	**(6.2)**	(6.2)
Included in assets held by disposal group	–	–	**–**	–	(10.6)	**(10.6)**	(10.6)
Foreign exchange	–	–	**–**	–	(17.8)	**(17.8)**	(17.8)
At 31 December 2004	**0.9**	**13.0**	**13.9**	**2.5**	**372.0**	**374.5**	**388.4**
Aggregate amortisation and impairment:							
At 1 January 2004	–	–	**–**	–	–	**–**	–
Charge for year	0.5	1.9	**2.4**	–	–	**–**	2.4
Annual impairment charge for the year on finite life goodwill	–	–	**–**	–	33.3	**33.3**	33.3
Impairment charge for the year	–	–	**–**	–	10.6	**10.6**	10.6
Included in assets held by disposal group	–	–	**–**	–	(10.6)	**(10.6)**	(10.6)
Foreign exchange	(0.1)	–	**(0.1)**	–	–	**–**	(0.1)
At 31 December 2004	**0.4**	**1.9**	**2.3**	**–**	**33.3**	**33.3**	**35.6**
Net carrying amount:							
At 31 December 2004	**0.5**	**11.1**	**11.6**	**2.5**	**338.7**	**341.2**	**352.8**
At 1 January 2004	–	1.0	**1.0**	–	404.6	**404.6**	405.6

Due to the nature of the fixed term franchise agreements, we believe the goodwill that arises on the acquisition of Prism Rail PLC has a finite life. This finite life goodwill is subject to an annual impairment charge to reflect the finite nature of the cash flows related to this goodwill.

With respect to the recoverable amount of the UK Trains goodwill, the discount rate applied to cash flow projections is 10.7% (2004: 10.7%) and cash flows sourced from management plans through to the end of the franchise.

14 INTANGIBLE ASSETS (continued)

Indefinite life intangible assets including 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:

	2005 £m	2004 £m
UK Bus	**13.2**	–
UK Trains	**19.2**	52.5
UK Coach	**5.6**	5.7
North American Bus		
US School Bus	**161.6**	141.2
US Public Transit	**–**	92.9
Canadian School Bus	**74.2**	48.9
European Coach & Bus (Alsa)	**425.5**	–
	699.3	341.2

The useful economic lives of contractual relationships in Canada are deemed to be indefinite due to the accepted market presumption that these contracts will be renewed indefinitely whilst the customer contract and rail franchise intangible assets are to be 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 impairment charge in 2005 of £60.0m relates to our North American Public Transit operations that were sold on 1 September 2005 (see note 11).

The impairment charge in 2004 of £10.6m relates entirely to Bosnjak Holdings Pty Ltd, and is included in the loss for that year from discontinued operations in relation to our Australian Bus operations (see note 11).

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 three year period. Growth has then been extrapolated forward from the end of the forecasts.

The assumptions used for the other cash generating units are as follows:

	Discount rate applied to cash flow projections		Growth rate used to extrapolate cash flows beyond three year period of management plan	
	2005	2004	2005	2004
UK Bus	**10.7%**	–	**5.0%**	–
North America				
US School Bus	**10.8%**	10.8%	**2.0%**	3.0%
Canadian School Bus	**12.1%**	12.1%	**2.0%**	3.0%

The discount rates represent the risk adjusted weighted average cost of capital appropriate for the cash flow generated.

The calculation of value in use for each cash-generating unit is most sensitive to the assumptions over gross margin, discount rates, price inflation, and growth rate.

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

The recoverable amount of the goodwill arising on the Alsa acquisition, which completed on 1 December 2005, will be tested for impairment for the first time at 31 December 2006. At 31 December 2005, the acquisition model used to support the acquisition was still appropriate for supporting the carrying value.

The carrying value of the intangible assets acquired in the Alsa acquisition will be finalised in the year ending 31 December 2006. Any adjustment to the carrying value of the intangible assets will lead to a corresponding adjustment in goodwill.

Notes to the Accounts

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 or valuation:					
At 1 January 2005	28.3	12.4	309.7	144.6	**495.0**
Additions	3.7	2.2	80.0	36.2	**122.1**
Acquisition of businesses	16.1	0.4	78.2	7.1	**101.8**
Disposals	(1.8)	(0.2)	(11.0)	(2.8)	**(15.8)**
Attributable to discontinued operations	–	–	(12.9)	(6.8)	**(19.7)**
Foreign exchange	0.5	0.6	27.3	0.7	**29.1**
At 31 December 2005	**46.8**	**15.4**	**471.3**	**179.0**	**712.5**
Depreciation:					
At 1 January 2005	4.6	1.8	78.3	76.8	**161.5**
Charge for the year	0.6	0.6	34.6	21.0	**56.8**
Disposals	(0.5)	(0.1)	(7.0)	(2.1)	**(9.7)**
Attributable to discontinued operations	–	–	(9.0)	(5.5)	**(14.5)**
Foreign exchange	0.1	0.6	10.2	0.3	**11.2**
At 31 December 2005	**4.8**	**2.9**	**107.1**	**90.5**	**205.3**
Net book value:					
At 31 December 2005	**42.0**	**12.5**	**364.2**	**88.5**	**507.2**
At 1 January 2005	23.7	10.6	231.4	67.8	**333.5**

	Freehold land and buildings £m	Long leasehold property improvements £m	Public service vehicles £m	Plant and equipment, fixtures and fittings £m	**Total £m**
Cost or valuation:					
At 1 January 2004	45.3	13.2	335.8	140.2	534.5
Additions	3.2	0.7	52.2	30.6	86.7
Acquisition of businesses	–	–	7.9	–	7.9
Disposals	(4.1)	(0.1)	(9.9)	(19.2)	(33.3)
Disposal of businesses	(0.6)	–	(17.2)	(8.8)	(26.6)
Attributable to discontinued operations	(9.4)	–	(44.3)	(3.4)	(57.1)
Reclassification	(5.3)	(1.0)	–	6.3	–
Foreign exchange	(0.8)	(0.4)	(14.8)	(1.1)	(17.1)
At 31 December 2004	**28.3**	**12.4**	**309.7**	**144.6**	**495.0**
Depreciation:					
At 1 January 2004	5.4	1.4	84.2	70.4	161.4
Charge for the year	1.3	0.7	34.2	27.4	63.6
Impairment	1.2	–	4.9	–	6.1
Disposals	(0.7)	–	(7.2)	(14.2)	(22.1)
Disposal of businesses	–	–	(3.7)	(4.6)	(8.3)
Attributable to discontinued operations	(1.6)	–	(27.5)	(2.6)	(31.7)
Reclassification	(0.9)	(0.1)	–	1.0	–
Foreign exchange	(0.1)	(0.2)	(6.6)	(0.6)	(7.5)
At 31 December 2004	**4.6**	**1.8**	**78.3**	**76.8**	**161.5**
Net book value:					
At 31 December 2004	**23.7**	**10.6**	**231.4**	**67.8**	**333.5**
At 1 January 2004	39.9	11.8	251.6	69.8	373.1

The impairment charge in 2004 relates to the Australian Bus Division which was classified as discontinued during the year (see note 11).

15 PROPERTY, PLANT AND EQUIPMENT (continued)

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

	2005 £m	2004 £m
Public service vehicles		
– cost	178.5	116.8
– accumulated depreciation	(61.1)	(60.0)
	117.4	56.8
Plant and equipment		
– cost	3.5	3.0
– accumulated depreciation	(2.2)	(1.2)
	1.3	1.8
Net book value	118.7	58.6

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

16 INVESTMENT PROPERTY

	2005 £m	2004 £m
Opening balance at 1 January	–	9.1
Disposals	–	(9.1)
Closing balance at 31 December	–	–

17 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, unless indicated otherwise. The Group's train passenger services in the UK are operated through franchises awarded by the SRA/ 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 Services Limited	Operation of coach services
West Midlands Travel Limited	Operation of bus services
Travel London Limited	Operation of bus services
Travel London (West) Limited	Operation of bus services
Travel London (Middlesex) Limited	Operation of bus services
c2c Rail Limited	Operation of train passenger services
Central Trains Limited	Operation of train passenger services
Gatwick Express Limited	Operation of train passenger services
London Eastern Railway Limited (trading as "one")	Operation of train passenger services
Maintrain Limited	Provision of train maintenance services
Midland Main Line Limited	Operation of train passenger services
National Express Trains Limited*	Holding company for train operating companies
Silverlink Train Services Limited	Operation of train passenger services
Wales & West Passenger Trains Ltd (trading as Wessex Trains)	Operation of train passenger services
West Anglia Great Northern Railway Ltd (trading as Wagn)	Operation of train passenger services

17 SUBSIDIARIES (continued)

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

Incorporated in the USA	
Durham School Services LP	Operation of school bus services
SWF Airport Acquisition Inc	Provision and management of airport facilities

Incorporated in Canada	
Stock Transportation Limited	Operation of school bus services

Incorporated in Spain	
Dabliu Consulting SLU**	Holding company for operating companies
Turyexpres SA**	Holding company for operating companies
General Tecnica Industrial SL**	Holding company for operating companies

* Shares held by the Company. All other shares held by subsidiaries
** The main holding companies of the Alsa Group

18 FINANCIAL ASSETS

Under the exemption available in IFRS 1, 'First-time Adoption of IFRS' the Group has not restated its results for the year ended 31 December 2004 for the effect of IAS 32, 'Financial instruments: Disclosure and Presentation', or IAS 39, 'Financial Instruments: Recognition and Measurement'. Instead the Group has followed the requirements of UK GAAP for the year ended 31 December 2004 and included disclosures prepared under FRS 13 in note 32.

Additional financial instruments have been recognised on the balance sheet from 1 January 2005 as reported in the Group's IFRS reconciliations included in note 40. A summary of the effect is included below:

	31 December 2005 £m	31 December 2004 £m	1 January 2005 £m
Available for sale investments (Unlisted ordinary and preference shares)	11.4	–	10.2
Other investments	–	10.2	–
	11.4	10.2	10.2
Derivative financial instruments – Fuel swaps	0.6	–	1.4
Financial assets included in non-current assets	**12.0**	**10.2**	**11.6**
Derivative financial instruments – Fuel swaps	6.7	–	4.9
Derivative financial instruments – Foreign exchange forward contracts	–	–	14.9*
Financial assets included in current assets	**6.7**	**–**	**19.8**

* £14.6m included in foreign exchange forward contracts at 1 January 2005 had previously been included in other receivables at 31 December 2004.

18 FINANCIAL ASSETS (continued)

Available for sale investments

	Available for sale investments 2005 £m	Other investments 2004 £m
Cost or valuation:		
At 1 January	**16.0**	12.8
Arising on acquisition of subsidiaries	**1.2**	–
Additions	**–**	3.2
At 31 December	**17.2**	16.0
Accumulated impairment:		
At 1 January and 31 December	**(5.8)**	(5.8)
Net carrying amount:		
At 31 December	**11.4**	10.2
At 1 January	**10.2**	7.0

The principal available for sale investments are as follows:

Name	County of registration	Class of share	Proportion held %
London & Continental Railways (LCR)	England and Wales	Ordinary shares	21
Prepayment Cards Limited (PCL)	England and Wales	Ordinary shares	23.5
Trainline Holdings (THL)	England and Wales	Ordinary shares	14
Union Railways (South) Limited (URS)	England and Wales	Preference shares	21
Various investments within Alsa	Spain	Ordinary shares	4-16

LCR, PCL, THL, URS and various investments in the Alsa group have been accounted for as available for sale investments. In the opinion of the Directors, the Group is not in a position to exercise significant influence over the THL, URS and Alsa available for sale investments under the definitions in IAS 28, 'Investments in associates'. Although the Group holds more than 20% of the ordinary shares of LCR, it does not have a presence on the board and is not in a position to exert significant influence over this investment. The Group is not in a position to exercise significant influence over PCL as its funding is entirely provided by the majority shareholder.

At 31 December 2005, the Directors are unable to revalue the unquoted equity instruments that form the investment in THL as a reliable valuation cannot be prepared due to the wide range of estimates available for the valuation. Therefore the investment is measured at cost.

19 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Investments accounted for using the equity method are as follows:

	2005 £m	2004 £m
Joint ventures	**2.2**	–
Associates	**2.6**	–
	4.8	–

a) Investments in joint ventures

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

Name	County of registration	Activity	Total issued share capital £000	Proportion held %
Ibero – Eurosur SL	Spain	Holding company of Deutsche Touring	4	20
Movelia Tecnologias SL	Spain	Travel website	870	41

Due to the proximity of the combination of Alsa to the year end the financial information for the Alsa companies is provisional as up to date information is not available.

19 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (continued)

a) Investments in joint ventures (continued)

The financial information of these joint ventures is summarised below:

Share of joint ventures' balance sheets	Ibero 2005 £m	Movelia 2005 £m	**Total 2005 £m**
Non-current assets	–	0.4	**0.4**
Current assets	3.7	0.6	**4.3**
Share of gross assets	3.7	1.0	**4.7**
Current liabilities	(2.1)	(0.3)	**(2.4)**
Non-current liabilities	–	(0.1)	**(0.1)**
Share of gross liabilities	(2.1)	(0.4)	**(2.5)**
Share of net assets	1.6	0.6	**2.2**

These joint ventures are both within Alsa and have been provisionally classified at 31 December 2005. The results from 1 December 2005 were immaterial to the Group.

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

b) Investments in associates

The Group's interests in associates are as follows:

Name	County of registration	Total issued share capital £000	Proportion held %
Altram LRT Limited	England and Wales	16,500	33
Inter-Capital and Regional Rail Limited	England and Wales	1	40
Alsa associates	Spain	6,673	20-50

Altram LRT Limited ("Altram") is a provider of light rapid transport systems. Inter-Capital and Regional Rail Limited ("ICRRL") is contracted to manage the operations of Eurostar UK to 2010. The associates of Alsa are generally involved in the operation of coach and bus services and similar operations.

The associates' financial information is summarised below:

Share of associate's balance sheet

	Altram		ICRRL		Alsa	Total	
	2005 £m	2004 £m	**2005 £m**	2004 £m	**2005 £m**	**2005 £m**	2004 £m
Non-current assets	**–**	–	**–**	–	**3.8**	**3.8**	–
Current assets	**2.1**	2.1	**4.0**	3.1	**3.9**	**10.0**	5.2
Share of gross assets	**2.1**	2.1	**4.0**	3.1	**7.7**	**13.8**	5.2
Current liabilities	**(3.0)**	(2.8)	**(20.9)**	(12.0)	**(3.6)**	**(27.5)**	(14.8)
Non-current liabilities	**–**	–	**–**	–	**(1.5)**	**(1.5)**	–
Share of gross liabilities	**(3.0)**	(2.8)	**(20.9)**	(12.0)	**(5.1)**	**(29.0)**	(14.8)
Share of net assets/(liabilities)	**(0.9)**	(0.7)	**(16.9)**	(8.9)	**2.6**	**(15.2)**	(9.6)

Due to the proximity of the combination of Alsa to the year end the financial information for the Alsa companies is provisional as up to date information is not available.

19 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (continued)

b) Investments in associates (continued)

Share of associate's revenue and loss

	Altram		ICRRL		Total	
	2005 £m	2004 £m	**2005 £m**	2004 £m	**2005 £m**	2004 £m
Revenue	**2.0**	1.8	**1.8**	1.7	**3.8**	3.5
Loss	**(0.2)**	(0.2)	**(8.6)**	(3.2)	**(8.8)**	(3.4)

The Group's share of revenue and profit from the Alsa associates, which have been provisionally classified, from 1 December 2005, were immaterial.

	Altram		ICRRL		Alsa	Total	
	2005 £m	2004 £m	**2005 £m**	2004 £m	**2005 £m**	**2005 £m**	2004 £m
Carrying amount of investment	–	–	–	–	2.6	2.6	–

20 BUSINESS COMBINATIONS AND DISPOSALS

(a) Acquisition of Alsa

On 1 December 2005 the Group acquired the entire share capital of General Tecnica Industrial S.L., Dabliu Consulting S.L. and Turyexpres S.A. which together hold the companies that comprise Alsa, a bus and coach operator based in Spain. Consideration of £268.6m was satisfied by the issue of 13,503,600 ordinary shares of 5p at £9.07 (£122.5m), being the price of National Express Group PLC shares on 1 December 2005, and cash of £146.1m (net of a provisional £2.6m completion adjustment that is receivable at 31 December 2005). Additionally costs of £4.4m have been included in total consideration.

2005 Net assets at date of acquisition:	Alsa book value £m	Alsa fair value adjustments £m	Alsa fair value total £m
Intangible assets	178.2	(178.2)	–
Property, plant and equipment	59.2	14.4	73.6
Available for sale investments	1.2	–	1.2
Investments accounted for under the equity method	6.0	(1.2)	4.8
Inventories	3.1	–	3.1
Trade and other receivables	52.8	(3.8)	49.0
Current tax	0.8	–	0.8
Cash and cash equivalents	10.0	–	10.0
Trade and other payables	(55.4)	–	(55.4)
Defined benefit pension liability	(0.2)	(0.9)	(1.1)
Provisions	(1.0)	–	(1.0)
Financial liabilities – Borrowings	(211.8)	–	(211.8)
Deferred tax liability	0.4	(6.5)	(6.1)
Net assets	43.3	(176.2)	(132.9)
Less: minority interest	(11.4)	(4.1)	(15.5)
Group's share of net assets	31.9	(180.3)	(148.4)
Goodwill on acquisition			421.4
Total consideration			273.0
Net consideration			268.6
Acquisition costs			4.4
Total consideration			273.0
Less: shares issued			(122.5)
Add: provisional completion adjustment receivable			2.6
Less: accrued acquisition costs			(0.2)
Less: net cash acquired			(10.0)
Net cash outflow			142.9

In accordance with Group accounting policies, provisional fair value adjustments have been made to the assets and liabilities acquired. In particular, due to the proximity of the combination to the year end the Group has been unable to complete a detailed valuation of the intangible and tangible assets acquired with the business. Accordingly, the surplus of consideration over fair value of the share of net assets

Notes to the Accounts

20 BUSINESS COMBINATIONS AND DISPOSALS (continued)

(a) Acquisition of Alsa (continued)

acquired has been allocated to goodwill at 31 December 2005. The Group expects to identify intangible assets, including brands, customer relationships and customer contracts, and will complete a property valuation. Independent valuers have been retained by the Group to complete this exercise and the results will be reflected in the Group's next accounts. The value of goodwill will be adjusted by a corresponding amount for the value of intangible assets identified and the difference between the market and book values of the property assets. Management believes that goodwill remaining after this exercise will comprise value to the Group for which the recognition of a discrete intangible asset is not permitted and will represent future growth opportunities.

On 15 December 2005 the Group paid £12.7m of cash consideration to acquire the 10.2% minority interest of Enatcar, a subsidiary of Alsa. This payment represented fair value and consequently had no impact on the goodwill recognised above. Due to the date of acquisition, the profit accrued in 2005 was not material to the Group.

From the date of acquisition, Alsa has contributed £2.6m to the normalised operating profit of the Group. As a privately owned group Alsa did not prepare consolidated financial information. Using the December 2005 results as being indicative of the profit for the full year, if the combination had taken place at the beginning of the year, the normalised operating profit for the Group would have been £184.1m and revenue from continuing operations would have been £2,416.2m.

Normalised results are defined as the statutory results before the following as appropriate: profit or loss on the sale of businesses and charges for goodwill impairment, intangible amortisation, property, plant and equipment impairments, profit or loss on disposal of non-current assets, exceptional items and tax relief on qualifying exceptional items.

(b) Other acquisitions

The Group acquired the entire share capital of TGM Buses Limited and TGM Middlesex Limited, representing the London bus operations of Tellings Golden Miller PLC (TGM) on 17 June 2005. In Canada the Group acquired the entire share capital of Aboutown School Transit Inc., a school bus operator on 15 July 2005 and the entire share capital of Northstar Passenger Services LP and Walsh Transportation LP, representing the school bus operations of Contrans Income Fund (a Canadian freight haulage company) on 1 August 2005. The Group also acquired the entire share capital of Jones School Bus Service Inc. on 10 November 2005, a school bus operator in the United States.

2005 Net assets at date of acquisition:	Book value TGM £m	 Aboutown £m	 Northstar £m	 Jones £m	 Total £m	Fair value Adjustments £m	**Fair value Total £m**
Intangible assets	–	–	–	–	–	26.2	**26.2**
Property, plant and equipment	6.3	0.5	13.9	5.9	26.6	1.6	**28.2**
Inventories	0.2	–	0.2	–	0.4	–	**0.4**
Trade and other receivables	2.2	–	0.6	2.7	5.5	–	**5.5**
Cash and cash equivalents	1.8	–	–	0.2	2.0	–	**2.0**
Trade and other payables	(2.0)	–	(1.2)	(3.2)	(6.4)	(2.1)	**(8.5)**
Current tax payable	–	–	(0.3)	–	(0.3)	–	**(0.3)**
Financial liabilities – Borrowings	(2.1)	–	(0.2)	–	(2.3)	–	**(2.3)**
Deferred tax liability	(1.0)	–	(2.2)	(1.7)	(4.9)	–	**(4.9)**
Net assets acquired	5.4	0.5	10.8	3.9	20.6	25.7	**46.3**
Goodwill on acquisition							**20.8**
Total consideration							**67.1**
Net consideration							**65.9**
Acquisition costs							**1.2**
Total consideration							**67.1**
Less: deferred consideration							**(1.9)**
Less: net cash acquired							**(2.0)**
Net cash outflow							**63.2**

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

The adjustments represent:

(a) the recognition of customer contracts acquired with the TGM business (£4.5m), Aboutown (£0.6m), Northstar (£1.5m) and Jones (£6.3m);

(b) customer relationships acquired with Aboutown (£2.8m) and Northstar (£10.5m) which reflects the presumption of indefinite renewal in relation to school bus contracts in Canada. The customer contracts will be amortised over the life of the contracts, whilst customer relationships will not be amortised, but will be tested for impairment on an annual basis;

(c) an increase in the value of property, plant and equipment at Jones following a review of the vehicle fleet; and

(d) an increase in payables of £1.6m at TGM, £0.3m at Jones and £0.2m at Northstar.

20 BUSINESS COMBINATIONS AND DISPOSALS (continued)

(b) Other acquisitions (continued)

Consideration was £21.3m for TGM (including £0.3m acquisition costs), £4.1m for Aboutown, £26.2m for Northstar (including £0.3m deferred consideration and £0.7m acquisition costs), and £15.5m for Jones (including £1.6m deferred consideration and £0.2m acquisition costs).

From their respective dates of acquisition TGM, Aboutown, Northstar and Jones have contributed £0.8m, £0.2m, £0.7m and £0.2m respectively to normalised operating profit and a £0.1m loss, £0.1m loss, £0.2m profit and £0.2m loss to the net loss of the Group. If these four combinations had taken place at the beginning of the year the normalised operating profit for the Group would have been £156.9m, loss for the Group would have been £1.7m, and revenue from continuing operations would have been £2,245.0m.

Included in the goodwill recognised above are certain intangible assets that cannot be separately identified and measured due to their nature. This includes control over the acquired businesses and increased scale in our London Bus and Canadian 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 UK Bus and North American operations.

During the year ended 31 December 2004, the Group acquired the entire share capital of Connex Bus UK Limited (now called Travel London Limited), a bus operator in the UK, the entire share capital of 1114448 Ontario Limited, the holding company of Student Express Limited, a school bus operator in Canada, and certain assets of M&O Bus Lines (Handicab) Limited, another school bus operator in Canada.

2004 Net assets at date of acquisition:	Book value Travel London £m	 Student Express and M&O £m	 Total £m	Fair value Adjustments £m	**Fair value total** **£m**
Intangible assets	0.3	–	0.3	3.1	**3.4**
Property, plant and equipment	0.8	3.4	4.2	3.7	**7.9**
Inventories	0.2	–	0.2	–	**0.2**
Trade and other receivables	2.2	0.2	2.4	1.6	**4.0**
Cash and cash equivalents	19.1	0.8	19.9	–	**19.9**
Trade and other payables	(3.4)	–	(3.4)	(0.5)	**(3.9)**
Financial liabilities – Borrowings	–	(1.4)	(1.4)	(10.1)	**(11.5)**
Provisions	(19.3)	(0.7)	(20.0)	5.3	**(14.7)**
Net assets acquired	(0.1)	2.3	2.2	3.1	**5.3**
Goodwill on acquisition					**2.0**
Total consideration					**7.3**
Net consideration					**6.9**
Acquisition costs					**0.4**
Total consideration					**7.3**
Less: net cash acquired					**(19.9)**
Net cash inflow					**(12.6)**

Notes to the Accounts

20 BUSINESS COMBINATIONS AND DISPOSALS (continued)

(c) Disposals

The Group sold its North American Public Transit operations on 1 September 2005 for gross proceeds of £50.0m.

The Group announced the voluntary administration of the Bosnjak Holdings Group (comprising the Group's remaining operations in Australia) on 31 January 2005, and received proceeds of £25.4m (A$60.0m) when the administrator sold the business on 30 September 2005.

The Group also sold its airside coach business at Heathrow Airport on 21 February 2005.

2005 Net assets disposed of:	N. American Public Transit £m	Bosnjak Group £m	Heathrow airside £m	**Total £m**
Property, plant and equipment	5.5	26.0	1.1	**32.6**
Inventories	1.9	0.2	–	**2.1**
Trade and other receivables	28.1	2.6	–	**30.7**
Cash and cash equivalents	2.5	2.1	–	**4.6**
Trade and other payables	(11.9)	(2.7)	–	**(14.6)**
Provisions	(10.0)	–	–	**(10.0)**
Deferred tax	(1.8)	(0.1)	–	**(1.9)**
Minority interest	–	(0.9)	–	**(0.9)**
Financial liabilities – Borrowings	–	(2.8)	–	**(2.8)**
Net assets disposed	14.3	24.4	1.1	**39.8**
Goodwill realised	36.0	–	0.1	**36.1**
Disposal provision created	2.7	–	–	**2.7**
Deferred tax liability on disposal	3.2	–	–	**3.2**
Loss on sale of businesses	(6.6)	–	–	**(6.6)**
Net consideration	49.6	24.4	1.2	**75.2**
Total consideration	50.0	25.9	1.2	**77.1**
Less: disposal costs	(0.4)	(1.5)	–	**(1.9)**
Net consideration	49.6	24.4	1.2	**75.2**
Less: net cash disposed	(2.5)	(2.1)	–	**(4.6)**
Add: completion adjustment to pay purchaser	1.2	–	–	**1.2**
Less: deferred consideration	–	(0.5)	–	**(0.5)**
Net cash inflow	48.3	21.8	1.2	**71.3**

The results of North American Public Transit in the year are disclosed in note 11. The results of the Australian Bus division in 2004 are also disclosed in note 11, although the results for the Bosnjak Group in 2005 are immaterial. The revenue, operating result and cash flow of the UK coach business sold are not disclosed, as the amounts are not material.

The administration process at Bosnjak Group is continuing and it is possible that further amounts will be received in relation to the outstanding loan balance due to the Group subsidiary NBC Pty Ltd in Australia. The timing and quantum of any future payment is uncertain and therefore has not been recognised at 31 December 2005.

During the year ended 31 December 2004 the Group sold National Bus Company (Victoria) Pty Limited, National Bus Company (Queensland) Pty Limited and Transport Management Group Pty Limited, all of which had been part of the Australian Bus division, for net proceeds of £24.7m. The Group also sold Qjump Limited in exchange for a 14% shareholding in Trainline Holdings Limited and a £1.0m loan note from the same company.

20 BUSINESS COMBINATIONS AND DISPOSALS (continued)

(c) Disposals (continued)

2004 Net assets disposed of:	Australia Buses £m	Qjump £m	Total £m
Property, plant and equipment	14.2	4.1	**18.3**
Inventories	0.3	–	**0.3**
Trade and other receivables	2.1	6.5	**8.6**
Cash and cash equivalents	0.3	–	**0.3**
Trade and other payables	(5.3)	(7.3)	**(12.6)**
Financial liabilities – Borrowings	(2.0)	–	**(2.0)**
Provisions	–	(0.1)	**(0.1)**
Net assets disposed	9.6	3.2	**12.8**
Goodwill realised	6.2	–	**6.2**
Profit on sale of businesses	8.9	–	**8.9**
Net consideration	24.7	3.2	**27.9**
Total consideration	25.0	3.2	**28.2**
Less: disposal costs	(0.3)	–	**(0.3)**
Net consideration	24.7	3.2	**27.9**
Less: investment in Trainline Holdings Limited	–	(3.2)	**(3.2)**
Less: net cash disposed	(0.3)	–	**(0.3)**
Add: disposal costs accrued	0.3	–	**0.3**
Net cash inflow	24.7	–	**24.7**

21 NON-CURRENT ASSETS – OTHER RECEIVABLES

	2005 £m	2004 £m
Other receivables	**2.9**	1.7
Prepayments and accrued income	**23.3**	28.8
	26.2	30.5

Prepayments and accrued income includes £22.7m (2004: £21.4m) long leasehold property prepayments that have been reclassified from property, plant and equipment on the transition to IFRS.

22 INVENTORIES

	2005 £m	2004 £m
Raw materials and consumables	**18.7**	16.1

The provision for slow moving and obsolete inventory is immaterial.

23 CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

	2005 £m	2004 £m
Trade receivables	**160.6**	171.0
Less: Provision for impairment of receivables	**(2.6)**	(1.7)
Trade receivables – net	**158.0**	169.3
Amounts due from associates and joint ventures	**7.9**	4.6
Amounts owed by related parties	**2.9**	2.5
Other receivables	**62.3**	56.6
Prepayments and accrued income	**70.7**	68.8
	301.8	301.8

The charge to the income statement in respect of trade receivables not recovered is immaterial. Credit risk with respect to trade receivables is low as a large proportion of the Group's trading is with public or quasi-public organisations.

24 CASH AND CASH EQUIVALENTS

	2005 £m	2004 £m
Cash at bank and in hand	**53.2**	22.7
Overnight deposits	**24.5**	24.1
Other short term deposits	**67.8**	96.3
	145.5	143.1
Cash at bank and in hand attributable to discontinued operations (note 11)	**–**	4.1
Cash and cash equivalents	**145.5**	147.2
Bank overdrafts (note 29)	**(5.5)**	–
Cash and cash equivalents included in Group Statement of Cash Flows	**140.0**	147.2

Included in cash and cash equivalents are restricted balances of £79.5m (2004: £73.9m) held by the TOCs and £25.6m (A$ 60.0m; 2004: £nil) held by NBC Pty Ltd in Australia.

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

25 CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

	2005 £m	2004 £m
Trade payables	**175.1**	174.9
Amounts owed to associates and joint ventures	**8.8**	3.0
Amounts owed to related parties	**1.7**	–
Other tax and social security payable	**25.0**	17.4
Accruals and deferred income	**201.0**	214.6
Other payables	**121.5**	104.6
	533.1	514.5

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 governmental or other public bodies of £2.0m (2004: £0.9m).

26 OTHER NON-CURRENT LIABILITIES

	2005 £m	2004 £m
Other liabilities	**6.1**	3.0
	6.1	3.0

Other non-current liabilities comprise deferred consideration of £3.5m (2004: £2.1m), deferred fixed asset grants of £1.7m (2004: £0.6m) and other liabilities of £0.9m (2004: £0.3m).

Notes to the Accounts

27 PROVISIONS

	Insurance claims (a) £m	Other (b) £m	Total £m
At 1 January 2005	48.6	11.2	59.8
Charged to income statement	21.1	5.7	26.8
Acquisition of subsidiaries	0.5	0.5	1.0
Utilised in the year	(21.4)	(5.1)	(26.5)
Amortisation of discount	0.9	–	0.9
Attributable to discontinued operations	(10.5)	–	(10.5)
Exchange difference	1.9	0.2	2.1
At 31 December 2005	**41.1**	**12.5**	**53.6**
Current 31 December 2005	8.3	4.0	12.3
Non-current 31 December 2005	32.8	8.5	41.3
	41.1	**12.5**	**53.6**
Current 31 December 2004	18.4	5.0	23.4
Non-current 31 December 2004	30.2	6.2	36.4
	48.6	11.2	59.8

(a) The insurance claims provision arises from estimated exposures at the year end, the majority of which will be utilised in the next six years, and principally comprises provisions for existing claims arising in the UK and North America. This provision has been discounted to its present value since the effect is material.

(b) An onerous contract provision of £15.8m was assumed on the acquisition of Travel London Limited. This was prefunded by the vendor on acquisition and £8.0m has been utilised up to 31 December 2005 (2004: £4.6m). Other provisions total £4.7m.

28 DEFERRED TAX

Deferred tax is calculated in full on temporary differences under the liability method.

The movement on the net deferred tax account is shown below:

	2005 £m	2004 £m
Net deferred tax asset brought forward	**13.8**	9.3
Deferred tax recognised on financial instruments on adoption of IAS 32/39	**5.6**	–
Net deferred tax asset at 1 January	**19.4**	9.3
Acquisition of subsidiaries	**(11.0)**	4.1
(Charge)/credit to income statement	**(18.7)**	1.1
Credit to reserves	**9.0**	0.6
Charge in discontinued operations	**–**	(1.3)
Attributable to discontinued operations	**1.9**	–
Charged in loss on disposal	**(3.2)**	–
Exchange differences	**(1.5)**	–
Net deferred tax (liability)/asset at 31 December	**(4.1)**	13.8

28 DEFERRED TAX (continued)

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.

The movements in deferred tax assets and liabilities during the period are shown below. Deferred tax liabilities and assets within the same jurisdiction have been off-set.

Deferred tax assets	Accelerated tax depreciation £m	Short term timing differences £m	Total £m
At 1 January 2004	(4.5)	16.5	12.0
Credited to income statement	–	1.0	1.0
Credited directly to equity	–	0.6	0.6
Acquisition of subsidiaries	–	4.7	4.7
At 31 December 2004	(4.5)	22.8	18.3
Recognised on adoption of IAS 32/39	–	5.6	5.6
At 1 January 2005	(4.5)	28.4	23.9
Charged to income statement	(3.9)	(5.0)	(8.9)
Credited directly to equity	–	9.0	9.0
Acquisition of subsidiaries	–	(1.0)	(1.0)
At 31 December 2005	**(8.4)**	**31.4**	**23.0**

Deferred tax liabilities	Accelerated tax depreciation £m	Losses carried forward £m	Short term timing differences £m	Total £m
At 1 January 2004	26.9	(10.5)	(13.7)	2.7
Charged/(credited) to income statement	2.0	(2.7)	1.9	1.2
Acquisition of subsidiaries	0.6	–	–	0.6
Attributable to discontinued operations	(2.6)	1.9	0.7	–
Exchange difference	(0.3)	0.2	0.1	–
At 31 December 2004	26.6	(11.1)	(11.0)	4.5
Charged/(credited) to income statement	10.4	(0.8)	0.2	9.8
Acquisition of subsidiaries	10.1	–	(0.1)	10.0
Attributable to discontinued operations	(9.8)	2.8	5.1	(1.9)
Included in loss on disposal	3.2	–	–	3.2
Exchange difference	1.9	(0.4)	–	1.5
At 31 December 2005	**42.4**	**(9.5)**	**(5.8)**	**27.1**

Notes to the Accounts

29 FINANCIAL LIABILITIES

Under the exemption available in IFRS 1, 'First-time Adoption of IFRS' the Group has not restated its results for the year ended 31 December 2004 for the effect of IAS 32, 'Financial instruments: Disclosure and Presentation', or IAS 39, 'Financial Instruments: Recognition and Measurement'. Instead the Group has followed the requirements of UK GAAP for the year ended 31 December 2004 and included disclosures prepared under FRS 13, 'Derivatives and other financial instruments: disclosures', in note 32.

Additional financial instruments have been recognised on the balance sheet from 1 January 2005 as reported in the Group's IFRS reconciliations included in note 40. A summary of the effect is included below:

	31 December 2005 £m	31 December 2004 £m	1 January 2005 £m
Non-current			
Bank loans	**410.0**	207.5	207.5
Finance lease obligations	**85.5**	44.3	44.3
Financial liabilities – Borrowings	**495.5**	251.8	251.8
Interest rate swaps	**8.3**	–	7.6
Financial liabilities – Derivative financial instruments	**8.3**	–	7.6
Non-current financial liabilities	**503.8**	251.8	259.4
Current			
Loan notes	**0.8**	7.5	7.5
Bank loans	**184.5**	8.0	8.0
Bank overdrafts	**5.5**	–	–
Finance lease obligations	**23.6**	14.8	14.8
Financial liabilities – Borrowings	**214.4**	30.3	30.3
Foreign exchange forward contracts	**9.3**	–	–
Interest rate swaps	**4.1**	–	19.9*
Financial liabilities – Derivative financial instruments	**13.4**	–	19.9
Current financial liabilities	**227.8**	30.3	50.2

* £2.5m included in interest rate swaps (in current liabilities) at 1 January 2005 had previously been included in accruals and deferred income at 31 December 2004. Bank loans are denominated in a number of currencies and bear interest as detailed in note 30.

30 INTEREST BEARING LOANS AND BORROWINGS

The effective interest rates on loans and borrowings at the balance sheet date were as follows. Although not required under FRS 13 for UK GAAP, comparative disclosures have been provided for 2004.

	Maturity	**2005 £m**	Effective Interest rate	2004 £m	Effective Interest rate
Current					
Bank overdraft	On demand	**5.5**	EURIBOR + 0.5%	–	–
Sterling loan notes	On demand	**0.8**	LIBOR + 1.0%	7.5	LIBOR + 1.0%
Short term 5.2% Sterling bank loans	January 2006	**12.2**	5.2%	8.0	5.6%
Short term 4.8% US Dollar bank loans	January 2006	**0.3**	4.8%	–	–
Short term 2.9% Euro bank loans	January 2006	**0.2**	2.9%	–	–
Euro bank loans subject to interest hedge	October 2006	**137.4**	2.8%	–	–
Euro bank loans unhedged	October 2006	**34.4**	EURIBOR + 0.4%	–	–
Bank loans		**184.5**		8.0	
Canadian Dollar finance leases	2006	**0.2**	7.7%	1.0	7.7%
US Dollar 3.6% finance leases	2006	**5.4**	3.6%	2.8	3.5%
Euro finance leases at floating rates	2006	**2.0**	3.8%	–	–
Sterling 5.4% finance leases	2006	**8.2**	5.4%	3.9	5.2%
Sterling finance leases at floating rate	2006	**7.8**	LIBOR + 3.0%	7.1	LIBOR + 3.0%
Finance leases		**23.6**		14.8	
		214.4		30.3	
Non-current					
Sterling bank loans	November 2009	**9.4**	LIBOR + 0.4%	–	–
US Dollar bank loans subject to interest hedge	November 2009	**58.1**	7.3%	156.4	7.3%
US Dollar bank loans unhedged	November 2009	**104.6**	LIBOR + 0.4%	51.1	LIBOR + 0.4%
Euro bank loans at floating rate	November 2009	**202.9**	EURIBOR + 0.4%	–	–
Canadian Dollar bank loans	November 2009	**35.0**	LIBOR + 0.4%	–	–
Bank loans		**410.0**		207.5	
Canadian Dollar finance leases	2007	**0.2**	7.7%	–	–
US Dollar 3.6% finance leases	2009-2012	**28.3**	3.6%	14.7	3.5%
Euro finance leases at floating rate	2007-2013	**5.9**	3.8%	–	–
Sterling 5.4% finance leases	2007-2018	**37.5**	5.4%	6.9	5.2%
Sterling finance leases at floating rate	2007-2009	**13.6**	LIBOR + 3.0%	22.7	LIBOR + 3.0%
Finance leases		**85.5**		44.3	
		495.5		251.8	

Details of the Group's interest rate management strategy and interest rate swaps are included in notes 31 and 32.

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

31 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Financial risk factors and management

The Group's multi-national operations and significant debt financing expose it to a variety of financial risks, the most material of which are the effects of changes in foreign currency exchange rates, interest rates and changes in fuel prices. The Group has in place a risk management program that seeks to limit the adverse effects on the financial performance of the group by using foreign currency financial instruments, including debt, fuel price and interest rate swaps.

The Board of Directors have delegated to a sub-committee, the Treasury committee, the responsibility for implementing the risk management policies laid down by the Board. The policies are implemented by the central Treasury department that receives regular reports from all the operating companies to enable prompt identification of financial risks so that appropriate actions may be taken. The Treasury department has a policy and procedures manual that sets out specific guidelines to manage foreign exchange risk, interest rate risk, credit risk and the use of financial instruments to manage these. The Group does not hold any financial instruments that would be classified as held for trading under IAS 39.

Foreign currency

The Group has major operations in the US, Canada and Spain. The Group is exposed to foreign exchange risks primarily with respect to US dollars, Canadian dollars and the Euro in translation of net assets and on earnings denominated in foreign currency. The Group finances overseas investments mainly through the use of foreign currency borrowings to hedge the net asset investment. The Group has also entered into some forward exchange contracts to hedge the foreign currency exposure of its overseas subsidiaries. These have the effect of increasing dollar or euro denominated debt and reducing sterling debt. The forward exchange contract terms run for periods up to one year. The Group has a policy of hedging between 50% and 100% foreign currency denominated net assets. At 31 December 2005 61% of the Group's exposure to US Dollar assets were hedged, 94% of the exposure to Canadian Dollar assets, 99% of the exposure to Australian Dollar assets and 96% of the exposure to Euro assets.

The Group also has transactional currency exposures, and with the exception of fuel purchases we believe these exposures are immaterial.

Interest rate risk

The Group is exposed to interest rate risk on both interest bearing assets and interest bearing liabilities. It is the Group's policy to maintain an appropriate balance between fixed and floating interest rates on borrowings in order to provide certainty as to the level of our interest expense in the short term and to reduce the year on year impact of interest rate fluctuations over the medium term. Interest on the Group's debt is based on LIBOR or EURIBOR and, to achieve the above objectives, we have entered into a series of interest rate swaps that have the effect of converting floating debt to fixed debt. The net effect of these transactions was that as at 31 December 2005 the Group was hedged against interest rate movements on £287.6m of gross debt for an average of 4.1 years. Based on the year end debt, each 1% increase in interest rates would cost the Group approximately £2.8m.

Commodity prices

The Group is exposed to commodity price risk as a result of fuel usage. It is our policy to hedge this exposure in order to provide certainty as to the level of costs in the short term and to reduced the year on year impact of price fluctuations over the medium term. This is achieved by entering into fuel swaps and purchase contracts which are expected to be highly effective. As at 31 December 2005 the Group had hedged approximately 95% of its 2006 expected usage, 18% of its 2007 expected usage and 14% of its 2008 usage.

Credit risk

The maximum credit risk exposure of the Group is the gross carrying value of each of its financial assets as disclosed in note 32, and trade receivables as disclosed in note 23. This risk is mitigated by a number of factors. The majority of the Group's receivables are with public (or quasi-public) bodies, both national (the SRA/DfT Rail and Network Rail in the UK) and local (school boards and city councils in North America, municipal authorities in Spain, Portugal and Morocco, Transport for London and Centro in the UK). The Group does not consider these counterparties to be 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.

Financial instrument counterparties are subject to pre-approval by the Treasury committee and such approval is limited to financial institutions with an A rating or better. The amount of exposure to any individual counterparty is subject to a limit, which is reassessed annually by the Treasury committee.

Liquidity risk

The Group actively maintains a mixture of long-term and short-term committed facilities that are designed to ensure the group has sufficient available funds to meet current and forecast financial requirements as cost effectively as possible. As at 31 December 2005 the Group had committed credit facilities of £841m of which £63.7m were undrawn. The Group's loan facilities expire in October 2006 and November 2009, and the lease facilities at various times in line with their terms.

32 FINANCIAL INSTRUMENTS

Fair values

Set out below is comparison of the carrying amounts and fair values of all of the Group's financial assets and liabilities.

	2005 Carrying value £m	2005 Fair value £m
Financial Assets		
Cash and cash equivalents	145.5	145.5
Available for sale investments	11.4	11.4
Amounts due from associates and joint ventures	7.9	7.9
Amounts owed by related parties	2.9	2.9
Other receivables (current)	82.1	82.1
Other receivables (non-current)	2.9	2.9
Fuel price swaps	7.3	7.3
	260.0	**260.0**
Liabilities		
Bank overdraft	(5.5)	(5.5)
Amounts owed to associates and joint ventures	(8.8)	(8.8)
Amounts owed to related parties	(1.7)	(1.7)
Other payables – current (excludes liabilities not to be settled by cash)	(201.5)	(201.5)
Other payables – non-current	(6.1)	(6.1)
Obligations under finance leases	(109.1)	(109.1)
Loan notes	(0.8)	(0.8)
Bank loans	(594.5)	(594.5)
Interest rate swaps	(12.4)	(12.4)
Foreign exchange forward contracts	(9.3)	(9.3)
	(949.7)	**(949.7)**

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

In accordance with IAS 39, the Group has reviewed all contracts for embedded derivatives that are required to be separately accounted for.

The fair value of foreign exchange forward contracts, fuel price and interest rate swaps has been determined by the third party financial institution with whom the Group holds the instrument, in line with the market value of similar financial instruments.

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

As at 31 December 2005	< 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							
Other debt receivable	1.0	–	–	–	–	–	1.0
Bank loans	(150.1)	–	–	(58.1)	–	–	(208.2)
Finance leases	(13.6)	(10.2)	(8.3)	(8.5)	(8.9)	(29.9)	(79.4)
Interest rate swaps	(4.1)	–	–	(8.3)	–	–	(12.4)
Floating rate							
Cash assets	145.5	–	–	–	–	–	145.5
Bank overdrafts	(5.5)	–	–	–	–	–	(5.5)
Loan notes	(0.8)	–	–	–	–	–	(0.8)
Bank loans	(34.4)	–	–	(351.9)	–	–	(386.3)
Finance leases	(10.0)	(12.7)	(2.5)	(2.0)	(1.0)	(1.5)	(29.7)

32 FINANCIAL INSTRUMENTS (continued)

Hedging activities

Interest hedges

The Group has a number of interest rate swaps in place to hedge both the cash flow and fair value risk in relation to interest rate.

a) Cash flow hedges with a total principal of US$200m that were entered into in September 2000 fixed at 6.9% and 6.8545% for US$100m each until September 2010. Of this amount US$100m meets the criteria for hedge accounting and US$100m does not.
b) Fair value hedges with a principal of US$100m were entered into in March 2004. These had the effect of fixing the accrued loss of US$18.3m on US$100m cash flow hedges fixed at 6.9% entered into in September 2000, but do not qualify for hedge accounting under the rules of IAS 39. The net effect of the two 6.9% hedges is immaterial in the income statement.
c) An interest rate swap with a principal of US$200m fixed at 6.25%, but including an embedded option that means the interest payment will revert to LIBOR should LIBOR exceed 7% was in place at 1 January 2005. This interest rate swap was settled in January 2005 and did not meet the definition of a cash flow hedge under IAS 39. This resulted in a £0.1m credit being recognised in the income statement.
d) Cash flow hedges with a principal of €200m that were entered into in December 2005 fixed at 2.84% until December 2007.

The reset dates of all swaps remaining in place at 31 December 2005 coincide with the material conditions of the underlying loans.

The benchmark rate for floating rate financial liabilities is the relevant interbank borrowing rate.

During the year £3.5m has been transferred from the hedging reserve to the income statement in respect of interest rate swaps.

Hedge of net investments in foreign entities

Included in bank loans are borrowings of US$280m (£162.7m), CAN$70m (£35.0m) and €545m (£374.9m) which have been designated as a hedge of net investments in the foreign currency denominated net assets of the Group and is being used to reduce the exposure to foreign exchange risk. In addition the Group has synthetic debt in the form of foreign currency forward contracts in place split between US$nil, CAN$156.7m (£78.3m), AUD$80m (£34.1m) and €160m (£110.1m) to complete the post-tax hedge of the net investment in foreign entities. The portion of the gain or loss on the foreign currency forward contracts that is determined to be an effective hedge is recognised directly in equity and, to this extent, offsets any gains or losses on translation of the net investments in the subsidiaries.

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 and gasoil as used in the UK Bus, UK Coach, UK Trains and European Coach & Bus (Alsa) divisions is hedged by swaps in the same type of fuel. Diesel used in the North American division is hedged by heating oil swaps which have been determined to be effective hedges of the fuel used with a strong correlation in price movements between the two products.

During the year £12.9m has been transferred from the hedging reserve, of which £4.9m was recognised in the hedging reserve at 1 January 2005 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 2005 £m	1 January 2005 £m	31 December 2005 Volume Million litres	1 January 2005 Volume Million litres
Sterling denominated fuel swaps – UK Bus, UK Coach and UK Trains	**0.6**	3.0	**118.5**	66.0
US Dollar denominated fuel swaps – North American Bus	**5.7**	1.9	**42.2**	41.6
Euro denominated fuel swaps – European Coach & Bus (Alsa)	**0.4**	–	**42.0**	–
Fuel price swaps included in current assets	**6.7**	4.9	**202.7**	107.6
Sterling denominated fuel swaps – UK Bus, UK Coach and UK Trains	**0.6**	–	**59.0**	–
US Dollar denominated fuel swaps – North American Bus	**–**	1.4	**–**	37.8
Fuel price swaps included in non-current assets	**0.6**	1.4	**59.0**	37.8
Total fuel price swaps	**7.3**	6.3	**261.7**	145.4

32 FINANCIAL INSTRUMENTS (continued)

Fuel price hedges (continued)

2005	Interest rate swaps £m	Foreign currency forward contracts £m	Fuel swaps £m	Total £m
(Liability)/asset at 1 January	(27.5)	14.9	6.3	(6.3)
Closed out during year	11.9	–	–	11.9
Cash paid/(received) in relation to hedging instruments taken to income statement	3.5	–	(12.9)	(9.4)
Revaluation	1.3	(0.1)	13.3	14.5
Exchange differences	(1.6)	(24.1)	0.6	(25.1)
(Liability)/asset at 31 December	**(12.4)**	**(9.3)**	**7.3**	**(14.4)**

2004 Disclosures

The following comparatives are disclosed in compliance with FRS 13, 'Derivatives and other financial instruments: disclosures' as applied by the Group under UK GAAP for 2004. Financial assets and financial liabilities are defined differently under IFRS and UK GAAP and as such the amounts included in these captions below are not directly comparable to similar captions elsewhere in the these accounts.

Short-term debtors and creditors have been excluded from the disclosures below, other than 32(e) on currency exposures.

a) Interest rate risk and currency profile of financial liabilities

After taking into account interest rate swaps, the interest rate and currency profile of the Group's financial liabilities at 31 December 2004 was as follows:

	Borrowings at floating rates 2004 £m	Borrowings at fixed rates 2004 £m	Total borrowings 2004 £m	Financial liabilities on which no interest is paid 2004 £m	Total 2004 £m	Weighted average fixed interest rate 2004 %	Weighted average period for which rate is fixed 2004 Years	Weighted average period until maturity for financial liabilities on which no interest is paid 2004 Years
Sterling	44.9	11.2	56.1	17.7	73.8	5.1	2.8	1.5
US dollars	51.1	173.9	225.0	2.1	227.1	6.9	4.8	3.5
Australian dollars	–	2.7	2.7	0.3	3.0	7.6	1.2	1.5
Canadian dollars	1.0	–	1.0	–	1.0	–	–	–
	97.0	187.8	284.8	20.1	304.9	6.8	4.6	1.9

Included within the US dollar fixed rate financial liabilities is an interest rate swap for £104.2m (US$200m), fixed at 6.25% until 8 January 2009, which will revert to a floating rate should the US dollar six month LIBOR exceed 7%. The benchmark rate for floating rate financial liabilities is the LIBOR of the relevant currency. This swap was terminated in January 2005.

Financial liabilities on which no interest is paid comprise other creditors of £3.1m falling due after more than one year, provisions falling due after more than one year of £6.2m, and interests in provisions of associates of £10.8m.

b) Analysis of financial liabilities by type and currency

At 31 December 2004 financial liabilities on which interest is paid comprised:

	Loan notes 2004 £m	Bank loans 2004 £m	Bank overdrafts 2004 £m	Finance leases 2004 £m	Total 2004 £m
Sterling	7.5	8.0	–	40.6	56.1
US dollars	–	207.5	–	17.5	225.0
Australian dollars	–	–	–	2.7	2.7
Canadian dollars	–	–	–	1.0	1.0
	7.5	215.5	–	61.8	284.8

32 FINANCIAL INSTRUMENTS (continued)

c) Maturity of financial liabilities

The maturity profile of the Group's financial liabilities at 31 December 2004 was as follows:

	2004 £m
Expiring within one year	31.8
Expiring within one to two years	24.0
Expiring within two to five years	234.6
Expiring in more than five years	14.5
	304.9

d) Financial assets by currency

The Group's financial assets on which interest is receivable comprise cash at bank and in hand, including deposits, amounting to £147.2m, and a loan note receivable of £1.0m, which earn interest at floating rates. Cash deposits are placed on the money markets at commercial rates linked to the LIBOR of the relevant currency. The currency profile as at 31 December 2004 was as follows:

	Deposits and receivables at floating rates 2004 £m	Financial assets on which no interest is received 2004 £m	Total 2004 £m	Weighted average period until maturity for financial assets on which no interest is received 2004 Years
Sterling	99.8	19.3	119.1	2.1
US dollars	9.8	0.3	10.1	1.6
Australian dollars	37.7	–	37.7	–
Canadian dollars	0.9	–	0.9	–
	148.2	19.6	167.8	2.1

Financial assets on which no interest is received total £19.6m and comprise investments of £10.5m, and other debtors and prepayments greater than one year of £9.1m.

e) Currency exposures

As at 31 December 2004 the Group did not have any material net currency transactional exposures.

f) Undrawn committed borrowing facilities

At 31 December 2004 the Group had undrawn and unused committed borrowings as follows:

	2004 £m
Expiring within two to five years	302.7

On 26 November 2004 the previous bank facility was refinanced with a new 5 year £552.5m revolving credit facility.

g) Fair values

The book values and fair values of all the Group's financial instruments at 31 December 2004 are set out below:

	Book value 2004 £m	Fair value 2004 £m
Cash at bank and in hand	147.2	147.2
Other debt receivable	1.0	1.0
Other financial assets	19.6	19.6
Loans and overdrafts	(223.0)	(223.0)
Finance lease obligations	(61.8)	(61.8)
Forward foreign currency contracts	–	0.3
Interest rate swaps	–	(25.0)
Fuel price swaps	–	6.3
Other financial liabilities	(20.1)	(20.1)

The finance leases have been valued by a comparison of the portfolio interest rate against the expected rates at which the Group could borrow money at the year end over the same period. There was no significant difference in value. The forward foreign currency swaps, interest rate swaps and fuel price swaps have been all been valued externally by comparison with the market foreign exchange rates, interest rates and fuel prices at the year end.

Notes to the Accounts

32 FINANCIAL INSTRUMENTS (continued)

h) Hedge accounting

The gains and losses on instruments used for hedging interest rate risk, currency risk and commodity price risk are not recognised until the exposure that is being hedged is itself recognised. Unrecognised losses on instruments used for hedging are set out below:

	Net unrecognised losses 2004 £m
Unrecognised losses on hedges at the start of the year	35.0
Losses arising in previous years that were recognised in the year	(3.1)
Losses not recognised in the year arising before the start of the year	31.9
Gains arising in the year that were not recognised in the year	(13.5)
Unrecognised losses on hedges at the end of the year	18.4
Of which:	
Losses expected to be recognised within one year	2.4
Losses expected to be recognised after one year	16.0
	18.4

i) Market price risk – commodities

The Group seeks to manage its exposure to fuel prices by entering into both a range of fixed price swaps with banks and also contracts for the purchase of fuel.

33 CALLED-UP SHARE CAPITAL

	2005 £m	2004 £m
At 31 December		
Authorised:		
200,000,000 (2004: 146,650,000) ordinary shares of 5p each	**10.0**	7.3
Issued called-up and fully paid:		
150,520,310 (2004: 139,153,158) ordinary shares of 5p each	**7.5**	7.0

Movement in ordinary shares during the period:	£m	Number of shares
At 1 January 2004	6.8	136,850,910
Exercise of share options	–	509,656
TWM SIP appropriation	0.2	1,792,592
At 1 January 2005	7.0	139,153,158
Issue of shares in consideration for acquisition of Alsa (note 20)	0.7	13,503,600
Exercise of share options	–	957,141
TWM SIP appropriation	–	206,411
Shares cancelled	(0.2)	(2,900,000)
At 31 December 2005	**7.5**	**150,920,310**

Notes to the Accounts

34 SHARE CAPITAL AND RESERVES

	Share capital £m	Share premium £m	Capital redemption reserve £m	Own shares £m	Other reserves (note 35) £m	Retained earnings £m	Total £m	Minority interests £m	**Total equity £m**
At 31 December 2004	7.0	47.5	–	(5.1)	13.3	203.2	265.9	0.9	**266.8**
Financial instruments recognition	–	–	–	–	(5.9)	(6.9)	(12.8)	–	**(12.8)**
At 1 January 2005	7.0	47.5	–	(5.1)	7.4	196.3	253.1	0.9	**254.0**
Shares issued	0.7	126.7	–	–	–	–	127.4	–	**127.4**
Shares purchased	(0.2)	–	0.2	(3.5)	–	(25.8)	(29.3)	–	**(29.3)**
Acquisition of minority interest	–	–	–	–	–	–	–	2.8	**2.8**
Total recognised income/(expense)	–	–	–	–	17.1	(24.4)	(7.3)	0.1	**(7.2)**
Own shares released to satisfy employee share schemes	–	–	–	3.5	–	–	3.5	–	**3.5**
Disposal of subsidiaries	–	–	–	–	–	–	–	(0.9)	**(0.9)**
Share based payments	–	–	–	–	–	3.6	3.6	–	**3.6**
Dividends	–	–	–	–	–	(41.6)	(41.6)	–	**(41.6)**
At 31 December 2005	**7.5**	**174.2**	**0.2**	**(5.1)**	**24.5**	**108.1**	**309.4**	**2.9**	**312.3**

	Share capital £m	Share premium £m	Share capital to be issued £m	Own shares £m	Other reserves (note 35) £m	Retained earnings £m	Total £m	Minority interests £m	**Total equity £m**
At 1 January 2004	6.8	45.1	0.1	(5.2)	16.2	177.7	240.7	4.7	245.4
Shares issued	0.2	2.4	(0.1)	–	–	–	2.5	–	2.5
Own shares released to satisfy employee share schemes	–	–	–	0.1	–	–	0.1	–	0.1
Transfers	–	–	–	–	(0.8)	0.8	–	–	–
Total recognised income/(expense)	–	–	–	–	(2.1)	60.5	58.4	(3.8)	54.6
Share based payments	–	–	–	–	–	0.6	0.6	–	0.6
Dividends	–	–	–	–	–	(36.4)	(36.4)	–	(36.4)
At 31 December 2004	**7.0**	**47.5**	**–**	**(5.1)**	**13.3**	**203.2**	**265.9**	**0.9**	**266.8**

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

During the year ended 31 December 2005 the Group has repurchased 3,300,000 shares for consideration of £29.3m. 2,900,000 shares have been cancelled, and the remaining 400,000 shares retained as treasury shares within equity for future issue under the Group's share schemes or cancellation.

Own shares include 849,456 (2004: 1,743,544) ordinary shares in the Company that have been purchased by the Trustees of the National Express Employee Benefit Trust (the "Trust"). The shares are held to satisfy potential awards or options granted under a number of the Company's share schemes. The value of shares within the Trust has been recognised as an investment in treasury shares. The market value of these shares at 31 December 2005 was £7.3m (2004: £14.4m). The dividends payable on these shares have been waived.

35 OTHER RESERVES

	Merger reserve £m	Hedging reserve £m	Revaluation reserve £m	Translation reserve £m	**Total £m**
At 31 December 2004	15.4	–	–	(2.1)	**13.3**
Financial instrument recognition	–	(5.9)	–	–	**(5.9)**
At 1 January 2005	15.4	(5.9)	–	(2.1)	**7.4**
Hedge movements	–	3.7	–	–	**3.7**
Exchange differences, net of tax	–	–	–	11.9	**11.9**
Cumulative exchange differences of disposed operations	–	–	–	1.5	**1.5**
At 31 December 2005	**15.4**	**(2.2)**	**–**	**11.3**	**24.5**

35 OTHER RESERVES (continued)

	Merger reserve £m	Hedging reserve £m	Revaluation reserve £m	Translation reserve £m	Total £m
At 1 January 2004	15.4	–	0.8	–	16.2
Transfers	–	–	(0.8)	–	(0.8)
Exchange differences, net of tax	–	–	–	(2.1)	(2.1)
At 31 December 2004	15.4	–	–	(2.1)	13.3

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

- The merger reserve includes premium on shares issued to satisfy the purchase of Prism Rail PLC in 2000. The reserve is not distributable.
- The revaluation reserve records the increases and decreases in the fair value of land and buildings to the extent they offset one another. 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 hedging 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.

36 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 Train 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 post-employment benefits to employees in North America and Spain, which are disclosed in section (iii) in the Other category.

The total pension cost for the year was £27.5m (2004: £31.6m), of which £2.5m (2004: £3.4m) relates to the defined contribution schemes.

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

	2005 £m	2004 £m
UK Bus	**(37.8)**	(36.2)
UK Coach	**(14.9)**	(11.0)
UK Train	**(34.2)**	(17.9)
Other	**(1.9)**	(0.6)
Total	**(88.8)**	(65.7)

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 Trains
Date of actuarial valuation	Tayside 31 March 2002	Travel West Midlands 31 March 2004	5 April 2004	31 December 2004
Actuarial method used	Projected unit	Attained age*	Projected unit	Projected unit
Rate of investment returns per annum	5.4%	5.6%-6.6%	5.2%-6.0%	4.8%-6.8%
Increase in earnings per annum	4.1%	4.3%	4.7%	4.3%
Scheme assets taken at market value	£36.2m	£300.7m	£25.3m	£638.9m
Funding level	107%	88%	65%	86%-95%

* Amounts included in the income statement, statement of recognised income and expense and the balance sheet are calculated using the projected unit method.

The range of funding levels for UK Trains reflects the range of funding levels in the various sections of the RPS. The plans do not provide medical benefits.

36 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:

	2005			2004		
	UK Bus	UK Coach	UK Trains	UK Bus	UK Coach	UK Trains
Rate of increase in salaries	**3.7%**	**3.7%**	**4.2%**	3.7%	3.7%	4.2%
Rate of increase of pensions	**2.7%**	**2.7%**	**2.7%**	2.7%	2.7%	2.7%
Discount rate	**4.8%**	**4.8%**	**4.8%**	5.5%	5.5%	5.5%
Inflation assumption	**2.7%**	**2.7%**	**2.7%**	2.7%	2.7%	2.7%
Expected rates of return on scheme assets						
Equities	**8.0%**	**8.0%**	**8.0%**	8.5%	8.5%	8.5%
Bonds	**4.8%**	**4.8%**	**4.8%**	4.9%	4.9%	4.9%
Properties	**6.2%**	**6.2%**	**6.2%**	6.7%	6.7%	6.7%
Other	**3.8%**	**3.8%**	**3.8%**	4.0%	4.0%	4.0%
Post retirement mortality in years:						
Current pensioners at 65 – male	**17.8**	**21.3**	**17.8**	17.8	21.3	16.3
Current pensioners at 65 – female	**20.7**	**24.2**	**20.1**	20.7	24.2	19.2
Future pensioners at 65 – male	**19.4**	**23.1**	**18.8**	19.4	23.1	16.8
Future pensioners at 65 – female	**22.4**	**25.9**	**21.3**	22.4	25.9	20.0

The demographic assumptions reflect those included in the most recent triennial valuation. For the RPS, mortality assumptions are based on the recent experience of the Scheme with an allowance for future improvements in mortality.

Scheme assets are stated at their market values at the respective balance sheet dates. The expected rate of return on assets is determined based on the market prices prevailing on that date.

b) Accounting for the Railways Pension Scheme

The majority of employees of the UK Train companies are members of the appropriate section of the Railways Pension Scheme ("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 three changes of UK Train 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 advice has opined that in certain situations, some of 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. We understand that franchise contracts entered into in the future will clarify that RPS pension deficits and surpluses will not be the responsibility of the outgoing franchisee following exit.

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 for 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.

36 PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS (continued)

b) Accounting for the Railways Pension Scheme (continued)

The franchise adjustment increased from £67.6m at 31 December 2004 to £71.0m at 31 December 2005. The increase is caused by the interest on the franchise adjustment (£3.6m) offset by net actuarial movements in scheme liabilities of £0.2m. In the prior year, the franchise adjustment increased by £5.2m from £62.4m at 1 January 2004 to £67.6m at 31 December 2004. The increase was caused by unwinding the discounting (£3.3m) and net actuarial movements in scheme liabilities (£28.1m), offset by franchise exits net of franchise wins / extensions (£26.2m).

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:

	2005 £m	2004 £m
Balance Sheet		
Defined benefit pension deficit	**(71.0)**	(67.6)
Deferred tax asset	**20.1**	19.5
Intangible asset	**3.4**	2.3
	(47.5)	(45.8)
Statement of recognised income and expense		
Actuarial gains/(losses)	**0.2**	(28.1)
Tax on actuarial gains and losses	**0.3**	9.0
	0.5	(19.1)
Income Statement		
Financing cost – unwind of discount	**(3.6)**	(3.3)
Curtailment gain on franchise exit	**–**	28.6
Intangible asset amortisation	**1.1**	0.8
Deferred tax credit/(charge)	**0.3**	(8.7)
	(2.2)	17.4

c) Financial results for pension benefits

The amounts charged to the Group income statement and Group statement of recognised income and expense for the years ended 31 December 2005 and 2004 are set out in the following tables.

Year ended 31 December 2005

Group income statement	UK Bus 2005 £m	UK Coach 2005 £m	UK Trains 2005 £m	Other 2005 £m	**Total 2005 £m**
Amounts charged to operating profit:					
Current service cost	(5.3)	(1.6)	(31.2)	(0.2)	**(38.3)**
Past service cost	–	–	–	–	**–**
Expected return on pension scheme assets	23.9	2.1	30.1	–	**56.1**
Interest on pension liabilities	(20.2)	(2.2)	(24.0)	–	**(46.4)**
Interest on franchise adjustment	–	–	3.6	–	**3.6**
Charge to operating profit	(1.6)	(1.7)	(21.5)	(0.2)	**(25.0)**
Total charge to income statement	(1.6)	(1.7)	(21.5)	(0.2)	**(25.0)**
Actual return on plan assets	59.2	4.6	84.5	–	**148.3**

Group statement of recognised income and expense	UK Bus 2005 £m	UK Coach 2005 £m	UK Trains 2005 £m	Other 2005 £m	**Total 2005 £m**
Actual return less expected return on pension scheme assets	35.3	2.5	54.4	–	**92.2**
Other actuarial gains and losses	(41.6)	(7.3)	(75.3)	–	**(124.2)**
Actuarial loss	(6.3)	(4.8)	(20.9)	–	**(32.0)**

36 PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS (continued)

c) Financial results for pension benefits (continued)

Year ended 31 December 2004

Group income statement	UK Bus 2004 £m	UK Coach 2004 £m	UK Trains 2004 £m	Other 2004 £m	Total 2004 £m
Amounts charged to operating profit:					
Current service cost	(5.3)	(1.4)	(34.5)	–	(41.2)
Past service cost	–	–	–	–	–
Franchise exit	–	–	0.4	–	0.4
Expected return on pension scheme assets	21.5	1.7	33.1	–	56.3
Interest on pension liabilities	(19.1)	(1.6)	(26.3)	–	(47.0)
Interest on franchise adjustment	–	–	3.3	–	3.3
Charge to operating profit	(2.9)	(1.3)	(24.0)	–	(28.2)
Total charge to income statement	(2.9)	(1.3)	(24.0)	–	(28.2)
Actual return on plan assets	31.3	3.4	44.0	–	78.7

Group statement of recognised income and expense	UK Bus 2004 £m	UK Coach 2004 £m	UK Trains 2004 £m	Other 2004 £m	Total 2004 £m
Actual return less expected return on pension scheme assets	9.8	1.7	10.9	–	22.4
Other actuarial gains and losses	(4.6)	(8.9)	(11.2)	–	(24.7)
Actuarial gain/(loss)	5.2	(7.2)	(0.3)	–	(2.3)

The amounts recognised in the balance sheet at 31 December are:

As at 31 December 2005

	UK Bus 2005 £m	UK Coach 2005 £m	UK Trains 2005 £m	Other 2005 £m	**Total 2005 £m**
Equities	218.5	17.2	638.1	–	**873.8**
Bonds	159.7	18.5	88.2	–	**266.4**
Property	3.6	–	67.3	–	**70.9**
Other	4.0	–	2.8	–	**6.8**
Fair value of scheme assets	385.8	35.7	796.4	–	**1,217.9**
Present fair value of scheme liabilities	(423.6)	(50.6)	(901.6)	(1.9)	**(1,377.7)**
Franchise adjustment	–	–	71.0	–	**71.0**
Group's defined benefit obligation	(423.6)	(50.6)	(830.6)	(1.9)	**(1,306.7)**
Defined benefit pension deficit	(37.8)	(14.9)	(34.2)	(1.9)	**(88.8)**

As at 31 December 2004

	UK Bus 2004 £m	UK Coach 2004 £m	UK Trains 2004 £m	Other 2004 £m	Total 2004 £m
Equities	215.7	14.1	485.8	–	715.6
Bonds	113.6	14.6	67.9	–	196.1
Property	3.6	–	50.0	–	53.6
Other	5.1	–	30.7	–	35.8
Fair value of scheme assets	338.0	28.7	634.4	–	1,001.1
Present fair value of scheme liabilities	(374.2)	(39.7)	(719.9)	(0.6)	(1,134.4)
Franchise adjustment	–	–	67.6	–	67.6
Group's defined benefit obligation	(374.2)	(39.7)	(652.3)	(0.6)	(1,066.8)
Defined benefit pension deficit	(36.2)	(11.0)	(17.9)	(0.6)	(65.7)

36 PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS (continued)

c) Financial results for pension benefits (continued)

The movement in the present value of the defined benefit obligation in the year is as stated below. For UK Trains, the RPS is a shared cost scheme, which means that costs are formally shared 60% employer and 40% employee. The defined benefit obligation disclosed below represents only the Group's share of the liability.

	UK Bus £m	UK Coach £m	UK Trains £m	Other £m	**Total £m**
Group's defined benefit obligation at 1 January 2005	(374.2)	(39.7)	(652.3)	(0.6)	**(1,066.8)**
Current service cost	(5.3)	(1.6)	(31.2)	(0.2)	**(38.3)**
Past service cost	–	–	–	–	**–**
Benefits paid	19.2	0.7	19.6	0.1	**39.6**
Contributions by employees	(1.5)	(0.5)	(14.5)	–	**(16.5)**
Finance charge	(20.2)	(2.2)	(24.0)	–	**(46.4)**
Interest on franchise adjustment	–	–	3.6	–	**3.6**
Liability movement for members' share of assets	–	–	(56.5)	–	**(56.5)**
Acquisition of subsidiary	–	–	–	(1.1)	**(1.1)**
Exchange difference	–	–	–	(0.1)	**(0.1)**
Actuarial loss recognised in statement of recognised income and expense	(41.6)	(7.3)	(75.3)	–	**(124.2)**
Group's defined benefit obligation at 31 December 2005	(423.6)	(50.6)	(830.6)	(1.9)	**(1,306.7)**

	UK Bus £m	UK Coach £m	UK Trains £m	Other £m	Total £m
Group's defined benefit obligation at 1 January 2004	(362.0)	(27.5)	(633.9)	(0.8)	(1,024.2)
Current service cost	(5.3)	(1.4)	(34.5)	–	(41.2)
Franchise entry	–	–	(128.1)	–	(128.1)
Franchise exit	–	–	195.4	–	195.4
Benefits paid	18.3	0.3	25.5	0.2	44.3
Contributions by employees	(1.5)	(0.6)	(13.2)	–	(15.3)
Finance charge	(19.1)	(1.6)	(26.3)	–	(47.0)
Interest on franchise adjustment	–	–	3.3	–	3.3
Liability movement for members' share of assets	–	–	(29.3)	–	(29.3)
Actuarial loss recognised in statement of recognised income and expense	(4.6)	(8.9)	(11.2)	–	(24.7)
Group's defined benefit obligation at 31 December 2004	(374.2)	(39.7)	(652.3)	(0.6)	(1,066.8)

The Group's defined benefit obligation comprises £1,304.8m (2004: £1,066.2m) arising from plans that are wholly or partly funded and £1.9m (2004: £0.6m) from unfunded plans.

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

	UK Bus £m	UK Coach £m	UK Trains £m	**Total £m**
Fair value of scheme assets at 1 January 2005	338.0	28.7	634.4	**1,001.1**
Expected return	23.9	2.1	30.1	**56.1**
Cash contributions – Employer	6.3	2.6	26.1	**35.0**
Cash contributions – Employee	1.5	0.5	14.5	**16.5**
Benefits paid	(19.2)	(0.7)	(19.6)	**(39.5)**
Members' share of return on assets	–		56.5	**56.5**
Actuarial gain recognised in statement of recognised income and expense	35.3	2.5	54.4	**92.2**
Fair value of scheme assets at 31 December 2005	385.8	35.7	796.4	**1,217.9**

36 PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS (continued)

c) Financial results for pension benefits (continued)

	UK Bus £m	UK Coach £m	UK Trains £m	Total £m
Fair value of scheme assets at 1 January 2004	323.3	22.8	625.4	971.5
Expected return	21.5	1.7	33.1	56.3
Franchise entry	–	–	116.1	116.1
Franchise exit	–	–	(195.0)	(195.0)
Cash contributions – Employer	0.2	2.2	26.9	29.3
Cash contributions – Employee	1.5	0.6	13.2	15.3
Benefits paid	(18.3)	(0.3)	(25.5)	(44.1)
Members' share of asset movement	–	–	29.3	29.3
Actuarial gain recognised in statement of recognised income and expense	9.8	1.7	10.9	22.4
Fair value of scheme assets at 31 December 2004	338.0	28.7	634.4	1,001.1

The Group expects to contribute £38.4m to its defined benefit pension plans in 2006.

History of experience gains and losses:

UK Bus	2005 £m	2004 £m
Fair value of scheme assets	**385.8**	338.0
Present value of Group's defined benefit obligation	**(423.6)**	(374.2)
Deficit in the scheme	**(37.8)**	(36.2)
Experience adjustments arising on liabilities	**(3.3)**	24.9
Experience adjustments arising on assets	**35.3**	9.8

UK Coach	2005 £m	2004 £m
Fair value of scheme assets	**35.7**	28.7
Present value of Group's defined benefit obligation	**(50.6)**	(39.7)
Deficit in the scheme	**(14.9)**	(11.0)
Experience adjustments arising on liabilities	**–**	(0.4)
Experience adjustments arising on assets	**2.5**	1.7

UK Train	2005 £m	2004 £m
Fair value of scheme assets	**796.4**	634.4
Present value of Group's defined benefit obligation	**(830.6)**	(652.3)
Deficit in the scheme	**(34.2)**	(17.9)
Experience adjustments arising on plan liabilities	**(53.8)**	(13.0)
Experience adjustments arising on plan assets	**54.4**	10.9

Other	2005 £m	2004 £m
Fair value of scheme assets	**–**	–
Present value of Group's defined benefit obligation	**(1.9)**	(0.6)

The cumulative amount of actuarial gains and losses recognised in the statement of recognised income and expense since 1 January 2004 is £34.3m loss (2004: £2.3m 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 recognised income and expense before 1 January 2004.

37 COMMITMENTS AND CONTINGENCIES

Operating lease commitments

The TOCs 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. Commitments for future minimum rental payments under these contracts are shown below:

UK Trains division commitments		Land and buildings 2005 £m	Land and buildings 2004 £m	Plant and equipment 2005 £m	Plant and equipment 2004 £m
Future minimum rentals payable under non-cancellable operating leases:					
Within one year:	Fixed track access	**226.4**	198.3	**–**	–
	Rolling stock	**–**	–	**241.0**	273.4
	Other	**66.0**	66.8	**2.2**	0.6
		292.4	265.1	**243.2**	274.0
After one year but not more than five years:	Fixed track access	**437.8**	398.6	**–**	–
	Rolling stock	**–**	–	**573.0**	593.7
	Other	**147.5**	144.5	**7.4**	2.5
		585.3	543.1	**580.4**	596.2
More than five years:	Fixed track access	**25.4**	111.2	**–**	–
	Rolling stock	**–**	–	**34.8**	157.7
	Other	**9.9**	41.1	**2.5**	2.7
		35.3	152.3	**37.3**	160.4
		913.0	960.5	**860.9**	1,030.6

Fixed track access agreements have an average remaining life of 4.0 years (2004: 4.9 years), other land and buildings have an average duration of 4.9 years (2004: 6.3 years). Rolling stock agreements have an average life of 4.4 years (2004: 5.2 years) and other plant and equipment 6.2 years (2004: 9.0 years).

The table above reflects the commitments up to the current franchise end dates unless an extension or new franchise agreement has been signed. The land and buildings commitments are based on charges advised by the Rail Regulator for the period starting on 1 April 2004.

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 non-cancellable operating leases for the other divisions are shown below:

Other divisions' commitments	Land and buildings 2005 £m	Land and buildings 2004 £m	Public service vehicles 2005 £m	Public service vehicles 2004 £m	Other 2005 £m	Other 2004 £m
Within one year:	**9.0**	8.2	**7.7**	8.6	**2.6**	1.3
After one year but not more than five years:	**29.3**	14.4	**15.9**	29.4	**4.7**	0.8
More than five years:	**8.4**	8.5	**0.4**	1.5	**–**	–
	46.7	31.1	**24.0**	39.5	**7.3**	2.1

The average remaining life of operating lease commitments in the other divisions is 6.7 years (2004: 7.7 years) for land and buildings, 3.2 years (2004: 4.4 years) for public service vehicles and 2.9 years (2004: 2.0 years) for other plant and equipment.

37 COMMITMENTS AND CONTINGENCIES (continued)

Operating lease commitments (continued)

Total Group:		Total 2005 £m	Total 2004 £m
Future minimum rentals payable under non-cancellable operating leases:			
Within one year:	Land and buildings	**301.4**	273.3
	Plant and equipment	**253.5**	283.9
		554.9	557.2
After one year but not more than five years:	Land and buildings	**614.6**	557.5
	Plant and equipment	**601.0**	626.4
		1,215.6	1,183.9
More than five years:	Land and buildings	**43.7**	160.8
	Plant and equipment	**37.7**	161.9
		81.4	322.7
		1,851.9	2,063.8

Operating lease agreements where the Group is the lessor

The Group receives rent on properties as follows:

	2005 £m	2004 £m
Future minimum rentals receivable under non-cancellable operating leases:		
Within one year:	**6.3**	7.0
After one year but not more than five years:	**16.7**	16.4
More than five years:	**5.0**	7.7
	28.0	31.1

The leases have an average unexpired duration of 3.9 years (2004: 3.7 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.

	2005 Minimum payments £m	2005 Present value of payments £m	2004 Minimum payments £m	2004 Present value of payments £m
Within one year:	**28.4**	**23.6**	18.5	14.8
After one year but not more than five years:	**65.0**	**54.1**	47.5	40.6
More than five years:	**38.8**	**31.4**	4.2	3.7
Total minimum lease payments	**132.2**		70.2	
Less future financing charges	**(23.1)**		(11.1)	
Present value of minimum lease payments	**109.1**	**109.1**	59.1	59.1

Capital commitments

	2005 £m	2004 £m
Contracted	**19.3**	5.3

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

Notes to the Accounts

37 COMMITMENTS AND CONTINGENCIES (continued)

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 2005, there were UK Train performance bonds of £44.6m (2004: £38.5m) and UK Train season ticket bonds of £100.0m (2004: £90.3m). The £5.6m performance bond in respect of London Eastern Railway Limited (trading as 'one') which was in place at 1 January 2005 was increased to £11.7m on 1 April 2005. The Group has other performance bonds which include the £14.6m (2004: £14.2m) performance bond in respect of Inter-Capital and Regional Rail Limited, performance bonds in respect of businesses in the United States of America of £34.5m (2004: £39.3m) and the rest of Europe of £9.6m (2004: £nil). Letters of credit have been issued to support insurance retentions of £84.7m (2004: £72.7m).

38 RELATED PARTY TRANSACTIONS

	Amount of transactions		Amounts due from related parties		Amounts due to related parties	
	2005 £m	2004 £m	**2005 £m**	2004 £m	**2005 £m**	2004 £m
Associates						
Altram	**7.0**	7.3	**5.3**	4.6	**–**	(0.1)
ICRRL	**–**	–	**–**	–	**(8.4)**	(2.9)
Alsa associates	**–**	–	**2.0**	–	**(0.3)**	–
Joint ventures						
Alsa joint ventures	**–**	–	**0.6**	–	**(0.1)**	–
Trade investments						
Trainline Holdings Limited	**–**	–	**2.5**	2.5	**–**	–
Alsa trade investments	**–**	–	**0.2**	–	**(1.7)**	–
Property transactions						
Stock	**0.3**	0.2	**–**	–	**–**	–
Alsa	**0.2**	–	**0.2**	–	**–**	–
Total associates and joint ventures	**7.0**	7.3	**7.9**	4.6	**(8.8)**	(3.0)
Total other related parties	**0.5**	0.2	**2.9**	2.5	**(1.7)**	–
Total	**7.5**	7.5	**10.8**	7.1	**(10.5)**	(3.0)

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 £0.3m (2004: £0.2m) are made to Stock Properties and Stock Realty Limited, of which Brian Stock is a related party.

A number of Alsa companies have leased properties from companies related to the Cosmen family. Jorge Cosmen is a non executive director of the Group. 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

	2005 £m	2004 £m
As disclosed in Note 7	**2.6**	2.6
Share-based payments	**0.4**	0.2
Total compensation paid to key management personnel	**3.0**	2.8

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

39 CASH FLOW STATEMENT

The net cash flows from operating activities include outflows of £7.7m (2004: £5.2m) from continuing operations which related to exceptional costs.

a) Reconciliation of Group operating profit to cash generated from operations

Total Operations	2005 £m	2004 £m
Net cash inflow from operating activities		
Group operating profit	**109.5**	99.9
Operating profit of discontinued operations	**(56.4)**	(7.3)
Depreciation of property, plant and equipment	**56.8**	63.6
Amortisation of leasehold property prepayment	**0.8**	0.6
Goodwill impairment	**93.3**	43.9
Intangible asset amortisation	**4.9**	2.4
Property, plant and equipment impairment	**–**	6.1
Amortisation of fixed asset grants	**(0.9)**	(6.5)
Profit on disposal of fixed assets (in normalised operating profit)	**(2.0)**	(0.6)
Share-based payments	**3.6**	0.6
(Increase)/decrease in inventories	**(0.7)**	0.7
Decrease in receivables	**22.4**	18.7
(Decrease)/increase in payables	**(37.2)**	34.7
Decrease in provisions	**(13.0)**	(2.7)
Cash generated from operations	**181.1**	254.1

Discontinued Operations	2005 £m	2004 £m
Net cash inflow from operating activities		
Operating profit	**(56.4)**	(7.3)
Depreciation of property, plant and equipment	**1.3**	6.3
Goodwill impairment	**60.0**	10.6
Property, plant and equipment impairment	**–**	6.1
Profit on disposal of fixed assets (in normalised operating profit)	**(0.1)**	–
Share-based payments	**0.1**	–
Increase in inventories	**(0.1)**	–
(Increase)/decrease in receivables	**(1.1)**	1.2
Increase/(decrease) in payables	**1.2**	(4.9)
Decrease in provisions	**(1.3)**	(2.9)
Cash generated from operations	**3.6**	9.1

39 CASH FLOW STATEMENT (continued)

b) Analysis of changes in net debt

Net debt at 31 December 2005 comprises cash and cash equivalents of £145.5m (2004: £147.2m) as disclosed in note 24, current interest bearing loans and borrowings of £214.4m (2004: £30.3m) and non-current interest bearing loans and borrowings of £495.5m (2004: £251.8m) as disclosed in note 30 and other debt receivable of £1.0m (2004: £1.0m) as disclosed in note 32.

Additionally, net debt at 31 December 2004 includes £1.5m finance leases due within one year and £1.2m finance leases due within one to two years attributable to discontinued operations and classified separately on the balance sheet within the "Liabilities directly associated with disposal group assets classified as held for sale" heading.

	At 1 January 2005 £m	Cash flow £m	Acquisitions/ Disposals £m	Exchange Differences £m	Other movements £m	At 31 December 2005 £m
Cash	26.8	25.0	–	1.4	–	53.2
Overnight deposits	24.1	0.4	–	–	–	24.5
Other short term deposits	96.3	(29.8)	–	1.3	–	67.8
Bank overdrafts	–	(5.5)	–	–	–	(5.5)
Cash and cash equivalents	147.2	(9.9)	–	2.7	–	140.0
Other debt receivable	1.0	–	–	–	–	1.0
Debt due within one year:						
Loan notes	(7.5)	6.7	–	–	–	(0.8)
Bank loans	(8.0)	(174.8)	–	(1.5)	(0.2)	(184.5)
	(15.5)	(168.1)	–	(1.5)	(0.2)	(185.3)
Debt due after one year:						
Bank loans	(207.5)	26.7	(204.0)	(25.2)	–	(410.0)
Finance lease obligations	(61.8)	20.0	(7.3)	(3.0)	(57.0)	(109.1)
Net debt	(136.6)	(131.3)	(211.3)	(27.0)	(57.2)	(563.4)

Short term deposits included within liquid resources relate to term deposits repayable within three months. Changes in net debt arising from acquisitions and disposals in the year are disclosed separately in note 20.

Other non cash movements in net debt represent finance lease additions of £57.0m (2004: £16.2m) and £0.2m (2004: £1.8m) amortisation of loan arrangement fees.

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

	2005 £m	2004 £m
(Decrease)/increase in cash and cash equivalents in the period	**(9.9)**	51.0
Cash (inflow)/outflow from movement in debt and lease financing	**(121.4)**	109.8
Change in net debt resulting from cash flows	**(131.3)**	160.8
Change in net debt resulting from acquisitions and disposals	**(211.3)**	(8.5)
Change in net debt resulting from non cash flows	**(84.2)**	0.2
Movement in net debt in the period	**(426.8)**	152.5
Opening net debt	**(136.6)**	(289.1)
Net debt	**(563.4)**	(136.6)

40 RECONCILIATION OF NET ASSETS, PROFIT AND CASH FLOW UNDER UK GAAP TO IFRS

a) First time adoption of International Financial Reporting Standards

The Group has applied IFRS 1, 'First Time Adoption of International Financial Reporting Standards', to provide a starting point for reporting under IFRS. The Group's date of transition to IFRS is 1 January 2004 and all comparative information in the accounts is restated to reflect the Group's adoption of IFRS, except where otherwise required or permitted under IFRS 1.

IFRS 1 requires an entity to comply with each IFRS effective at the reporting date for its first IFRS accounts. As a general principle, IFRS 1 requires the standards effective at the reporting date to be applied retrospectively. However, retrospective application is prohibited in some areas, particularly where retrospective application would require judgements by management about past conditions after the outcome of the particular transaction is already known. A number of optional exemptions from full retrospective application of IFRSs are granted where the cost of compliance is deemed to exceed the benefits to users of the accounts. The Group has taken the following exemptions:

- IAS 32, 'Financial Instruments: Disclosure and Presentation', and IAS 39, 'Financial Instruments: Recognition and Measurement', have been adopted from 1 January 2005, with no restatement of comparative information.
- Business combinations prior to 1 January 2004 have not been restated to comply with IFRS 3, 'Business Combinations'.
- Cumulative translation differences on foreign currency denominated operations are deemed to be £nil at 1 January 2004. Any gains and losses recognised in the income statement on subsequent disposals of foreign operations will therefore exclude translation differences arising prior to the transition date.
- Share-based payment charges will only be recognised for those awards granted after 7 November 2002 which have not vested as of 1 January 2005.

Where applicable, the options selected by management are set out in more detail in the explanatory notes below.

IFRS 2 'Share-Based Payment'

IFRS 2 requires the Group to recognise an expense for employees' and directors' share options and other share based incentives by using an option-pricing model.

The Group has taken advantage of the exemption in IFRS 1 in respect of equity settled awards and has applied IFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested on or before 1 January 2005.

IFRS 3 'Business Combinations', IAS 36 'Impairment of Assets' and IAS 38 'Intangible Assets'

IFRS 3 has been applied to the accounting for business combinations from 1 January 2004, as permitted by IFRS 1.

The adoption of IFRS 3 and IAS 36 has resulted in the cessation of annual goodwill amortisation and the adoption of annual impairment reviews at the cash generating unit level from 1 January 2004.

Intangible assets are now recognised upon acquisition at the individual asset category level. They have either a finite or indefinite life, and therefore are amortised or reviewed annually for impairment as appropriate.

IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'

The Group previously presented the operating results of operations discontinued during the year separately from the exceptional profit or loss on disposal. The adoption of IFRS 5 means that the Group's interest in discontinued operations is presented after continuing operations and represents the post-tax results of operations after interest and the post-tax gain or loss on disposal.

Any assets or liabilities remaining in the balance sheet at the period end relating to discontinued operations will be presented separately from the assets and liabilities of continuing operations.

IAS 19 'Employee Benefits'

The Group previously recognised pension costs on a systematic basis so that the costs of providing retirement benefits to employees were evenly matched, so far as was possible, to the service lives of the employees concerned. Any surplus or deficit of the actuarial value of assets over the actuarial value of liabilities of the pension scheme was spread over the average remaining service lives of employees. In addition disclosures were made in accordance with the transitional provisions of FRS 17, 'Retirement Benefits'.

The effect of adopting IAS 19 has been to recognise a pension liability to reflect the Group's obligations to fund its defined benefit pension plans. Additionally the adoption of the standard has resulted in various changes in the income statement and the creation of offsetting intangible assets for some of the deficits existing in certain of the Group's TOCs that existed when those contracts were commenced. Details of the accounting for the Railways Pension Scheme are given in section (ii) of note 36.

40 RECONCILIATION OF NET ASSETS, PROFIT AND CASH FLOW UNDER UK GAAP TO IFRS (continued)

a) First time adoption of International Financial Reporting Standards (continued)

IAS 32 'Financial Instruments: Disclosure and Presentation', and IAS 39 'Financial Instruments: Recognition and Measurement'

The Group has taken advantage of the exemption in IFRS 1 and has not restated its results for the year ended 31 December 2004 for the effect of IAS 32 or IAS 39. The main adjustments that would be required to make the prior period results comply with IAS 32 and IAS 39 would involve including the Group's derivative financial instruments in the balance sheet, and accounting for changes in fair value in accordance with the hedging rules of IAS 39 through the income statement.

The adoption of IAS 39 has resulted in additional financial instruments being recognised on the Group's balance sheet from 1 January 2005, principally derivative instruments used by the Group to hedge financial risks. Derivative financial instruments are stated at fair value, and the hedging rules of the standard have been applied so that movements have been taken directly to the income statement or to equity depending on the nature of the hedging relationship and its effectiveness. The stricter designation documentation requirements and effectiveness testing needed to qualify for hedge accounting under IFRS compared to UK GAAP means that, in certain circumstances, transactions undertaken as hedges under UK GAAP do not qualify for hedge accounting under IFRS. However, the Group's strategy is unchanged in respect of the hedging of the net investment position of foreign currency denominated subsidiaries, certain fuel usage and interest rate variances that the Group has previously hedged.

The Group has adopted the full version of IAS 39 as issued by the International Accounting Standards Board ("IASB"). For the Group, compliance with the full version of IAS 39 will also achieve compliance with the European Commission endorsed version of IAS 39.

IAS 10 'Events after the Balance Sheet Date'

Under IAS 10 the liability in respect of dividend payments is recognised when the dividend is approved. On this basis dividends approved after the balance sheet date are not recorded as a liability at that balance sheet date.

IAS 16 'Property, Plant and Equipment'

In previous years certain land and buildings were carried at fair value, based on valuations by external independent valuers, less subsequent depreciation for buildings. The last valuation was at 31 December 1995. The Group will not revalue properties in the future and will use the depreciated cost method under IAS 16. Under the transitional arrangements of IFRS 1 the Group has elected to deem the fair value of these revalued assets to be equivalent to cost and will adopt the cost model for depreciation in the future.

IAS 17 'Leases'

Since June 2005 the Group has identified a number of long-leasehold properties that require reclassification to non-current prepayments under IAS 17. This reclassification has no impact on net assets and no impact on the income statement.

IAS 21 'The Effects of Changes in Foreign Exchange Rates'

The Group will continue to translate the results of foreign currency denominated operations at average exchange rates and the balance sheets at period end exchange rates. Under IAS 21 the Group will be required to separately identify translation differences for each foreign currency denominated operation. Any translation differences arising under IFRS will be separately recorded in equity, net of any foreign exchange movements on related hedging instruments. On disposal of a foreign currency denominated operation, the cumulative translation differences for that operation are transferred to the consolidated income statement as part of the profit or loss on disposal. This was not the case under previous accounting policies.

The Group will take advantage of the election under IFRS 1 not to record cumulative translation differences arising before the transition date and all subsequent disposals shall exclude any translation differences prior to 1 January 2004.

40 RECONCILIATION OF NET ASSETS, PROFIT AND CASH FLOW UNDER UK GAAP TO IFRS (continued)

b) Income statement for the year ended 31 December 2004

Consolidated income statement For the year ended 31 December 2004	Note	Under UK GAAP £m	Effect of transition to IFRS £m	IFRS £m
Continuing operations				
Revenue	a	2,569.0	(214.5)	2,354.5
Operating costs before goodwill impairment, intangible amortisation and exceptional items	b	(2,417.0)	205.8	(2,211.2)
Goodwill amortisation and impairment	c	(62.2)	28.9	(33.3)
Property, plant & equipment impairment	d	(6.1)	6.1	–
Intangible amortisation	e	–	(2.4)	(2.4)
Exceptional items	d	(7.9)	0.2	(7.7)
Total operating costs		(2,493.2)	238.6	(2,254.6)
Group operating profit		**75.8**	**24.1**	**99.9**
Loss on disposal of non-current assets	d	(0.1)	(0.8)	(0.9)
Profit from operations		75.7	23.3	99.0
Share of post tax results from associates		(3.4)	–	(3.4)
Profit on sale of discontinued operations	d	8.9	(8.9)	–
Net finance costs	d	(18.1)	0.4	(17.7)
Profit before tax		**63.1**	**14.8**	**77.9**
Taxation	f	(22.3)	(0.5)	(22.8)
Profit for the year from continuing operations		40.8	14.3	55.1
Discontinued operations				
Loss for the year from discontinued operations	d	–	(5.4)	(5.4)
Profit on sale of discontinued operations	d	–	8.9	8.9
Profit for the year from discontinued operations		–	3.5	3.5
Profit for the period		40.8	17.8	58.6
Profit attributable to equity shareholders		44.4	17.8	62.2
Loss attributable to minority interests		(3.6)	–	(3.6)
		40.8	17.8	58.6

a) Revenue has been adjusted to reclassify the £214.5m of revenue generated by discontinued operations to a specific line of the income statement for discontinued operations, in accordance with IFRS 5. See note 11 for additional disclosures of the results from discontinued operations.

b) Operating costs have been reduced by £205.8m comprising £204.9m of costs from discontinued operations reclassified in the income statement (see note 11 for details) and a £1.5m credit following the adoption of IAS 19 in respect of defined benefit pension schemes. Off-setting these reductions is a £0.6m charge recognised in respect of share-based payments.

c) Goodwill amortisation is reduced by £28.9m by the IFRS 3 requirement not to amortise goodwill with a presumed indefinite life (£18.3m) and by the reallocation of the goodwill impairment on discontinued operations (£10.6m) under IFRS 5 (see note 11).

d) The property, plant and equipment impairment charge of £6.1m, £0.2m of the charge for exceptional items, £0.8m profit on disposal of non-current assets, £8.9m profit on the sale of discontinued operations and £0.4m of net finance costs are reclassified to results from discontinued operations in accordance with IFRS 5 (see note 11).

e) Intangible asset amortisation of £2.4m is charged on the intangible asset (£1.9m) created upon the recognition of the UK Trains pension scheme deficit under IAS 19 (see note 36) and on the customer contract and relationship assets (£0.5m) acquired with certain Canadian school bus acquisitions in 2004.

f) The change in accounting policies does not alter the current tax charge for 2004. The charge for deferred tax increased by £0.5m. The deferred tax impact of IFRS 3 has given rise to a £1.3m charge on goodwill on certain US acquisitions which remains deductible for tax purposes. Additionally the continuing group charge has increased by £1.5m as credits have been reallocated to discontinued operations (see note 11). Offsetting this, the deferred tax impact of the change in the accounting for defined benefit pension schemes under IAS 19 has given rise to a £2.3m tax credit.

40 RECONCILIATION OF NET ASSETS, PROFIT AND CASH FLOW UNDER UK GAAP TO IFRS (continued)

Group operating profit For the year ended 31 December 2004	Note	Under UK GAAP £m	Effect of transition to IFRS £m	IFRS £m
UK Bus	*a*	44.2	(2.6)	41.6
UK Trains	*b*	58.5	2.8	61.3
UK Coach	*c*	18.4	0.9	19.3
North American Bus	*d*	29.8	(0.2)	29.6
Central Functions	*e*	(8.5)	–	(8.5)
Discontinued Operations	*f*	9.6	(9.6)	–
Normalised operating profit		**152.0**	**(8.7)**	**143.3**
Goodwill amortisation and impairment	*g*	(62.2)	28.9	(33.3)
Property, plant and equipment impairment	*f*	(6.1)	6.1	–
Intangible asset amortisation	*h*	–	(2.4)	(2.4)
Other exceptional items	*f*	(7.9)	0.2	(7.7)
Group operating profit		**75.8**	**24.1**	**99.9**

a) UK Bus incurred additional charges of £2.5m in respect of defined benefit pensions schemes under IAS 19 and £0.1m in respect of share-based payments under IFRS 2.

b) UK Trains benefited from a £2.8m reduction in pension charges and a £0.1m reduction in the holiday pay charge, both following the adoption of IAS 19. Offsetting this, an additional charge of £0.1m has been recognised for share-based payments under IFRS 2.

c) UK Coach benefited from a £0.9m reduction in pension charges following the adoption of IAS 19.

d) North American Bus incurred additional charges of £0.2m, recognised in respect of holiday pay under IAS 19 (£0.1m) and share-based payments under IFRS 2 (£0.1m).

e) The result for Central Functions was unchanged as the £0.3m charge recognised in respect of share-based payments was offset by a £0.3m reduction in pension charges under IAS 19.

f) The £9.6m normalised operating profit for discontinued operations, the £6.1m property, plant and equipment impairment charge and £0.2m of the charge for exceptional items are reclassified in the income statement in accordance with IFRS 5.

g) Goodwill amortisation is reduced by £28.9m by the IFRS 3 requirement not to amortise goodwill with a presumed indefinite life (£18.3m) and by the reallocation of the goodwill impairment on discontinued operations (£10.6m) under IFRS 5 (see note 11).

h) Intangible asset amortisation of £2.4m is charged on the intangible asset (£1.9m) created upon the recognition of the UK Trains pension scheme deficit under IAS 19 (see note 36) and on the customer contract and relationship assets (£0.5m) acquired with certain Canadian school bus acquisitions in 2004.

40 RECONCILIATION OF NET ASSETS, PROFIT AND CASH FLOW UNDER UK GAAP TO IFRS (continued)

c) Group Balance Sheet as at 31 December 2004 and 1 January 2004

Group Balance Sheet At 31 December 2004	Note	Under UK GAAP £m	Effect of transition to IFRS £m	IFRS £m
Non-current assets				
Intangible assets	*a*	324.4	28.4	352.8
Property, plant and equipment	*b*	380.3	(46.8)	333.5
Financial assets – Other investments	*c*	10.5	(0.3)	10.2
Other receivables	*d*	–	30.5	30.5
Deferred tax asset	*e*	–	18.3	18.3
		715.2	30.1	745.3
Current assets				
Inventories	*f*	16.3	(0.2)	16.1
Trade and other receivables	*g*	328.5	(26.7)	301.8
Cash and cash equivalents	*f*	147.2	(4.1)	143.1
		492.0	(31.0)	461.0
Disposal group assets classified as held for sale	*f*	–	33.8	33.8
Total assets		**1,207.2**	**32.9**	**1,240.1**
Non-current liabilities				
Financial liabilities – Borrowings	*f*	(253.0)	1.2	(251.8)
Deferred tax liability	*e*	(3.9)	(0.6)	(4.5)
Other non-current liabilities		(3.0)	–	(3.0)
Defined benefit pension liability	*h*	–	(65.7)	(65.7)
Provisions	*i*	(72.2)	35.8	(36.4)
		(332.1)	(29.3)	(361.4)
Current liabilities				
Trade and other payables	*j*	(542.0)	27.5	(514.5)
Financial liabilities – Borrowings	*f*	(31.8)	1.5	(30.3)
Current tax liabilities		(36.8)	–	(36.8)
Provisions	*k*	–	(23.4)	(23.4)
		(610.6)	5.6	(605.0)
Liabilities directly associated with disposal group assets classified as held for sale	*f*	–	(6.9)	(6.9)
Total liabilities		**(942.7)**	**(30.6)**	**(973.3)**
Net assets		**264.5**	**2.3**	**266.8**
Shareholders' equity				
Ordinary shares		7.0	–	7.0
Share premium account		47.5	–	47.5
Own shares		(5.1)	–	(5.1)
Other reserves	*l*	15.4	(2.1)	13.3
Retained earnings	*m*	198.8	4.4	203.2
Total shareholders' equity		263.6	2.3	265.9
Minority interest in equity		0.9	–	0.9
Total equity		**264.5**	**2.3**	**266.8**

The note references above are explained after the 1 January 2004 balance sheet

Notes to the Accounts

40 RECONCILIATION OF NET ASSETS, PROFIT AND CASH FLOW UNDER UK GAAP TO IFRS (continued)

Group Balance Sheet At 1 January 2004	Note	Under UK GAAP £m	Effect of transition to IFRS £m	IFRS £m
Non-current assets				
Intangible assets	*a*	404.6	1.0	405.6
Property, plant and equipment	*b*	405.6	(32.5)	373.1
Investment properties	*b*	–	9.1	9.1
Financial assets – Other investments	*c*	7.3	(0.3)	7.0
Other receivables	*d*	–	26.9	26.9
Deferred tax asset	*e*	–	12.0	12.0
		817.5	16.2	833.7
Current assets				
Inventories		17.3	–	17.3
Trade and other receivables	*g*	343.7	(14.5)	329.2
Cash and cash equivalents		97.0	–	97.0
		458.0	(14.5)	443.5
Total assets		**1,275.5**	**1.7**	**1,277.2**
Non-current liabilities				
Financial liabilities – Borrowings		(346.0)	–	(346.0)
Deferred tax liability	*e*	(6.8)	4.1	(2.7)
Other non-current liabilities		(1.3)	–	(1.3)
Defined benefit pension liability	*h*	–	(52.7)	(52.7)
Provisions	*i*	(52.0)	24.0	(28.0)
		(406.1)	(24.6)	(430.7)
Current liabilities				
Trade and other payables	*j*	(548.4)	18.9	(529.5)
Financial liabilities – Borrowings		(40.1)	–	(40.1)
Current tax liabilities		(16.7)	–	(16.7)
Provisions	*k*	–	(14.8)	(14.8)
		(605.2)	4.1	(601.1)
Total liabilities		**(1,011.3)**	**(20.5)**	**(1,031.8)**
Net assets		**264.2**	**(18.8)**	**245.4**
Shareholders' equity				
Ordinary shares		6.8	–	6.8
Share premium account		45.1	–	45.1
Share capital to be issued		0.1	–	0.1
Own shares		(5.2)	–	(5.2)
Other reserves		16.2	–	16.2
Retained earnings	*m*	196.5	(18.8)	177.7
Total shareholders' equity		259.5	(18.8)	240.7
Minority interest in equity		4.7	–	4.7
Total equity		**264.2**	**(18.8)**	**245.4**

40 RECONCILIATION OF NET ASSETS, PROFIT AND CASH FLOW UNDER UK GAAP TO IFRS (continued)

a) At 31 December 2004, intangible assets are increased by £28.4m (1 January 2004: £1.0m).

- Goodwill is increased by £14.3m (1 January 2004: £nil) on transition to IFRS. The presumption of indefinite life for goodwill under IFRS 3 reduces the amortisation charge for 2004 and therefore increases the book value at 31 December 2004 by £17.8m. Offsetting this, £3.5m has been reclassified to intangible assets representing customer contracts and contractual relationships recognised on the acquisition of certain Canadian school bus operations in 2004.
- Intangible assets increase by £14.1m (1 January 2004: £1.0m) as a number of intangible assets have been created and amortised during 2004. An £11.1m (1 January 2004: £1.0m) intangible asset related to the recognition of the defined benefit pension scheme deficit under IAS 19 has been recognised in addition to £3.0m (1 January 2004: £nil), representing customer contracts and contractual relationships acquired in 2004 transferred from goodwill.

b) Property, plant and equipment is reduced by £46.8m at 31 December 2004 (1 January 2004: £32.5m) for three reasons. Long leasehold property with a net book value of £21.4m (1 January 2004: £23.4m) is reallocated from property, plant and equipment to non-current other receivables under IAS 17. Property, plant and equipment in the Group's discontinued operations of £25.4m (1 January 2004: £nil) is transferred to disposal group assets under IFRS 5. Finally, £9.1m of property is reclassified as investment properties at 1 January 2004 under IAS 40. The property in question was disposed of during 2004.

c) The investment in associates of £0.3m (1 January 2004: £0.3m) is reclassified from investments to amounts due to associates.

d) Other receivables increase by £30.5m (1 January 2004: £26.9m) because of £14.0m (1 January 2004: £8.7m) reallocated from current assets to non-current assets under IAS 1 and £21.4m (1 January 2004: £23.4m) reallocated from property, plant and equipment under IAS 17. This is offset by a £4.9m (1 January 2004: £5.2m) reduction in pension prepayments at UK Bus and UK Coach following the transition to IAS 19.

e) IAS 12 only permits deferred tax balances to be netted off if they occur in the same tax jurisdiction. This has resulted in a deferred tax asset of £18.3m (1 January 2004: £12.0m) and a deferred tax liability of £4.5m (1 January 2004: £2.7m). The adoption of IAS 19 has created a deferred tax asset of £18.0m (1 January 2004: £15.9m) in relation to both pensions and holiday pay adjustments. The effect of IFRS 3 on goodwill amortisation has created a £1.3m deferred tax liability (1 January 2004: £nil) and IFRS 2 has given rise to a £1.0m (1 January 2004: £0.2m) asset.

f) A number of adjustments are required under IFRS 5 to reclassify assets and liabilities to the disposal group categories in the balance sheet. At 31 December 2004, disposal group assets classified as held for sale of £33.8m were reclassified from property, plant and equipment (£25.4m), trade and other receivables (£4.1m), inventories (£0.2m) and cash and cash equivalents (£4.1m). Likewise, liabilities directly associated with disposal group assets held for sale of £6.9m were reclassified from non-current interest bearing loans (£1.2m), current interest bearing loans (£1.5m) and trade and other payables (£4.2m).

g) Trade and other receivables reduce by £26.7m (1 January 2004: £14.5m) due to reclassification from current assets to non-current assets of £14.0m (1 January 2004: £8.7m) under IAS 1, reclassification of amounts due from associates to trade payables £7.9m (1 January 2004: £4.9m), the reallocation of discontinued operations under IFRS 5 of £4.1m (1 January 2004: £nil), and the reduction in pension prepayments following the adoption of IAS 19 of £0.7m (1 January 2004: £0.9m).

h) Under IAS 19, liabilities are recognised in the balance sheet for the deficits on the Group's defined benefit pension schemes. Further details are included in note 36.

i) Non-current provisions have been reduced by £35.8m (1 January 2004: £24.0m) following balance sheet reclassifications. Provisions totalling £25.0m (1 January 2004: £16.4m) have been reclassified from non-current to current liabilities as per IAS 1. Provisions worth £10.8m (1 January 2004: £7.6m) have been reclassified to trade and other payables in current liabilities and amounts due from associates in trade receivables in accordance with IAS 28 since the Group has an obligation to support these losses.

j) Trade and other payables decrease by £27.5m (1 January 2004: £18.9m). Liabilities are reduced by the non-recognition of the final dividend of £28.5m (1 January 2004: £23.6m) in accordance with IAS 10, reallocation of balances related to discontinued operations of £4.2m (1 January 2004: £nil) under IFRS 5 and a reduction in pension accruals of £0.8m (1 January 2004: £0.9m) under IAS 19. An additional £2.4m liability (1 January 2004: £2.4m) has been recognised in relation to holiday pay under IAS 19 and £3.6m (1 January 2004: £3.2m) transferred from provisions in respect of associates.

k) Current provisions of £23.4m (1 January 2004: £14.8m) comprises the reclassification of provisions of £25.0m (1 January 2004: £16.4m) from non-current to current liabilities offset by £1.0m (1 January 2004: £0.8m) reclassification to trade and other payables in respect of IAS 28 and £0.6m (1 January 2004: £0.8m) transferred to defined benefit pension liability for the unfunded pension provisions in North America.

l) Cumulative translation reserve of £2.1m relating to the period from 1 January 2004 to 31 December 2004.

m) The net impact of the above adjustments increases retained earnings at 31 December 2004 by £4.4m and reduces retained earnings at 1 January 2004 by £18.8m.

- Cumulative profit and loss reserve adjustments of £41.5m charge (1 January 2004: £40.9m) in relation to defined benefit pension scheme deficits and £1.7m (1 January 2004: £1.7m) in relation to holiday pay, also recognised under IAS 19.
- Profit and loss reserve credits have been recognised in relation to dividends not charged at period end under IAS 10 of £28.5m (1 January 2004: £23.6m).
- Non-amortisation of goodwill under IFRS 3 of £16.0m (1 January 2004: £nil).
- £1.0m (1 January 2004: £0.2m) in respect of deferred tax related to the adoption of IFRS 2.
- Additionally £2.1m has been transferred to the cumulative translation reserve at 31 December 2004 (1 January 2004: £nil).

40 RECONCILIATION OF NET ASSETS, PROFIT AND CASH FLOW UNDER UK GAAP TO IFRS (continued)

d) Group Balance Sheet as at 1 January 2005

The adoption of IAS 32 and IAS 39 from 1 January 2005 has given rise to further changes in the Group balance sheet:

Group Balance Sheet At 1 January 2005	IFRS at 31 December 2004 £m	Adoption of IAS 32/39 £m	IFRS at 1 January 2005 £m
Non-current assets			
Intangible assets	352.8	–	352.8
Property, plant and equipment	333.5	–	333.5
Financial assets – Other investments	10.2	–	10.2
Financial assets – Derivative financial instruments	–	1.4	1.4
Other receivables	30.5	–	30.5
Deferred tax asset	18.3	5.6	23.9
	745.3	7.0	752.3
Current assets			
Inventories	16.1	–	16.1
Trade and other receivables	301.8	(14.6)	287.2
Financial assets – Derivative financial instruments	–	19.8	19.8
Cash and cash equivalents	143.1	–	143.1
	461.0	5.2	466.2
Disposal group assets classified as held for sale	33.8	–	33.8
Total assets	**1,240.1**	**12.2**	**1,252.3**
Non-current liabilities			
Financial liabilities – Borrowings	(251.8)	–	(251.8)
Financial liabilities – Derivative financial instruments	–	(7.6)	(7.6)
Deferred tax liability	(4.5)	–	(4.5)
Other non-current liabilities	(3.0)	–	(3.0)
Defined benefit pension liability	(65.7)	–	(65.7)
Provisions	(36.4)	–	(36.4)
	(361.4)	(7.6)	(369.0)
Current liabilities			
Trade and other payables	(514.5)	2.5	(512.0)
Financial liabilities – Borrowings	(30.3)	–	(30.3)
Financial liabilities – Derivative financial instruments	–	(19.9)	(19.9)
Current tax liabilities	(36.8)	–	(36.8)
Provisions	(23.4)	–	(23.4)
	(605.0)	(17.4)	(622.4)
Liabilities directly associated with disposal group assets classified as held for sale	(6.9)	–	(6.9)
Total liabilities	**(973.3)**	**(25.0)**	**(998.3)**
Net assets	**266.8**	**(12.8)**	**254.0**
Shareholders' equity			
Ordinary shares	7.0	–	7.0
Share premium account	47.5	–	47.5
Own shares	(5.1)	–	(5.1)
Other reserves	13.3	(5.9)	7.4
Retained earnings	203.2	(6.9)	196.3
Total shareholders' equity	265.9	(12.8)	253.1
Minority interest in equity	0.9	–	0.9
Total equity	**266.8**	**(12.8)**	**254.0**

Details of the financial assets recognised in the balance sheet are included in note 18, and details of the financial liabilities recognised in the balance sheet are included in note 29.

Notes to the Accounts

40 RECONCILIATION OF NET ASSETS, PROFIT AND CASH FLOW UNDER UK GAAP TO IFRS (continued)

e) Group Statement of Cash Flows for the year ended 31 December 2004

The adoption of IFRS results in the following changes to the reconciliation of net profit to cash generated from operations for the year ended 31 December 2004:

Reconciliation of net profit to cash generated from operations For the year ended 31 December 2004	Under UK GAAP £m	Effect of transition to IFRS £m	IFRS £m
Net cash inflow from operating activities			
Operating profit	75.8	24.1	99.9
Operating profit of discontinued operations	–	9.4	9.4
Depreciation of property, plant and equipment	64.2	(0.6)	63.6
Amortisation of leasehold property prepayment	–	0.6	0.6
Property, plant and equipment impairment	6.1	(6.1)	–
Goodwill amortisation and impairment	62.2	(28.9)	33.3
Intangible asset amortisation	–	2.4	2.4
Amortisation of fixed asset grants	(6.5)	–	(6.5)
Profit on disposal of fixed assets	(0.6)	–	(0.6)
Share-based payments	–	0.6	0.6
Decrease in inventories	0.7	–	0.7
Decrease in receivables	19.2	(0.5)	18.7
Increase in payables	34.6	0.1	34.7
Decrease in provisions	(1.6)	(1.1)	(2.7)
Cash generated from operations	**254.1**	**–**	**254.1**

As would be expected, the Group statement of cash flows is not changed by the adoption of IFRS:

Group statement of cash flows For the year ended 31 December 2004	Under UK GAAP £m	Effect of transition to IFRS £m	IFRS £m
Cash generated from operations	254.1	–	254.1
Tax paid	(3.2)	–	(3.2)
Net cash from operating activities	**250.9**	**–**	**250.9**
Cash flows from investing activities			
Payments to acquire businesses, net of cash acquired	12.6	–	12.6
Deferred consideration for businesses acquired	(4.5)	–	(4.5)
Purchase of property, plant and equipment	(69.2)	–	(69.2)
Proceeds from disposal of property, plant and equipment	18.8	–	18.8
Payments in respect of businesses disposed	(1.5)	–	(1.5)
Receipts from disposal of businesses, net of cash disposed	24.7	–	24.7
Interest received	13.1	–	13.1
Receipts from sale of shares for employee schemes	0.1	–	0.1
Net cash used in investing activities	**(5.9)**	**–**	**(5.9)**
Cash flows from financing activities			
Proceeds from issue of ordinary shares	2.5	–	2.5
Interest paid	(31.6)	–	(31.6)
Repayment of maintenance bond at ScotRail	(18.7)	–	(18.7)
Finance lease principal payments	(15.8)	–	(15.8)
Repayment of loan notes	(0.9)	–	(0.9)
Loans repaid	(93.1)	–	(93.1)
Dividends paid	(36.4)	–	(36.4)
Net cash used in financing activities	**(194.0)**	**–**	**(194.0)**
Increase in cash and cash equivalents	**51.0**	**–**	**51.0**
Opening cash and cash equivalents	96.8	–	96.8
Increase in cash and cash equivalents	51.0	–	51.0
Foreign exchange	(0.6)	–	(0.6)
Closing cash and cash equivalents	**147.2**	**–**	**147.2**

Independent Auditor's Report to the Shareholders of the Company, National Express Group PLC

We have audited the parent company financial statements of National Express Group PLC for the year ended 31 December 2005 which comprise the Company Balance Sheet and the related notes 1 to 20. These parent company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

We have reported separately on the group financial statements of National Express Group PLC for the year ended 31 December 2005.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the parent company financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the parent company financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the parent company financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited parent company financial statements. The other information comprises only the Chairman's Statement, the Chief Executive's Statement, the Finance Review, the Corporate Governance Statement, the Director's responsibilities for the accounts, the unaudited part of the Report on Directors' remuneration and the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent company financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the parent company financial statements and the part of the Directors' Remuneration Report to be audited.

OPINION

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005; and

- the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP
Registered auditor
London
9 March 2006

Company Balance Sheet

At 31 December 2005

	Note	2005 £m	2004* £m
Fixed assets			
Tangible assets	4	1.2	1.5
Investments in subsidiaries	5	1,144.4	511.5
Financial assets – Other investments	5	7.0	7.0
		1,152.6	520.0
Current assets			
Debtors	7	715.3	419.3
Cash at bank and in hand	8	–	3.4
		715.3	422.7
Creditors: amounts falling due within one year	9	(943.2)	(351.7)
Financial liabilities – Derivative financial instruments	6	(13.4)	–
Net current (liabilities)/assets		(241.3)	71.0
Total assets less current liabilities		911.3	591.0
Creditors: amounts falling due after more than one year	10	(410.0)	(207.5)
Financial liabilities – Derivative financial instruments	6	(8.3)	–
Provisions for liabilities and charges	11	(0.7)	(0.7)
Net assets		492.3	382.8
Shareholders' equity			
Called up share capital	14	7.5	7.0
Share premium account	15	174.2	47.5
Capital redemption reserve	15	0.2	–
Own shares	15	(5.1)	(5.1)
Hedging reserve	15	(7.1)	–
Profit and loss account	15	322.6	333.4
Equity shareholders' funds		492.3	382.8

* Restated for change in accounting polices (see note 1)

P M White Chief Executive
A C Walker Finance Director
9 March 2006

Notes to the Accounts

1 ACCOUNTING POLICIES

Basis of preparation

The separate accounts of the parent company are presented as required by the Companies Act 1985.The accounts have been prepared under the historic cost convention 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 230 of the Companies Act 1985.

Change in accounting policies

Post balance sheet events

In accordance with FRS 21, 'Events after the Balance Sheet Date', the Company now recognises dividends in the period they are declared. The prior year comparatives have been restated to comply with FRS 21 resulting in an increase in net assets and reserves of £28.5m at 31 December 2004, and an increase in retained profit for the year of £4.9m. Net assets and reserves at 1 January 2004 have been increased by £23.6m.

Share-based payments

In accordance with the transitional provisions in the standard, FRS 20, 'Share-based Payment', has been applied to all grants made after 7 November 2002 that were unvested as of 1 January 2005. This has resulted in a reduction in operating profits in the prior year of £0.3m. A related deferred tax asset of £1.0m has also been recognised at 31 December 2004, and has been credited to reserves. Similarly a deferred tax asset of £0.2m has increased net assets and reserves at 1 January 2004.

Financial Instruments: Disclosure, Presentation and Measurement

In accordance with the transitional provisions in the standards, FRS 25, 'Financial instruments: Disclosure and Presentation' and FRS 26, 'Financial Instruments: Measurement', have been adopted from 1 January 2005.

Under the previous UK GAAP accounting policies, gains and losses from derivative financial instruments used for hedging purposes were not recognised in earnings or as adjustments to carrying value until the underlying hedged transaction matured or occurred. FRS 26 requires all derivatives to be fair valued in the balance sheet. As a result, net assets and reserves have been restated by £17.3m at 1 January 2005.

Other standards

The Company has adopted FRS 17, 'Retirement Benefits', in the year, although this has had no impact on the Company which treats both its pension schemes as defined contribution schemes (see note 16). The Company has also adopted FRS 23, 'The Effects of Changes in Foreign Exchange Rates', which has also had no impact on reported results.

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 are capitalised in the balance sheet as plant and equipment. Finance leases are capitalised at the fair value of 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 or 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 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 10 years

The carrying value of fixed assets are 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.

1 ACCOUNTING POLICIES (continued)

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 in any of the other categories. 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. Issue costs are amortised over the expected life of the instrument. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

From 1 January 2005 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.

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 is part of a multi-employer scheme that also incorporates other companies within the National Express Group. In line with FRS 17, the Company treats the scheme as if it were a defined contribution scheme and recognises charges as and when contributions are due to the scheme.

Share-based payments

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 issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant including market based performance conditions. Fair value is determined by an external valuer using the stochastic model. The fair value is then expensed on a straight line basis over the vesting period, based on the Company's estimate of the number of shares that will eventually vest. The amount charged to the profit and loss account is credited to reserves. Non-market based performance related vesting conditions are not taken into account when estimating the fair value; instead the vesting period is based on the Company's estimate of when those performance features will be achieved and is revised if facts and circumstances change.

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 their recovery is considered more likely than not in 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 except where forward cover has been arranged, in which case the forward rate is used. 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 or loss account, with the exception of differences arising on the translation of foreign currency equity investments, and on foreign currency borrowings and forward foreign currency contracts which are used to finance or provide a hedge against these investments. These are taken directly to reserves.

Derivative financial instruments

The Company followed the transitional provisions of FRS 26, and has not restated comparative figures in accordance with either FRS 26 or FRS 25.

The accounting policy after 1 January 2005 is as follows:

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.

Notes to the Accounts

1 ACCOUNTING POLICIES (continued)

Derivative financial instruments (continued)

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.

Forward currency contracts are used to hedge our 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 changes in value of the related assets.

For derivatives that do not qualify for hedge accounting, 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. At that date any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecast transaction occurs, or transferred to the profit and loss account if the forecast transaction is no longer expected to occur.

Prior to 1 January 2005 the accounting policy was:

Interest rate and fuel swaps

The Company uses interest rate swaps to hedge interest rate exposures and fuel swaps to hedge the Group's fuel price exposures. The Company considers that these derivative instruments qualify for hedge accounting when certain criteria are met. The Company's criteria for these swaps are that the instrument must be related to an asset, liability or future obligation and it must change the character of the interest rate or fuel price by converting a variable rate to a fixed rate or vice versa. These swaps are not revalued to fair value or included in the Company balance sheet at the period end.

Forward exchange contracts

The rates under foreign currency contracts are used to record the hedged item and as such gains and losses on the related financial assets and liabilities. Where the contract is a hedge against future transactions, gains and losses are deferred until the transaction occurs.

2 EXCHANGE RATES

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

	2005 Closing rate	2005 Average rate	2004 Closing rate	2004 Average rate
US dollar	**1.72**	**1.82**	1.92	1.84
Canadian dollar	**2.00**	**2.20**	2.31	2.38
Euro	**1.45**	**1.47**	n/a	n/a
Australian dollar	**2.35**	**2.39**	2.45	2.48

The 2005 average rate for Euros reflects the average rate since the Alsa acquisition.

3 DIRECTORS' EMOLUMENTS

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

4 TANGIBLE FIXED ASSETS

	Plant and equipment £m
Cost:	
At 1 January 2005	4.3
Additions	0.2
At 31 December 2005	**4.5**
Depreciation:	
At 1 January 2005	2.8
Charge for the year	0.5
At 31 December 2005	**3.3**
Net book value:	
At 31 December 2005	**1.2**
At 31 December 2004	1.5

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

Tangible fixed assets held under finance lease agreements are analysed as follows:	**2005 £m**	2004 £m
Plant and equipment		
– cost	**0.2**	0.2
– accumulated depreciation	**(0.1)**	(0.1)
	0.1	0.1

5 FIXED ASSET INVESTMENTS

Investments in subsidiaries

	£m
Cost or valuation:	
At 1 January 2005	924.9
Additions	632.9
At 31 December 2005	**1,557.8**
Provisions:	
At 1 January 2005	(413.4)
At 31 December 2005	**(413.4)**
Net carrying amount:	
At 31 December 2005	**1,144.4**
At 31 December 2004	511.5

The carrying value of the investments in subsidiary undertakings has been reviewed at 31 December 2005. The carrying value of investments was first considered at the income generating unit level and as a result a provision of £nil (2004: £63.0m) was made. This particular value in use was calculated using future expected cash flow projections, discounted at 7% on a pre tax basis, and is not intended to reflect a realisable value on disposal.

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 the SRA/ DfT Rail, as awarded by the UK Government.

5 FIXED ASSET INVESTMENTS (continued)

Investments in subsidiaries (continued)

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 Guernsey Limited	Insurance captive
National Express Group Holdings Limited	Holding company for US operating companies
National Express Overseas Limited	Holding company for discontinued Australian business
National Express Trains Limited	Holding company for UK Train operating companies
National Express Transport Holdings Limited	Holding company for UK Bus and Canadian operating companies

Incorporated in Spain	
Dabliu Consulting SLU	Holding company for European Coach and Bus (Alsa) operating companies
Turyexpres SA	Holding company for European Coach and Bus (Alsa) operating companies
General Tecnica Industrial SL	Holding company for European Coach and Bus (Alsa) operating companies

Available for sale investments

	£m
Cost or valuation:	
At 1 January 2005	12.8
Additions	–
At 31 December 2005	**12.8**
Provisions:	
At 1 January 2005	(5.8)
At 31 December 2005	**(5.8)**
Net carrying amount:	
At 31 December 2005	**7.0**
At 31 December 2004	7.0

The available for sale investments are shown at fair value in 2005 in order to comply with FRS 26. Such assets were recognised at book value in 2004. There is no difference in the fair value and book value of such assets.

Other investments include:

Name	County of registration	Class of share	Proportion held %
Inter-Capital and Regional Rail Limited	England and Wales	Ordinary shares	40
London & Continental Railways	England and Wales	Ordinary shares	21
Prepayment Cards Limited	England and Wales	Ordinary shares	23.5
Union Railways (South) Limited	England and Wales	Preference shares	21

6 FINANCIAL ASSETS AND LIABILITIES

Under the exemption available in FRS 26, the Company has not restated its results for the year ended 31 December 2004 for the effect of FRS 25 and FRS 26. Additional financial instruments have been recognised on the balance sheet from 1 January 2005 as below:

	At 31 December 2005 £m	At 31 Dec 2004 £m	At 1 Jan 2005* £m
Available for sale investments	**7.0**	–	7.0
Other investments	–	7.0	–
Financial instruments held as fixed assets	**7.0**	7.0	7.0
Foreign exchange forward contracts	–	–	14.9
Financial instruments held as current assets	–	–	14.9
Interest rate swaps	**(8.3)**	–	(7.6)
Financial instruments held as non-current liabilities	**(8.3)**	–	(7.6)
Interest rate swaps	**(4.1)**	–	(19.9)
Foreign exchange forward contracts	**(9.3)**	–	–
Financial instruments held as current liabilities	**(13.4)**	–	(19.9)

* £14.6m included in foreign exchange forward contracts at 1 January 2005 had previously been included in other receivables as at 31 December 2004, and £2.5m included in interest rate swaps (in current liabilities) had been included in accruals and deferred income at 31 December 2004.

7 DEBTORS

	2005 £m	2004 £m
Trade debtors	**0.3**	0.3
Amounts owed by subsidiary undertakings	**694.5**	396.2
Corporation tax recoverable	**4.6**	3.3
Deferred tax asset	**6.3**	–
Other receivables	**3.4**	14.9
Prepayments and accrued income	**6.2**	4.6
	715.3	419.3

Credit risk with respect to debtors is low due to the fact a large amount of the Company's balances are with subsidiary undertakings that it controls.

Included within prepayments is £0.7m (2004: £4.6m) which is recoverable after more than one year.

8 CASH AT BANK AND IN HAND

	2005 £m	2004 £m
Other short term deposits	–	3.4

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 matches the carrying value.

9 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2005 £m	2004 £m
Loan notes	–	0.1
Bank loans	**184.5**	8.0
Bank overdrafts	**49.1**	47.3
Trade creditors	**2.8**	0.2
Amounts owed to subsidiary undertakings	**698.1**	287.3
Finance lease obligations	**0.1**	0.1
Accruals and deferred income	**7.8**	5.5
Other creditors	**0.8**	3.2
	943.2	351.7

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 6 months.

Notes to the Accounts

10 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2005 £m	2004 £m
Bank loans	**410.0**	207.5

11 PROVISIONS FOR LIABILITIES AND CHARGES

	Insurance claims (a) £m	Deferred tax (b) £m	Total £m
At 1 January 2005*	0.4	0.3	0.7
Provided in the year	0.6	–	0.6
Utilised in the year	(0.3)	(0.3)	(0.6)
At 31 December 2005	**0.7**	**–**	**0.7**

* Restated for change in accounting policy (see note 1)

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

(b) See note 12 for further details on deferred tax.

12 DEFERRED TAX

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

	2005 £m	2004* £m
Accelerated capital allowances	–	–
Other timing differences	6.3	(0.3)
Tax effect of losses carried forward	–	–
Net deferred tax asset/(liability) at 31 December	**6.3**	(0.3)

* Restated for change in accounting policy (see note 1)

The reconciliation of deferred tax balances is as follows:

	£m
Deferred tax liability at 1 January 2005*	(0.3)
Prior year adjustment	2.1
Charged to profit and loss	(0.9)
Credited to equity in relation to cash flow hedges and share based payments	5.4
Deferred tax asset at 31 December 2005	**6.3**

* Restated for change in accounting policy (see note 1)

Temporary differences associated with group investments

No deferred tax (2004: £nil) is recognised on the unremitted earnings of overseas subsidiaries and associates. The Group has determined that undistributed profits of its overseas subsidiaries will not be distributed in the near future. In any case the temporary difference associated with group investments is £nil (2004: £nil) as a result of insufficient funds being available.

Unrecognised tax losses

There is no recognition of the deferred tax asset in relation to the capital losses since there is insufficient evidence to determine that they are recoverable. Deferred tax assets that the Company has not recognised in the accounts amount to £0.4m (2004: £0.4m).

13 INTEREST BEARING LOANS AND BORROWINGS

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

	Maturity	2005 £m	Effective Interest rate	2004 £m	Effective Interest rate
Current					
Bank overdraft	On demand	**49.1**	–	47.3	–
Sterling loan notes	On demand	**–**	–	0.1	LIBOR + 1.0%
Short term 5.2% Sterling bank loans	January 2006	**12.2**	5.2%	8.0	5.6%
Short term 4.8% US Dollar bank loans	January 2006	**0.3**	4.8%	–	–
Short term 2.9% Euro bank loans	January 2006	**0.2**	2.9%	–	–
Euro bank loans subject to interest hedge	October 2006	**137.4**	2.8%	–	–
Euro bank unhedged	October 2006	**34.4**	EURIBOR +0.35%	–	–
Bank loans		**184.5**		8.0	
Sterling 5.4% finance leases	2006	**0.1**	5.4%	0.1	5.2%
		233.7		55.5	
Non-current					
Sterling bank loans	November 2009	**9.4**	LIBOR + 0.40%	–	–
US Dollar bank loans subject to interest hedge	November 2009	**58.1**	7.3%	156.4	7.3%
US Dollar bank loans unhedged	November 2009	**104.6**	LIBOR + 0.40%	51.1	LIBOR + 0.35%
Euro bank loans at floating rates	November 2009	**202.9**	EURIBOR +0.40%	–	–
Canadian Dollar bank loans	November 2009	**35.0**	LIBOR + 0.40%	–	–
Bank loans		**410.0**		207.5	

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

For 2005, the Company has taken advantage of the exemption under FRS 25 for parent company accounts. For 2004 comparatives, the Company has taken advantage of the exemption under FRS 13, "Derivatives and Other Financial Instruments: Disclosure", for parent Company accounts. The disclosures are included in the Group accounts.

14 CALLED-UP SHARE CAPITAL

	2005 £m	2004 £m
At 31 December Authorised: 200,000,000 (2004: 146,650,000) ordinary shares of 5p each	**10.0**	7.3
Issued called-up and fully paid: 150,520,310 (2004: 139,153,158) ordinary shares of 5p each	**7.5**	7.0

Movement in ordinary shares during the year	£m	Number of shares
At 1 January 2004	6.8	136,850,910
Exercise of share options	–	509,656
TWM SIP appropriation	0.2	1,792,592
At 1 January 2005	7.0	139,153,158
Issue of shares in consideration for acquisition of Alsa	0.7	13,503,600
Exercise of share options	–	957,141
TWM SIP appropriation	–	206,411
Shares cancelled	(0.2)	(2,900,000)
At 31 December 2005	**7.5**	**150,920,310**

15 SHAREHOLDERS' FUNDS AND STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital £m	Share premium £m	Capital redemption reserve £m	Own shares £m	Hedging reserve £m	Profit and loss account £m	**Total £m**
At 31 December 2004 as previously reported	7.0	47.5	–	(5.1)	–	303.9	**353.3**
Prior year adjustment (note 1)	–	–	–	–	–	29.5	**29.5**
At 31 December 2004 as restated	7.0	47.5	–	(5.1)	–	333.4	**382.8**
Financial instruments recognition	–	–	–	–	(10.4)	(6.9)	**(17.3)**
At 1 January 2005	7.0	47.5	–	(5.1)	(10.4)	326.5	**365.5**
Shares issued	0.7	126.7	–	–	–	–	**127.4**
Shares purchased	(0.2)	–	0.2	(3.5)	–	(25.8)	**(29.3)**
Share based payments	–	–	–	–	–	0.8	**0.8**
Deferred tax on share based payments credited to reserves	–	–	–	–	–	1.5	**1.5**
Own shares released to satisfy employee share schemes	–	–	–	3.5	–	–	**3.5**
Hedge movements	–	–	–	–	3.3	–	**3.3**
Profit for the year	–	–	–	–	–	19.6	**19.6**
At 31 December 2005	**7.5**	**174.2**	**0.2**	**(5.1)**	**(7.1)**	**322.6**	**492.3**

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

During the year ended 31 December 2005 the Company has repurchased 3,300,000 shares for consideration of £29.3m. 2,900,000 shares have been cancelled, and the remaining 400,000 shares retained as treasury shares within equity for future issue under the Company's various share schemes or cancellation.

Own shares comprise 849,456 (2004: 1,743,544) ordinary shares in the Company that have been purchased by the Trustees of the National Express Employee Benefit Trust (the "Trust"). The shares are held to satisfy potential awards or options granted under a number of the Company's share schemes. The value of shares within the Trust has been recognised as an investment in treasury shares. The market value of these shares at 31 December 2005 was £7.3m (2004: £14.4m). The dividends payable on these shares have been waived.

The £17.3m restatement of reserves following the recognition of financial instruments arises from the change in accounting policy on adopting FRS 26.

The profit attributable to shareholders of the parent company was £61.2m (2004: £50.8m). The profit and loss reserve for the Company includes £12.2m (2004: £5.1m) that is non-distributable on account of own shares held and the hedging reserve.

16 RETIREMENT BENEFITS

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. Contributions to this scheme are determined by independent professionally qualified actuaries. The details of the latest actuarial valuation are detailed in note 36 to the Group accounts.

The pension charge for the year amounted to £1.1m (2004: £0.9m).

17 SHARE-BASED PAYMENTS

The charge in respect of share-based payment transactions included in the Company's profit and loss account for the year is as follows:

	2005 £m	2004* £m
Expense arising from share and share option plans	**0.8**	0.3

* Restated for change in accounting policy (see note 1)

During the year ended 31 December 2005, the Company had the following share based payment arrangements, which are described in note 7 to the Group accounts:

- Executive Share Option Plan
- Savings Related Share Option Scheme (Sharesave Scheme)
- Long Term Incentive Plan (LTIP)
- Share Matching Plan (SMP)
- Deferred Annual Share Bonus Plan

17 SHARE-BASED PAYMENTS (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:

	2005		2004	
	Number of share options	Weighted average exercise price (p)	Number of share options	Weighted average exercise price (p)
Options without a nil exercise price:				
At 1 January[1]	**1,879,335**	**573**	1,610,625	570
Granted during the year	**–**	**–**	472,837	681
Lapsed during the year	**(75,352)**	**583**	(202,450)	798
Exercised during the year	**(44,113)**	**520**	(1,677)	567
Outstanding at 31 December[1]	**1,759,870**	**574**	1,879,335	573
Exercisable at 31 December	**295,632**	**790**	331,926	765
Options with a nil exercise price:				
At 1 January	**9,352**	**nil**	–	–
Granted during the year	**455,009**	**nil**	9,352	nil
Lapsed during the year	**(2,024)**	**nil**	–	–
Outstanding at 31 December	**462,337**	**nil**	9,352	nil
Exercisable at 31 December	**–**	**–**	–	–
Total outstanding at 31 December	**2,222,207**		1,888,687	
Total exercisable at 31 December	**295,632**		331,926	

[1] Included within this balance are options over 629,339 (2004: 743,625) shares that have not been recognised in accordance with the transitional provisions of FRS 20 as the options were granted before 7 November 2002 and have not been subsequently modified.

The options outstanding at 31 December 2005 had exercise prices that were between 398p and 1224p (2004: between 398p and 1224p) excluding options with a nil exercise price. The range of exercise prices for options was as follows:

Exercise price (p)	2005	2004
350-650	**1,072,093**	1,186,965
650-950	**642,777**	647,370
950-1250	**45,000**	45,000
	1,759,870	1,879,335

The options have a weighted average contractual life of 7 years (2004: 8 years). Options were exercised throughout the year and the weighted average share price at exercise was 875p (2004: 654p).

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	
	2005	2004	2005	2004
Risk free interest rate	**–**	5.1%	**4.8%**	4.8%
Expected volatility	**–**	28.0%	**25.0%-27.0%**	29.0%
Expected option life in years	**–**	8 years	**3 years**	3 years
Expected dividend yield	**–**	3.9%	**3.3%-3.4%**	3.9%
Weighted average share price	**–**	697p	**888p-906p**	679p
Weighted average exercise price	**–**	681p	**0p**	0p
Weighted average fair value of options granted	**–**	149p	**561p-821p**	606p

Experience to date has shown that approximately 15% (2004: 15%) of options are exercised early, principally due to redundancies. This has been incorporated into the calculation of the expected option life for the share options without nil exercise price.

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

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

Notes to the Accounts

18 COMMITMENTS AND CONTINGENCIES

Operating lease commitments

The Company has entered into operating leases on certain properties. Commitments for future minimum rental payments are shown below:

	Land and buildings	
	2005 £m	2004 £m
Operating leases which expire:		
Within 2 to 5 years	0.6	–
Over five years	–	0.5
	0.6	0.5

Contingent liabilities

a) Guarantees

The Company has guaranteed credit facilities totalling £99.8m (2004: £91.0m) of certain subsidiaries.

b) Bonds and letters of credit

In the ordinary course of business, the Company is required to issue counter-indemnities in support of its subsidiaries' operations. As at 31 December 2005, there were UK Train performance bonds of £44.6m (2004: £38.5m) and UK Train season ticket bonds of £100.0m (2004: £90.3m). The Company has other performance bonds which include the £14.6m (2004: £14.2m) performance bond in respect of Inter-Capital and Regional Rail Limited and performance bonds in respect of businesses in the United States of America of £34.5m (2004: £39.3m). Letters of credit have been issued to support insurance retentions of £84.7m (2004: £72.7m).

19 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Full details of the Group's financial risk management objectives and policies can be found in note 31 of the Group accounts. As the holding company for the Group, the Company faces similar risks over foreign currency and interest rate movements.

20 RELATED PARTY TRANSACTIONS

The Company has taken advantage of the exemption under FRS 8, 'Related party disclosures', and as such disclosures are provided in the Group accounts.

Five Year Summary

Year ended 31 December	2005 £m	2004* £m	2003 £m	2002 £m	2001 £m
Revenue (IFRS)	**2,216.0**	2,354.5			
Turnover (UK GAAP)			2,565.7	2,572.3	2,464.2
Normalised** operating profit (IFRS)	**155.5**	143.3			
Normalised** operating profit (UK GAAP)			128.9	125.9	156.8
Group operating profit (IFRS)	**109.5**	99.9			
Group operating profit (UK GAAP)			83.2	67.2	32.1
Profit before tax (IFRS)	**89.3**	77.9			
Profit before tax (UK GAAP)			54.1	(85.6)	115.5
Statistics					
Basic (loss)/earnings per share (IFRS)	**(2.0)p**	45.7p			
Basic earnings/(loss) per share (UK GAAP)			31.9p	(80.0)p	88.4p
Normalised** diluted earnings per share (IFRS)	**76.3p**	69.3p			
Normalised** diluted earnings per share (UK GAAP)†			50.1p	52.3p	55.2p
Dividends per share	**32.25p**	30.0p	26.0p	24.5p	22.0p
Net assets (IFRS)	**312.3**	266.8			
Net assets (UK GAAP)			264.2	262.6	402.1
Net (debt)/funds					
Cash at bank and in hand	**145.5**	147.2	97.0	93.7	92.3
Other debt receivable	**1.0**	1.0	–	–	–
Loan notes	**(0.8)**	(7.5)	(8.4)	(9.1)	(10.0)
Bank and other loans	**(594.5)**	(215.5)	(324.4)	(361.2)	(359.7)
Bank overdrafts	**(5.5)**	–	(0.2)	–	(0.5)
Finance lease obligations	**(109.1)**	(61.8)	(53.1)	(58.0)	(37.1)
	(563.4)	(136.6)	(289.1)	(334.6)	(315.0)
Net gearing	**180%**	51%	109%	127%	78%

* Restated for the transition to IFRS

**Normalised results are defined as the statutory results before the following as appropriate: profit or loss on sale of businesses and charges for goodwill impairment, intangible amortisation, property, plant and equipment impairments, profit or loss on disposal of non-current assets, exceptional items and tax relief on qualifying exceptional items.

† Normalised diluted earnings per share figures have been restated to exclude earnings from discontinued operations.

Shareholder Information

REGISTRAR

For information about your shareholding or dividends and to report a change of address, you should contact the Registrar at: Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DA. Shareholder helpline number: 0870 601 5366

DIVIDENDS PAID DIRECT TO YOUR BANK ACCOUNT

Having dividends paid direct to your bank account avoids the risk of cheques being lost in the post and saves you time in presenting the cheque for payment. The dividend is credited to your account on the payment date and the tax voucher is sent to your registered address at the same time. To set up a new dividend mandate please contact Lloyds TSB Registrars as above.

SHAREHOLDER ELECTRONIC COMMUNICATIONS

Log on to www.shareview.co.uk if you would like to:

- check the balance of your shareholding
- register your e-mail so that future shareholder information, including the annual report and accounts, are sent to you electronically; or
- submit your vote on-line prior to a general meeting.

To sign up for the first time you should click on "Register now" and follow the simple instructions – you will need your shareholder reference number from your share certificate or dividend voucher.

COMPANY WEBSITE

The company website at www.nationalexpressgroup.com has information about the Group, press releases, share price data and copies of the interim and Annual Report and Accounts.

SHARE DEALING SERVICE

A telephone and internet share dealing service, which provides a simple way to buy and sell shares, has been arranged through Lloyds TSB Registrars. For further information log on to www.shareview.co.uk or telephone 0870 850 0852.

SHAREGIFT

ShareGift is an independent charity share donation scheme administered by the Orr Mackintosh Foundation (registered charity number 1052686). Those shareholders who hold only a small number of shares, the value of which make it uneconomic to sell them, can donate the shares to ShareGift who will sell them and donate the proceeds to a wide range of charities. Further information about ShareGift can be obtained from its website at www.sharegift.org and a ShareGift transfer form can be downloaded from www.nationalexpressgroup.com.

UNCLAIMED ASSETS REGISTER

The Company participates in the Unclaimed Assets Register ("UAR") which provides a search facility for shareholdings and other financial assets that may have been forgotten. For further information contact UAR, Bain House, 16 Connaught Place, London W2 2ES Tel: 0870 241 1713 or visit www.uar.co.uk.

ANALYSIS OF ORDINARY SHAREHOLDINGS AT 7 MARCH 2006

	Number of accounts	Per cent of total number of accounts	Number of shares '000	Per cent of ordinary capital
By size of holding				
1 – 500	8,562	56	1,623	1
501 – 1,000	2,165	14	1,626	1
1,001 – 5,000	3,233	21	7,332	5
5,001 – 50,000	1,271	8	13,420	9
50,001 – 1,000,000	176	1	39,786	26
Over 1,000,000	30	–	87,366	58
	15,437	100	151,153	100

	Number of accounts	Per cent of total number of accounts	Number of shares '000	Per cent of ordinary capital
By investor type				
Individuals	14,377	13	19,218	13
Institutional Investors	960	76	115,065	76
Other Corporate Investors	100	11	16,870	11
	15,437	100	151,153	100

Dividends and Financial Calendar

Final dividend ex dividend date	26 April 2006
Final dividend record date	28 April 2006
Annual General Meeting	24 May 2006
Final dividend payment date	26 May 2006
Interim results announced	September 2006
Interim dividend ex dividend date	October 2006
Interim dividend record date	October 2006
Interim dividend payment date	October 2006

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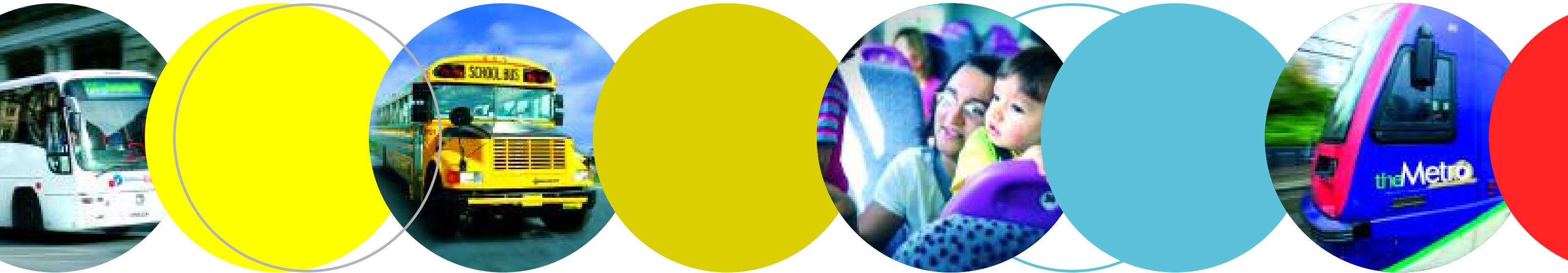

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