Press release

Thursday 26 February 2009

National Express Group PLC

Full Year Results for the year ended 31 December 2008

National Express Group PLC, a leading international public transport group, operates bus, coach and rail services in the UK, bus and coach operations in Spain and school bus services in North America.

Headlines

In 2008 we delivered strong revenue and profit growth, despite an increasingly challenging economic environment as the year progressed. Total Group revenue grew 5.9% to almost £2.8 billion. We increased normalised* profit before tax by 9.7% to £194.1 million. 2009 will present significant challenges; however, we have robust plans to manage these.

Financial Results

- Continuing revenue up 5.9% to £2,767.0 million (2007: £2,612.3m)
- Normalised operating margin improved to 9.2% (2007: 8.1%), excluding discontinued operations
- Normalised profit before tax up 9.7% to £194.1 million (2007: £177.0m)
- Normalised diluted earnings per share up 11.6% to 93.6 pence (2007: 83.9p)
- Profit for the year £119.7 million (2007: £105.6m)
- Operating cash flow** £152.3 million (2007: £200.9m)
- Total dividend per share for the year 22.72 pence (2007: 37.96p)

Operational Performance

- Strong performance in delivery of Rail franchises in 2008, including meeting all first year commitments for East Coast
- Robust growth in UK bus and coach, with enhanced efficiencies and cost savings from integration
- Excellent customer retention in North America bus, supported by $38 million new contracts; steady progress in Business Transformation project with pilot now in two US states
- In Spain, full benefit of Continental Auto integration, delivering over 40% profit growth in local currency

Outlook

- Rail business expected to remain profitable in 2009, despite recessionary environment, through delivery of revenue and cost initiatives in East Coast and revenue support in East Anglia
- North America and UK bus benefitting from lower economic sensitivity, combined with ability to manage service and cost base in Spain and UK coach
- Strong focus on cash management and debt reduction, supplemented by rebased dividend, to deliver additional cash benefit in excess of £100m in 2009

Commenting on the results, Group Chief Executive, Richard Bowker said:

“We delivered strong revenue and profit growth in 2008, despite an increasingly challenging economic environment as the year progressed.

“The transport industry is not immune from wider economic conditions and we are taking the appropriate actions to ensure that National Express comes through the current recession resiliently. We have made cash management and the strengthening of our balance sheet our priority.

“While much of our business is less sensitive to economic recession, the rail industry faces challenging conditions, given the large number of rail franchises that were agreed in a very different economic climate. Constructive discussions are ongoing with Government on a wide range of issues relating to the outlook for UK rail. Notwithstanding this, we have plans in place to reduce costs in order to deliver a profitable rail business.

“As part of our programme to reduce borrowings, the Board has decided to reduce the full year dividend to 22.72 pence per share, recommending a final dividend of 10 pence per share, which is expected to save over £30 million compared to last year and is sustainable for the future. We will continue to review other opportunities to strengthen our financial position.”

* Normalised results are the statutory results excluding the profit or loss on the sale of business, exceptional profit or loss on sale of non-current assets and charges for goodwill impairment, intangible asset amortisation, exceptional items and tax relief on qualifying exceptional items.

** Operating cash flow as defined in the Operating and Financial Review.

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- There will be an analyst and investor meeting at 0900 hours on 26 February 2009 at the King Edward Hall, Merrill Lynch, 2 King Edward Street, London, EC1A 1HQ.

- A webcast of the analyst presentation will be broadcast on our website www.nationalexpressgroup.com at 0900 on 26 February 2009.

OPERATING AND FINANCIAL REVIEW

Overview of 2008

In 2008 we delivered strong revenue and profit growth, despite an increasingly challenging economic environment as the year progressed. Total Group revenue grew 5.9% to almost £2.8 billion. We increased normalised profit before tax by 11.3% to £202.4 million (before discontinued operations).

In its first full year as part of the Group, National Express East Coast met all its franchise commitments, saw revenue growth of 9% and passenger growth from 18.1 million to 18.7 million. In East Anglia, we achieved passenger revenue growth of 6%, while profit is now underpinned by revenue support.

We integrated our UK Bus and Coach businesses at the start of the year, yielding benefits from merging back office functions and sharing operational expertise. New bus partnerships are delivering a sustainable, defensible business in the recessionary environment.

In North America, our Business Transformation project maintained momentum with the opening of our central operations centre and delivery of new technology in pilot stage across the first two US states. This will deliver sustainable competitive advantage in the industry.

The integration of Continental Auto in Spain continued through 2008, with the acquisition growing total revenue year on year, in local currency, by 40%. As the country's leading bus and coach operator, we have scale, long term concession contracts and new outsource opportunities to help offset the economic environment.

The global economy continues to face considerable uncertainty and we are not immune to the impacts of recession. Recognising these challenges, in the fourth quarter we announced plans to reduce headcount in the UK by 750, reducing our cost base by at least £15 million annually. In Spain, we have flexibility to reduce costs and services to reflect demand weakness on some routes.

With the onset of the 'credit crunch', we are focused on maximising cash generation from our naturally strong businesses. With the first Group debt facilities not maturing until September 2010, lower investment requirements and working capital reduction initiatives are planned to reduce net debt in 2009. In addition, despite strong earnings cover, it is also appropriate to rebase the dividend to conserve cash resources; the full year 2008 dividend is proposed to reduce to 22.72 pence per share, saving over £30 million in 2009. These initiatives should generate over £100 million of incremental cash in 2009.

Outlook for 2009

While the future holds many challenges, we are taking the appropriate steps to ensure that National Express comes through the current recession resiliently. We have made cash management and the strengthening of our balance sheet our priority, benefitting from our significant recent investment.

Our strength is our portfolio of transport businesses – robust revenues in less economically sensitive Bus markets in North America and the UK, flexibility to manage costs and services in Coach across the UK and Spain, and government revenue support in Rail in our East Anglia franchise.

The East Coast rail franchise is undoubtedly exposed to recessionary impact, with a high fixed cost base and no revenue underpin until 2011. We are committed to sustainable delivery of the franchise, enhancing service and building on a highly successful first year. We have engaged with government to explore ways to offset the impact of lower growth, whilst delivering value through the franchise premia, given that this, like many other franchises, was constructed in very different economic conditions. Alongside this, we have also developed our own 'self-help' cost reduction plans which will be implemented to reflect the difficult economic conditions. We expect financial performance in Rail to weaken in 2009 but to remain profitable, after taking account of our cost reduction plans, with a resilient performance from our other, less economically sensitive businesses.

Despite the challenges of 2008, we delivered a strong operating performance. We are focused on delivering a resilient performance in 2009, through robust cost management and revenue optimisation, built on a stronger financial platform. As people become more selective in how they spend their money, they will turn to those suppliers they know and trust to provide the best value for money. Thanks to our outstanding track record in delivery, constantly improving service levels and a well-deserved reputation for competitive pricing, we will ensure that National Express is well placed to benefit from this continuing trend.

STRATEGY REVIEW

Managing our financial platform

2008 saw unprecedented turmoil and disruption in global financial markets. Availability of debt funding to businesses for new investment and refinancing became severely curtailed and most companies are now looking to their own ‘self help’ opportunities to deliver cash.

Given this challenging economic and funding environment for 2009, we have placed increased emphasis on ensuring a stable financial platform for the Group. We have an above average debt level in our sector, following successful completion of our recent acquisition and extensive investment programme. We now have evolved a financial plan to deliver:

- Strong cash management, to reduce the Group’s debt;
- A stronger balance sheet and appropriate capital structure.

Delivering strong cash management

National Express’ businesses have strong cash generative qualities. These are reflected in the significant degree of cash-based revenue (for example, in European bus, coach and rail) and quasi-government-backed contracts (for example, in Spanish coach and North American school bus). In addition, following a sustained period of investment and acquisition, a much more limited investment programme is required over the next 12 to 18 months. A review of working capital has identified a series of initiatives which are targeted to deliver significant improvements during 2009.

With banks around the world severely curtailing debt availability, the Group has also taken action to ensure that it has access to sufficient liquidity. Our treasury management process has significantly improved cash management, utilising a group-wide weekly control process. In addition, the Group has realigned its currency debt structure to reflect falling interest rates and currency weakness, moving debt out of a US dollar/Euro drawing structure into a Sterling/Euro structure that matches the Group’s facility currencies and reduces volatility. As a result of these actions, the Group maintained £144m of unused committed facilities at the end of 2008.

A stronger balance sheet and appropriate capital structure

The increased focus on cash management across the Group should help deliver strong free cash flow generation and reduce net debt. June 2009 will see the Group’s banking covenants returning to their normal level with a debt gearing ratio of 3.5 times EBITDA (following a relaxation for the first three half year period end tests after the Continental Auto acquisition in November 2007). The Group is confident that it will achieve these covenants.

Twelve months ago, the Board set a policy to increase dividends by 10% per annum for three years. Since then, global economic and financial conditions have changed substantially. Despite continued strong earnings cover, the current level of dividend places a significant cash drain on the Group at a time when it is more appropriate to conserve cash resources. The Board is therefore proposing to reduce the full year dividend for 2008 by 40% from the 2007 level. As a result, a rebased final dividend of 10.00 pence per share will be paid in July 2009, following the half year dividend of 12.72 pence per share paid in September 2008.

Given the cash generative nature and strong earnings potential of the Group, it is expected to resume a progressive dividend policy once the economic outlook is clearer and the Group has refinanced its core banking facilities. Meanwhile, the Group will continue to keep its funding strategy under review.

The Group’s debt funding policy is to remain investment grade equivalent, since this maximises access to a wide variety of debt markets. This is supported by good cash generation, operations in defensive business sectors and stable banking relationships. The Group’s primary committed debt facilities are in place until September 2010 and June 2011.

Strategic update

In 2007 National Express put in place a three part strategy for growth. We set out to:

- Reorient the Group around a more customer-driven, branded proposition
- Invest in the future to develop innovative products and services in markets in which we operate to enable us to grow organically; and
- Acquire or develop businesses in new markets where we can create value

For much of 2008, favourable conditions prevailed as we put our ideas into practice. The real test of any strategy is its relevance when trading conditions are less than favourable. By late 2008, when the global slowdown began to have an impact on the transport sector, our strategy remained effective. Whilst we have naturally reassessed priorities in preparing for the year ahead, our strategy can remain essentially unchanged.

We have set out our customer promise to Make Travel Simpler. In doing so, we are making public transport a more appealing alternative, which helps to achieve a wider social objective: the reduction of the emissions that are accelerating climate change. Some commentators might argue that in times of financial insecurity, people care less about issues such as global warming and more about personal expenditure. In our business, we can deliver on both fronts.

National Express's product – public transport – is a cleaner option than the private car. For example, a typical coach is over four times more efficient than the average car with average loadings. Our trains are over three times more efficient. Environmental advantage, combined with the special offers that make coach, bus and rail travel easier on the purse as well as the conscience, makes our business model even more compelling in these difficult times.

A stronger, customer-driven brand

To serve our customers better, we have to know them better. That way we can build the sort of relationship that defines a strong and more profitable brand. That is why in 2008 we made customer relationship management (CRM) a vital part of our overall marketing strategy.

Our CRM database now holds over five million existing and potential customers. In 2008 we generated over £11 million in genuinely incremental revenue that we would not have had before. In 2009, as economic conditions become more challenging, we are better able than ever to understand our customers' needs and offer them products they really want to buy.

Just as we are getting to know our customers better, they are becoming more familiar with us as a leading provider of public transport. Thanks in part to coordinated advertising campaigns, the positive awareness of the National Express brand grew significantly in 2008.

In 2008 we made progress in forging a single company in the UK. More than ever, we are moving out of traditional silos and working as a multi-modal operator. 2009 will see concerted efforts to share skills and experience and deliver synergies throughout our businesses. Smart cards provide a good example.

In January 2008 we became the first rail operating company to introduce the pre-pay Oyster card, where it has been a success on our c2c commuter business serving London. Using that experience, we are working closely in partnership with Centro in the West Midlands to create a region-wide smart card. Ultimately, as a diversified public transport provider, we want our customers to have access to the newest, most flexible and cost effective technology. E Tickets and M Tickets, where the ticket can be sent simply as a text message to a mobile phone, are becoming more commonplace. National Express has been a pioneer and will continue to be at the forefront of rolling out this kind of innovative technology; it is a technology that will have benefits in the UK, Spain and North America, indeed anywhere we operate in the future.

Presenting a united UK brand makes National Express a more attractive and prestigious partner. Links with major venues such as Wembley Stadium (where we are the official travel provider) and media partnerships give us access to new and different audiences. For example, by offering tickets from £1 to *Daily Mirror* readers, we generated over 91,000 email signups – 80% from new customers who had never used National Express coaches before. During the promotion period alone we had 14,000 bookings. Now we are building on the customer relationships we gained and looking to embark on new partnerships consistent with our business ethos.

Investing in our future

As a company confident in the future of public transport – and our leading role – we continued a programme of organic growth in 2008. While reaping the benefit of past investments, we also began new programmes to improve our levels of service and profitability.
On the East Coast rail franchise, for instance, we made a huge commitment in time, effort and resources to improve operational performance and enhance customer communications on those occasions when things do go wrong. Such events are becoming increasingly rare. East Coast is operating at its highest level of reliability since privatisation.

Equally important were significant improvements in station quality and ticketing convenience and efficiency. An award-winning new website launched in 2008 now generates almost 20% of all sales, and, in 2008, Durham station won the coveted Station of the Year award, following the completion of our refurbishment project.

National Express also pursued organic growth in coach and bus operations in 2008. During the year we continued to grow our events business – including music festivals, one-off concerts and sports fixtures. In 2008 National Express took 40,000 customers to and from events at Wembley Stadium. There are many more examples where our unrivalled skills in major event transport logistics have made us the Number One choice for a wide range of clients.

Our Spanish operation, ALSA, was a centre of innovative ideas for growth in 2008. Coming from a rich heritage of outstanding operational delivery, ALSA has redefined the customer experience in Spain on public transport with new ticketing products and a new Supra Class luxury service aimed at business travellers. This market continues to have enormous potential.

We have also seen considerable growth in North America, where we have expanded school bus operations into two new US states, bringing our total to 29 plus two provinces in Canada. Securing nine new contracts, worth a total of $38 million a year, gives some indication of the potential of the North American market, which is expanding due to pressure on local school districts to outsource their transport operations. Significantly, five out of the nine new contracts involved new outsourcing business.

As our North American business gets bigger, it is also becoming more efficient. In 2008 we went live with an integrated Enterprise Resource Planning system (ERP), which is streamlining business processes, and we opened a central operations control centre, the 'Every Time Center', in Illinois. Some of the technology involved, in particular the digital communications links between the control centre and drivers, could have wider potential within the Group. For now, it is making our North American operations even more customer-friendly and competitive.

Not everything in 2008 was as successful as we had hoped. Our Dot2Dot airport transfer service in the UK was an exciting innovation and a potentially significant new business line for the Group. However, with the economic downturn having a serious impact on air travel, the business has remained loss-making and in January 2009 we sold Dot2Dot as a going concern.

Developments in Coach have seen successes, such as our Cheltenham-London premier coach link. This high quality service introduced a new range of customers to the comfort and convenience of coach travel – a concept consistent with UK government objectives to widen the appeal of this more sustainable transport mode. Government is considering afresh the opportunities that coach services could offer and National Express, as a leading member of the Confederation of Passenger Transport, will be working hard to explain the benefits of this highly flexible, cost effective and environmentally friendly form of transport.

As we continue to build our business, in February 2009 we submitted our proposal to operate the UK rail South Central franchise.

Adding value through acquisitions

In 2007, we acquired Spain's second largest bus and coach operator, Continental Auto. In 2008, we achieved our objective of integrating Continental into ALSA, confirming our role as Spain's premier operator in the sector.

Our Spanish leadership team rose to the challenge of combining the best of the two companies' cultures. Now, we are benefiting from increased scale, better purchasing power, reduced costs, greater flexibility and enhanced efficiencies. In a market that is set to be transformed by future liberalisation, all of this gives us greater credibility with government and stronger appeal to those towns and cities considering the outsourcing of their transport activities. In 2008, we further strengthened our position in Spanish local transport with the acquisition of Transportes Colectivos SA (TCSA), which provides high quality services in the Bilbao metropolitan area.

We also expanded our US school bus operations with the purchase of two private school bus operations, including A&E Transport Services in upstate New York. This was a bolt-on acquisition, adjacent to existing business, and so providing immediate synergies. Our enlarged capabilities put us in a better position to pick up new outsourcing opportunities as they arise in the near future.

In the UK, our 2007 acquisition, the Kent-based Kings Ferry commuter service, had an excellent year. The commuter coach business saw strong year end season ticket renewals, reinforcing our belief that in times of economic challenge, consumers will look to better value alternatives, something we are well positioned to offer.

PERFORMANCE REVIEW

Overview

The clear strategy established in 2007 has enabled National Express to deliver a more customer-driven, branded proposition, grow organically through new products and services for our customers, and to integrate and bolt-on further acquisitions and franchises across our businesses.

As a result, 2008 has been a year of strong revenue and profit growth. In the UK, a new integrated structure enabled delivery of marketing and cost synergies. It was a year of significant change for our rail business which saw increased profitability, with the effective management of franchises exited during 2007 and 2008, and the successful roll out of our East Coast intercity franchise, which we took over in December 2007. The coach business enjoyed robust growth on the key cross country services, whilst the stand-alone loss-making Dot2Dot airport shuttle business was sold in January 2009. The bus business has now successfully delivered three partnerships within our flagship West Midlands operation and new routes won in London will be supported by the opening of a new depot in 2009.

In Spain, the Continental Auto business was successfully integrated, following its acquisition in late 2007. Synergy benefits have been realised and different cultures blended to establish clear leadership in the local bus and coach market.

North America saw a successful bid season and operational start up to the new school year. The piloting of new bus technology within ten per cent of operations was successfully trialled, part of our ‘Business Transformation’ project which will deliver significant cost efficiencies and competitive advantage from 2010. However, in 2009 we will also be improving cost performance which has adversely impacted profitability.

In 2008, the Group delivered a 5.9% total revenue increase. Normalised profit from operations was £253.9 million (2007: £210.4m), reflecting excellent UK profitability and the benefits of acquisition in Spain. Normalised profit before tax was £202.4 million (2007: £181.8m), delivering our expectations. In addition, we reported a normalised loss before tax of £8.3 million (2007: £4.8m loss) on our discontinued operation, Dot2Dot.

Despite delivering a strong profit performance, 2008 saw an increasingly challenging environment develop as the year progressed. Until September, organic revenue growth was robust across most markets. However, through the fourth quarter, there was a marked slowing in growth, particularly in the East Coast rail and Spanish coach businesses. This was coupled with increased financial stress in global credit markets.

Against this backdrop, the Group has been pro-active in managing its bank facilities. The Group successfully extended both the value and maturity of its Euro acquisition facility during 2008, which had been put in place to finance the acquisition of Continental Auto in 2007. As a result, the first maturity of the Group’s principal financing facilities is not until September 2010. In addition to this, the Group has placed an increased focus on cash and debt management in 2009.

Dividend

Given the benefits of reducing debt and conserving cash in difficult global debt markets, the Board is recommending a total dividend in respect of 2008 of 22.72 pence per share (2007: 37.96p), a reduction of 40%. This represents normalised earnings per share (EPS) cover of 4.1 times (2007: 2.2 times).

Subject to shareholder approval, a final dividend of 10.00 pence per share (2007: 26.40p) will be payable on 3 July 2009 to shareholders on the register on 19 June 2009.

Current trading and outlook

2009 has seen recession hit the global economy with full force. The Group's exposure to more defensive public transport markets is expected to offer considerable protection to National Express, and translation of overseas profits is expected to benefit from the weakness in Sterling. Both North American school bus and UK local bus markets have continued to benefit from steady revenue growth in these less economically sensitive markets. There have been signs of some limited revenue decline in both UK coach and Spanish long distance markets, reflecting lower consumer discretionary spend; however, the value-orientated nature of these businesses and schedule flexibility are expected to provide a degree of mitigation.

The UK rail industry has seen growth slow markedly. For National Express, revenue support should mitigate the majority of any impact on East Anglia. Constructive discussions are ongoing with Government on a wide range of issues relating to the outlook for UK Rail. However, we have also developed our cost reduction plans which will need to be implemented to reflect the difficult economic conditions.

The Group has a robust plan in place to reduce debt through careful investment and strong cash management which is expected to deliver over £100 million of benefit in 2009, over and above normal cash generation. Significant cost reduction programmes are underway across all businesses to protect profitability, supported by falling inflation resulting in lower cost increases, although 2009 will see the adverse impact of higher hedged fuel costs before expected relief in 2010.

Although visibility in the current market is limited, and whilst not immune to the difficult economic conditions, by focusing on self help management measures, the Group is meeting a challenging economic period with clear objectives and a robust plan. We expect financial performance in Rail to weaken in 2009 but to remain profitable, after taking account of our cost reduction plans, with a resilient performance from our other, less economically sensitive businesses.

Key performance indicators

In 2008, National Express has delivered good results against four of its six financial key performance indicators (KPIs – note that non-financial KPIs are included in the separate Corporate Responsibility Report which is published online later in the year).

KPI	2008	2007 (Restated)
Revenue growth	5.9%	3.6%
Continuing normalised profit from operations	£253.9m	£210.4m
Continuing normalised profit before tax	£202.4m	£181.8m
Normalised diluted earnings per share	93.6p	83.9p
Operating cash generation	£152.3m	£200.9m
Debt gearing ratio	3.5x	3.4x

Revenue

Group revenue grew by 5.9% to £2,767.0 million (2007: £2,612.3m). All but one of the Group's divisions saw growth, with only rail declining due to the exit of a number of franchises in 2007 and 2008, partially offset by a full year operation of the East Coast franchise.

Like for like revenue growth in the UK bus and express coach business was robust at 5% for each of bus and coach, with bus benefitting from new routes in London and coach enjoying strong cross-country growth. Airport coach routes were adversely impacted by reduced activity by 'no frills' airlines. Like for like revenue growth in rail was 7%, with East Coast growing double digit through most of the year, before some slowing in the fourth quarter, whilst East Anglia and c2c saw good growth across the year.

Bus and coach operations in Spain saw like for like growth of 5% in local currency, benefitting from good urban and long distance performance, whilst total revenue grew by 40% in local currency with a full year from the Continental Auto acquisition. North America revenue was up 8% in local currency, with a steady income stream from longer term school board contracts supported by a successful bid season.

Profit from operations

In 2008, the Group improved its performance in each of its four key profit measures (measured on a normalised basis, which the Board feels reflects the performance of the business more appropriately). Normalised profit from operations increased 20.7% to £253.9million (2007: £210.4m), stated before a loss on the Dot2Dot discontinued operation of £8.3million (2007: £4.8m loss). Group normalised operating margin for continuing operations increased by over one percentage point to 9.2% (2007: 8.1%). Total UK profitability rose by 10.1%, benefitting from increased profits in rail, with a successful first year for the East Coast franchise, together with the contribution of the Gatwick Express franchise until its exit in June and the resolution of significant outstanding commercial claims in former operations, which will not recur in 2009. The UK coach business broadly maintained profitability. Bus profitability reduced slightly as fuel costs impacted adversely; however, this remains a robust business for the Group.

Spain increased its profit from operations by 64% in sterling terms, primarily driven by the integration of the Continental Auto acquisition with our strong performing ALSA business. North America sterling profitability declined by 14%, as higher operating costs, driven by driver wages and double-running costs during the Business Transformation project, more than offset a currency translation benefit.

Profit before tax

As expected, normalised net interest expense increased to £51.5 million (2007: £29.0m), reflecting the additional debt arising from the Spanish acquisition in late 2007. During the fourth quarter of 2008, the Group also moved much of its dollar and Euro debt into sterling; however, falling sterling interest rates helped offset the resultant adverse impact on interest.

Normalised profit before tax increased 11.3% to £202.4million (2007: £181.8m), before discontinued operations, in line with the Group's expectations and completing a strong year for National Express. The effective tax rate on normalised profits was 25.8% (2007: 27.2%), giving a normalised tax charge of £52.3 million (2007: £49.5m). Normalised profit for the year was £150.1 million (2007: £132.3m) for continuing operations.

Continuing exceptional items totalled £30.9 million (2007: £15.8m). These costs principally related to the North America Business Transformation project (£11.1m), for non-recurring costs involved in the implementation of the project but not of a capital nature, and UK rationalisation and redundancy costs (£17.2m), associated with the integration of the UK businesses and East Coast franchise mobilisation in early 2008, together with a rationalisation programme announced in the fourth quarter of 2008 which will reduce headcount by 750. Some of the cost for the latter programme will be charged in 2009. A profit on disposal of operations of £5.1 million (2007: £16.2m) largely related to the sale of a Portuguese transport business by ALSA.

Amortisation of £55.2 million (2007: £32.9m) was charged on intangible assets, relating to contracts, software and similar assets acquired in Spain £48.7 million (2007: £25.6m), North America £4.7 million (2007: £5.1m), UK Bus £0.5 million (2007: £1.1m), UK Rail £1.0million (2007: £1.1m) and UK Coach £0.3million (2007: nil).

Exceptional finance costs represented a charge of £11.5 million (2007: £nil) for losses on interest rate hedges no longer required, following a change in the Group's debt strategy.

The taxation credit on exceptional items, disposal and amortisation was £75.5m (2007: £12.1m credit). This includes tax credits on exceptional items and intangible asset amortisation, together with recognition of significant tax benefits arising from the integration of Continental Auto with ALSA.

Including discontinued operations, the Group profit attributable to shareholders was £118.8m (2007: £105.1m).

Earnings per share

Net of a loss on discontinued operations, normalised diluted earnings per share were 93.6 pence (2007: 83.9p).

Cash management

The Group's businesses are naturally cash generative. However, normalised operating cash flow in 2008 was 24% lower at £152.3 million (2007: £200.9m). This represented a 60% (2007: 95%) conversion of profit from operations, due to significant capital investment, particularly in North America, and an adverse movement in working capital, particularly related to the new rail franchise secured at the end of 2007.

	2008	**2007**
Operating cash flow	**£m**	**£m**
Normalised profit from operations	253.9	210.4
Depreciation	96.0	79.6
Grant amortisation, profit on disposal & share-based payments	0.5	(2.4)
EBITDA	**350.4**	**287.6**
Net capital expenditure	(114.8)	(103.0)
Working capital movement	(83.3)	16.3
Operating cash flow	**152.3**	**200.9**

EBITDA for the Group rose to £350.4 million (2007: £287.6m). Net capital expenditure was £114.8 million (2007: £103.0m), including £8.2 million invested in intangible assets. This included £59.8 million in North America, in school bus fleet to service new and existing contracts, and in IT systems and bus equipment for the Business Transformation project, which saw the opening of the 'Every Time Center' in Illinois, to manage future bus operations and the 'go live' of a new Enterprise Resource Planning (ERP) system. UK investment reduced to £28.0 million, primarily focused on developing the new Digbeth coach station in Birmingham and franchise capital projects for the East Cost rail franchise. Spain invested £26.5 million, primarily in new coach fleet.

Working capital increased by £83.3 million (2007: £16.3m decrease). The UK increased working capital by £48.8 million, reflecting the impact of the East Coast franchise after an inflow on take on in 2007, and North America by £9.1 million, due to new contract receivables and delays in collections during commissioning of the new ERP system. Spain decreased working capital by £2.7 million, whilst the corporate centre saw a £28.1 million outflow due to foreign currency swap settlements.

The resultant free cash flow (being the cash available to service equity dividends, acquisitions and disposals, before foreign currency translation) was £47.4 million (2007: £113.5m). This included cash outflow on exceptional items of £27.9million (2007: £11.3m) and net interest payments of £50.7 million (2007: £23.4m). Cash taxation payments were significantly lower at £5.0 million (2007: £18.8m), benefitting from tax relief on goodwill amortisation in Spain and project spend in North America. The cash tax payment is expected to remain below the income statement charge in 2009 as well. After dividend payments of £59.6 million (2007: £53.9m), which reflected a 10% increase year on year, and acquisitions net of disposals of £17.5 million (2007: £482.1m), net funds outflow for the Group was £31.0 million (2007: £417.0m outflow).

	2008	2007
Net funds flow	**£m**	**£m**
Operating cash flow	152.3	200.9
Discontinued operations	(10.5)	(4.2)
UK rail franchise entry & exit	(2.0)	(31.9)
Exceptional cash flow	(27.9)	(11.3)
Payments to associates	(8.4)	(8.4)
Receipt in respect of investments	-	10.7
Net interest	(50.7)	(23.4)
Dividends paid to minority interests	(0.4)	(0.1)
Taxation	(5.0)	(18.8)
Free cash flow	**47.4**	**113.5**
Financial investments & shares	(1.3)	5.5
Acquisitions & disposals	(17.5)	(482.1)
Dividends	(59.6)	(53.9)
Net funds flow	**(31.0)**	**(417.0)**

Debt

The dramatic weakening of sterling against both the US dollar and the Euro in the latter part of 2008 resulted in an adverse foreign exchange movement on net debt of £238.0 million (2007: £55.4m adverse). Prior to year end, the Group's currency debt strategy was changed to hold debt in line with the currencies of the Group's debt facilities, which significantly reduces debt exposure to currency movements, in particular, the US dollar.

Net debt increased by £269.0 million (2007: £472.4m) to £1,179.8 million (2007: £910.8m). The Group's principal ratios for debt financing purposes are adjusted net debt to EBITDA (the 'debt gearing ratio') and adjusted net debt to interest (the 'interest ratio'); adjusted net debt is net debt together with any cash which is restricted in its use; primarily relating to the UK Rail business. The Group's debt funding arrangements prescribe limits for each of these ratios. At 31 December 2008, the ratio values were:

- Debt gearing ratio: 3.5 times (not to be greater than 4.0 times; 2007 actual value 3.4 times); and
- Interest ratio: 5.9 times (not to be less than 3.5 times; 2007 actual value 9.9 times).

The maximum debt gearing ratio reduces under the Group's funding arrangements to 3.5 times from June 2009. In light of this stricter requirement, and given the difficult global debt markets conditions, the Group is targeting significantly lower capital investment and working capital requirements during 2009.

DIVISIONAL REVIEW

UK

Bus and Coach

Revenue for our recently integrated bus and coach business was £578.9 million (2007: £534.2m) and normalised profit from operations was £67.0 million (2007: £71.4m). Bus operations continued to do well in the West Midlands, where customer numbers were up 1.5%, and in London. A revised concessionary fares system was introduced, while higher fuel costs led to a small reduction in profitability. The coach business encountered challenging conditions in the fourth quarter, with a tough economic environment leading to a reduction in discretionary travel. Nevertheless, annual express coach revenue growth was 5%, with cross country revenues up by 7%. Airport rates were adversely impacted by a reduction in air travel.

The decision to combine the bus and coach businesses of National Express has yielded benefits across a number of areas. For example, similarities in the two businesses enabled us to merge all back office functions including financial support and information technology. The result was enhanced efficiencies and cost savings that will stand the business in good stead for future challenges. In addition, further cost-saving opportunities to preserve profitability in the difficult economic environment were identified in December 2008.

The combined bus and coach division has also benefitted from a single identity as the National Express brand is rolled out across the business, leveraging our reputation for quality, reliability and value. Nevertheless, the new grouping continues to recognise and accommodate those aspects of the two businesses that remain different.

A key highlight of the year was the significant progress achieved in delivering partnerships with local and regional authorities. Rollout of the Quality Partnerships in the West Midlands continued, following successful revisions and improvements to the Dudley network. Following this success, a new network was introduced in the Solihull area in January 2009. The business also established the groundwork for the first Scottish Bus Punctuality Improvement Partnership with Travel Dundee, the Scottish Executive, Dundee City Council, Angus Council and Stagecoach.

In October we took over the contract for managing car parks and associated shuttle bus activity at Stansted Airport, in partnership with car park operator Cintra UK. We have begun introduction of a new fleet to the service, including seven new Mercedes Citaro 18-metre articulated buses. As a result, we are setting new standards of efficiency and reliability in this growing airport car park market.

In the nation's capital, National Express Travel London continued to win new routes. Two routes, based at our Battersea and Walworth depots, will start operating in April and September 2009.

For the coach business, a major focus in 2008 was the upgrade of the UK's core coach station at Digbeth in Birmingham. In a £15 million project, we are transforming a former bus garage into a passenger facility designed and built to 21st century standards of comfort and efficiency. Meanwhile, we successfully initiated a temporary coach station nearby that ensures no disruption to the services.

We are pleased with the progress of our commuter business Kings Ferry, which we acquired in 2007. Apart from its well established commuter business, we have been successful in growing its private hire business. Contracts included a six year deal with the Metropolitan Police to provide transport for activities associated with the Notting Hill Carnival and work with Eurostar to help passengers stranded as a result of the fire in the Channel Tunnel in September.

On international routes, our Eurolines business was a strong performer, with total passenger numbers up 2% over 2007. The Munich, Osnabruck, Amsterdam and Paris routes were particularly popular.

Rail

Revenue for the year was £1,332.5 million (2007: £1,472.1m) with normalised profit from operations of £81.3 million (2007: £63.3 million). These results were broadly in line with our franchise forecasts, despite considerably more challenging trading conditions than anticipated in the fourth quarter, whilst also benefitting from the successful resolution of outstanding issues on previously exited franchises.

Behind these achievements was the fact that more people are choosing to travel on National Express trains. The East Coast franchise, for example, saw numbers of customers rise from 18.1 million to 18.7 million during the course of the year.

Customers benefitted from increased reliability, better value and a more pleasant journey. Carefully targeted investments, combined with effective performance management programmes in each of the three businesses, ensured that customers' experiences matched their expectations. Punctuality improved across the board, according to independently audited Moving Annual Average (MAA) figures. East Anglia saw punctuality up from 89.8% to 90.6%, its best performance since National Express took over the franchise. Even more impressive was c2c's 2008 punctuality rate of 94.9% - the second highest in the UK. On the long-distance East Coast line, punctuality improved to 85.7%, rising on two occasions to 100% - a first for the line since privatisation.

We have also offered customers better, more easily accessible deals in 2008, including greater emphasis on online marketing. 43% of East Coast revenues came through online sales, including a substantial proportion of the £11 million raised by the company's highly successful 'miniature prices' campaign. East Anglia boosted customer numbers on the Stansted Express route by relaunching its website to include translations in languages determined by the airport's destinations. Special offers from c2c included a popular two-for-one summer package and attractive weekend leisure fares.

Having convinced customers to travel on our trains because of reliability and good value, the third challenge in 2008 was to make the customer experience even better. On the East Coast line, alongside an extensive train refurbishment programme, we laid the groundwork for a new onboard catering service. Improvements to car parks at two important c2c and East Anglia stations made access easier for customers and security initiatives in both companies not only reduced anti-social behaviour but also enhanced revenues by discouraging fare-dodgers.

Industry awards have recognised our rail companies' high levels of professionalism. Among the accolades have been the National Rail Awards' recognition of Tony Smith, Acting Engineering Director for c2c, for Outstanding Personal Contribution in 2008 and East Coast's citations for the best stations of the year for Durham and Doncaster.

During the year, customer satisfaction surveys reflected our award success, with improvements across the board. Among the highlights was c2c's move into second place in the National Passenger Autumn 2008 survey, with an overall satisfaction score of 90%. Customer satisfaction with East Coast rose from 82% at the beginning of our franchise to 88% by year-end, giving us the highest ranking of any long distance train operating company.

With East Coast delivering its first year franchise commitments, the rail business achieved strong results, with East Anglia performing well, c2c improving profitability and overall profitability supported by one-time benefits from the resolution of outstanding commercial claims in former franchises.

During the year we took steps to reduce costs across all our rail businesses. During the first half of 2008, the creation of a single customer contact centre and a Finance Shared Services centre for all our franchises centralised operations and improved efficiency. In the fourth quarter of 2008, we identified additional opportunities to improve efficiency and combat the recession. In our East Anglia business changes will result in headcount reductions, including changes to onboard catering services and the removal of onboard staff on the Stansted Express. On the East Coast, this restructuring programme will result in a reduction of roles. We are also reducing UK divisional headcount.

North America

Annual division revenue was £372.5 million (2007: £308.0m) and normalised profit before operations was £32.5 million (2007: £37.7m). In local reporting currency, revenue was US$690.5 million (2007: $617.5m) and normalised profit from operations was $60.3 million (2007: $75.5m).

In 2008 we achieved excellent customer retention in the US school bus sector, achieving a level of 95% renewal. At the same time, we maintained the momentum of our 'Business Transformation' project; its ultimate objectives are to deliver operational service excellence and administrative efficiency across our operations in 29 states (two more than in 2007) and two Canadian provinces.

In operational service excellence, we successfully rolled out the project in pilot form in Illinois and Wisconsin, putting into place a wide range of improvements. These included computerised routing support at 15 sites and the retrofitting of 1,770 buses with computer technology that not only provides GPS facilities but also revenue and payroll tracking, live route data information to the driver and options for tracking the children on the bus. The opening of an operations centre in Warrenville, Illinois – the 'Every Time Center' - centralised operational management and control in the pilot area and will contribute to eliminating cost inefficiency. This will deliver a significant competitive advantage in service and efficiency, when rolled out across the business early in 2010

In addition to delivering an effective technical solution, good communication has been vital. We initiated a series of roadshows to get the message across about our newly improved vehicles and systems. The audience consisted of our employees and our primary market – school district officials.

In delivering administrative efficiency, during 2008 we began to consolidate our 'back office' finance and support functions at a new shared service centre. During the next 18 months, this will progressively move support activity out of the field, allowing greater local customer and operational focus. The key element delivered in 2008 was a new centralised ERP solution; despite some implementation challenges, which have required process improvements to be implemented, the system is operational and significant improvements planned for 2009.

The combination of managing a substantial system implementation and change programme across the division resulted in some 'double running' costs. As a result, profitability dropped 20% in local currency terms. Clear actions and initiatives are planned for 2009.

In the market place, with growing popularity in the US of a state regulation that requires 65% of a school district's budget to be spent directly on education rather than ancillary services such as transport, many jurisdictions are looking to the advantages of outsourcing. National Express is already benefiting from this development. In 2008, we won nine new contracts, worth a total of $38 million a year. Five of those came from school districts that were looking to outside transport suppliers for the first time.

In a market conducive to growth, we expanded our North American business in 2008 with the acquisition of A&E Transport, a regional operator serving five locations in upper New York State, and performance has exceeded expectations.

National Express in North America is not only growing. We are also becoming even safer. As a company that takes the transport of children very seriously indeed, safety is an integral part of our culture. In 2008 we reduced total injury frequency by 30% and lost-time injury frequency by 28%. Total accident and preventable street accident frequency each fell by 7% and the total preventable accident frequency was 4% lower than the previous year's figures. In every case, performance not only exceeded our targets, but confirmed an improvement trend apparent over the past five years.

Spain

Revenue in our Spanish division, ALSA, was £483.1 million (2007: £298.0m) and normalised profit from operations was £83.3 million (2007: £50.9m). In local currency revenue was €608.5 million (2007: €434.9m) and normalised profit from operations was €105.0 million (2007: €74.3 m). This has been achieved in spite of the economic slowdown in Spain, particularly in the second half of the year.

The urban business continued to perform well, whilst bidding for new contracts as more cities consider outsourcing. The long distance business achieved a good performance, despite increased competition from high speed rail on some routes. Regional transport saw more impact as the economic downturn adversely affected the construction and tourism industries.

The integration of Continental Auto, which the Group acquired in October 2007, continued throughout 2008 and remained on schedule at year-end. We also bought Transportes Colectivos, S.A. (TCSA), which provides bus services, under the Bizkaibus brand, in the Bilbao metropolitan area.

As a result of these acquisitions, Spain's largest private transport operator also became one of its most efficient, benefiting from synergies in both sales and the management of depots and fleet totalling €6.6million. In 2008 we achieved 95.7% fleet availability and transported a total of 122.2 million customers – an increase of 7.6% over the previous year. Customer opinion of the service we provided continued to improve; ALSA's customer satisfaction index (out of ten) rose to 6.91 for the year versus 6.88 in 2007. For the premium Supra services, the customer satisfaction index was 7.44 last year, up from 7.30 in 2007.

The enlarged ALSA was also a safer and greener company. On the safety front, initiatives included enhanced driver training courses, coupled with a support programme aimed at drivers identified as in need of improvement; a new service planning system to provide greater control in monitoring and enforcing driver rest times; and a new process to identify accident hot spots and so help our drivers avoid potentially dangerous situations. Against this background of safety innovation, we achieved a 10% reduction in our accident rate for the year.

As part of our efforts to minimise the impact of ALSA operations on the environment, we extended the use of biodiesel to more services and began a trial of our first vehicles driven by ethanol and those meeting the Euro V emission standards. Having joined the Spanish voluntary code for reducing CO2 Emissions promoted by the Observatory for Sustainability and the Ministry of Environmental Affairs, we had the distinction of being the first Spanish company to register a reduction in emissions – 1,651 tonnes of equivalent CO2 in 2008.

Last year we also made travel more comfortable with the introduction of new routes for our Supra Class buses, following the Continental Auto integration. This has increased our ability to offer premium class services with reduced associated costs and increased profitability. Access to these and other services is increasingly through the use of online reservations and ticketing. Website revenues grew by 60% in 2008.

Following the successful acquisition of Continental Auto, we reinforced our position as the number one private transport operator in Spain. We believe that this positions us well to access new market opportunities in Spain, as well as driving a more sales and marketing driven agenda in our existing businesses. Continental Auto has a higher proportion of urban and commuter services which balance the long distance services that are the largest part of ALSA. The integration of Continental Auto is proceeding to plan, both in terms of timing and synergies delivered. Integration has been completed in finance, sales and routing systems, and we have implemented our safety management and financial control procedures within Continental Auto. We are in the process of consolidating maintenance facilities and the fleet purchasing process.

During 2007 we negotiated the extension of a number of contracts. As a result no concession expires before 2013. Competitive pressures exist within the market; however, we have responded to the entry of low cost airlines and the development of high speed rail by varying our frequency, adapting our prices and altering our network to provide complementary services.

In addition, we secured non regulated work outside the formal concessionary arrangements. This has benefitted from having the scale of operations and the expertise to deliver in a timely and consistent basis.

We are developing our product offering in the market. In October we launched the new Supra class incorporating a revised on-board catering offering and on-board wi-fi, being the first transport mode in Spain to offer this facility. In addition, we launched a new loyalty card, ‘Bus Plus’, and etickets were rolled out on long distance routes. Good progress in developing distribution channels resulted in 15% of all sales for long distance and regional services occurring via the internet.

With over 60% of the Spanish transport market represented by bus and coach, we believe there are many opportunities for growth, particularly in the urban bus market. We also believe that, when future liberalisation of the public transport market in Spain occurs, we are well positioned to bring our experience and market presence to bear.

Discontinued operations

Following the decision by the Group in October 2008 to exit the business, Dot2Dot has been classified as a discontinued operation in 2008. The normalised pre-tax loss in the year was £8.3 million (2007: £4.8m loss) and, after tax relief of £2.8 million and an exceptional write-off of £4.2 million, total after-tax loss was £9.7 million (2007: £3.4m loss). The operation was sold on 9 January 2009. In addition, discontinued operations includes an exceptional charge of £3.7 million for additional tax liabilities arising from prior year disposals.

Stakeholder relationships

The Group has a broad range of stakeholders who are key to the achievement of our business objectives. External stakeholders include those who award us our contracts – the UK Department for Transport, local authorities, transport bodies and school boards; our customers, who use our services; our suppliers, trade unions and non governmental organisations. Internal stakeholders focus around our employees, whose hard work and commitment enable us to deliver our services every day.

We have an active stakeholder engagement programme, through regular meetings and events, open forums, magazines and websites. Interaction occurs at a Group, divisional and local level, maintaining stakeholder plans to address needs and support the business. Internal stakeholders engage through management conferences, employee magazines, intranet sites, meetings and conference calls. Customer and employee views are solicited through regular surveys, and coach and East Coast rail customers can text comments about their journey.

Resources

The Group accesses a range of resources to deliver its objectives and service its stakeholders. These include:

- Our people – in our service based business, the Group's most important resource are our people. Strong employee satisfaction helps deliver high customer satisfaction;

- Our brand – National Express is the most recognised brand amongst UK transport groups, achieving number 130 in the Superbrand ranking for 2008/09. Integration of UK operations in early 2008 has helped develop the National Express master brand, with building recognition of the brand across rail and bus, beyond its traditional coach heartland. The brand is also used corporately in North America and Spain.

- Our customers – we continue to develop our customer relationship management systems and databases, to optimise our service delivery to customers. During 2008 we have significantly grown the size of our contactable customer database and CRM activity over all business units.

- Our reputation – the Group's reputation as a reliable, safe transport operator enables customers to award contracts to us knowing that we can deliver customers expectations;

- Our expertise – we are a first class operator, delivering excellent services safely and reliably, across different countries and cultures, and across rail, bus and coach;

- Our contracts – contract tenure provides a degree of certainty and risk management in delivering shareholder value.

Joint ventures and associates

The Group has a number of associates and joint ventures in Spain. It also holds a 40% investment in Inter-Capital and Regional Rail Limited ('ICRRL'). These investments made a profit of £nil in 2008 (2007: £0.4m profit). The Group's Eurostar contract with ICRRL was designated an onerous contract in 2006 and provided to the end of the contract in 2010. Consequently, there is no charge to the income statement for this contract in 2008.

Fuel

It is the Group's policy to hedge a proportion of future fuel usage against movements in fuel prices, in order to provide certainty and assist price recovery from customers, where possible. These swaps utilise a number of different market benchmarks, including ultra-low sulphur diesel (ULSD) and gasoil in the UK, heating oil in North America and Euro denominated ULSD in Spain.

On a constant volume basis, Group fuel costs in 2008 were £20 million higher than in 2007. This reflected the sharp increase in fuel price future contracts during the early part of 2008. For 2009, the Group has hedged almost 100% of its requirements at an expected cost £28 million above 2008 (at constant volume). This reflects the higher priced outlook for fuel and oil when most of this usage was hedged in summer 2008. For 2010, to date the Group has hedged 48% of its requirements. With fuel future contracts priced below those achieved in 2009, this should reduce fuel costs in 2010.

Pensions

The Group's principal defined benefit pension schemes are all in the UK. These schemes have seen an increase in the combined deficit at 31 December 2008 to £45.0 million (2007: £29.8m), reflecting the poor returns available recently on equity and bond markets.

The rail business operates an open element within the Railways Pension Scheme ('RPS'). Given the limited life of each franchise, the Group's main obligation is to pay the service contributions agreed with the scheme actuary over the period of the franchise only. The Group's RPS deficit on an IAS19 valuation basis is £38.7 million (2007: £18.8m deficit).

The principal defined benefit schemes within bus and coach are closed to new members. The two bus schemes, the West Midlands Passenger Transport Authority Pension Fund and the Tayside Transport Superannuation Fund, have a combined deficit under IAS19 of £3.6 million (2007: £5.1m deficit). The National Express Group Staff Pension Plan has an IAS19 deficit of £1.2 million (2007: £4.9m deficit).

Financing and treasury management

The Group's treasury policy has been to adopt efficient financing structures that enable it to use its balance sheet strength to achieve the Group's objectives without putting shareholder value at risk. Having completed a period of acquisition and organic investment, and given that current difficult global funding markets may continue for some time, the Group is focusing its treasury policy and financial strategy on delivering strong liquidity, cash management and an effective capital structure, in order to manage its future reliance on uncertain capital markets.

The Group's treasury objective is to manage the risk for potential loss of shareholder value from certain financial risks. The Group's financial risk management objectives and policies are described in more detail in the notes to the financial statements.

At 31 December 2008, the Group had two principal bank debt facilities; an £800 million revolving credit facility maturing in June 2011 and a €540 million term loan facility. During the year, the maturity of the latter facility was extended to September 2009 with a one year extension to September 2010 at the Group's option. The headroom under the total committed facilities of the Group at 31 December 2008 was £143.8 million (2007: £199.4m). The Group complied with all banking covenants during the year. As set out in the section 'Managing our financial platform'; the Group is focused on complying with its future financial covenants and on refinancing its debt as this becomes due.

As set out in the notes to Financial Statements, the Group's net debt includes cash balances totalling £49.7 million (2007: £55.2m) which cannot be withdrawn from the UK rail businesses. The franchise agreements for those train operating companies ('TOCs') restrict the withdrawal of cash, aimed at enabling a TOC to meet its working capital requirements on a stand alone basis. Cash can only be withdrawn by loan or dividend to the extent certain financial ratios are met.

Principal risks and uncertainties

The operation of a public company involves a series of risks and uncertainties across a range of strategic, commercial, operational and financial areas. National Express has a robust internal control and risk management process, as outlined in the Corporate governance report, which is designed to provide assurance but which cannot avoid all risks. Outlined below are potential risks that could impact the Group's performance, causing actual results to vary from those experienced previously or described in forward looking statements within this document. These risks are monitored on an ongoing basis through the Group's risk management processes. Additional risks and uncertainties not identified may also have an adverse material effect on the Group.

- Economic conditions – whilst some of the Group's businesses have naturally defensive characteristics to the immediate economic environment (eg school bus), other parts are exposed and have significant gearing to changes in revenue (eg rail revenue has historically been correlated with GDP and employment and, given the high proportion of fixed costs in a rail franchise, deterioration in these can have a significant impact on profitability). Some of this risk can be mitigated through price sensitive revenue management systems, which adjust ticket pricing to maximise yield, and through active cost management;

- Contract risk – much of the Group's business is secured through new contracts, particularly in UK rail, North America school bus and Spain. An inherent risk in contract bidding is that the bid assumptions prove to be undeliverable; for example, in UK rail, if underlying economic growth proves to be lower than anticipated in the bid, passenger revenue is likely to be negatively impacted. The Group seeks to mitigate this risk by sharing revenue risk with the awarding body (for example, in rail revenue risk is usually shared with the DfT after four years; in school bus, revenue risk is generally avoided as demand is fixed) and by careful economic modelling of new contracts;

- Contract scale – some contract-based businesses within the Group need to maintain a minimum number of contracts to retain their existing scale of operations. If that scale is not maintained, revenue and profitability could be impacted. The Group seeks to manage this risk by maintaining a competitive bid process and robust relationships with stakeholders;

- Competition – most of our businesses face competition with other modes of transport, such as cars and aircraft, and with other transport operators in the same mode of transport. The Group seeks to manage the risks of other modal competition through cost competitiveness (eg bus), service/reliability (eg rail) and lower carbon footprint (eg versus car). Transport markets remain intensely competitive and the Group seeks to offset risk of business loss through a combination of marketing, service quality and price;

- Fuel costs – all of our businesses are exposed to fuel costs; primarily diesel for buses and coaches, and either gasoil or electricity for rail. Fuel prices are subject to significant volatility due to economic, political and climate circumstances. The Group cannot avoid this risk but seeks to reduce it through fuel hedging, which can reduce short-term volatility and provide a known cost environment for our operations;

- Political and regulatory changes – some of our businesses are subject to significant regulation. Changes in political and regulatory environments can have significant impact on our public transport businesses. This risk is reduced by maintaining close relationships with key stakeholders and ensuring that the economic advantages of our businesses are fully understood and considered. For example, we have successfully delivered voluntary partnerships in UK bus and are aiming to roll out further schemes within the framework of the new Local Transport Act.

- Labour – our businesses depend on delivering high quality, reliable services, cost efficiently. Service delivery therefore requires access to, and retention of, the right calibre of staff at an affordable cost (given that staff costs are the largest single cost component across the Group). This is managed through effective recruitment, training and retention strategies. For example, our North American business had its most successful start up to a school year in 2008, with sufficient drivers in place across the 16,500 bus fleet;

- Operational incidents – safety is at the heart of transporting passengers, yet the sheer number of vehicle movements creates a risk of safety incidents, potentially impacting the Group financially, reputationally and legally. Throughout the business, a strong safety culture prevails, led by the Board Safety and Environment Committee, which sets policy, reviews incidents, considers remedial actions and lessons learned. The transport sector is also exposed to a significant level of third party claims; given its scale, the Group 'self-insures' much of this risk, which can give rise to an adverse financial impact on settlement;

- Organisational change – to reflect changing economic, market and technological conditions, significant organisational change initiatives occur from time to time. These can create uncertainty and increase risk of adverse operational and financial results. In 2008 this included UK integration, Spanish post-acquisition integration and North America Business Transformation. The Group seeks to mitigate these risks by structured programme and project management, including effective planning, quality assurance and external resourcing;

- Business continuity – the Group is at risk of disruption from failure of network infrastructure availability (eg rail access), as well as unavailability of key systems/locations (eg to operate effective customer service systems). In some cases, the Group has protection – eg in compensation from infrastructure service providers - and also maintains operational continuity plans and insurance cover for larger losses;

- Financial – the Group has committed financing in place but is dependant on maintaining sufficient EBITDA to support banking covenants and on access to funding markets when facilities approach maturity, failure to maintain which could force the Group to seek high cost debt funding, disposal of assets or further equity funding. The Group also operates a number of defined benefit pension schemes, the regulatory and funding environment for which could impact the Group, by requiring increases in future cash funding and restrictions on certain corporate activities (including disposals and return of equity capital). The Company has certain tax exposures, in addition to trading-related tax balances, totalling £41.4 million, which are provided for but which, in the event of an adverse finding by taxation authorities, could result in a substantial payment of cash.

Key accounting judgements

Taking into account this analysis of risks and uncertainties, the key accounting judgements which could impact future financial performance include the following:

- Going concern – this is a fundamental accounting concept that underlies the preparation of accounts in the UK. In adopting the going concern approach, the Directors have considered the uncertainties that could impact the Group including the impact of the challenging trading environment on profitability, the limited availability of new debt funding in current market conditions and its objective to reduce net debt in order to maximise the likelihood of maintaining debt covenant compliance. Given the Group's plans and potential mitigations, its opportunities and core funding relationships, in the opinion of the Directors there are currently no material uncertainties that lead to significant doubt upon the Group's ability to continue as a going concern;

- Pensions – movement in asset markets, interest rates and life expectancy could materially affect the funding of the Group's pension schemes. The key assumptions used to value pension liabilities are set out in the notes to the financial statements;

- Tax – the Group carries out tax management consistent with a business of its size and makes appropriate provision, based on best estimates, until tax computations are agreed with the tax authorities;

- Provisions – using information available at the balance sheet date, the Group makes judgements based on experience on the level of provision required. Information subsequent to the balance sheet date may impact the level of provision required;

- Impairment – the Group has reviewed the carrying value of tangible and intangible assets and, from time to time, may impair certain asset values on a value in use basis. Future changes in performance or disposals could impact these values.

In addition to these key accounting judgements, the Group has significant accounting policies in respect of revenue recognition, foreign currencies, property, plant and equipment, intangible assets and derivative financial instruments and hedge accounting, which are set out in the notes to the financial statements.

Basis of preparation

This financial information has been prepared in accordance with IFRS. The comparative information for 2007 has been amended to reflect the final fair value adjustments relating to the acquisition of Continental-Auto and King's Ferry, together with reclassification of Dot2Dot as a discontinued operation. Details are contained in the notes to the Financial Statements.

Cautionary statement

This Operating and Financial Review is intended to focus on matters which are relevant to the interests of shareholders of the Company. The purpose of the OFR is to assist shareholders in assessing the strategies adopted and performance delivered by the Company and the potential for those strategies to succeed. It should not be relied on by any other party or for any other purpose.

Forward looking statements are made in good faith, based on a number of assumptions concerning future events and information available to Directors at the time of their approval of this report. These forward looking statements should be treated with caution due to the inherent uncertainties underlying any such forward looking information. The user of these accounts should not rely unduly on these forward looking statements, which are not a guarantee of performance and which are subject to a number of uncertainties and other facts, many of which are outside the Company's control and could cause actual events to differ materially from those in these statements. No guarantee can be given of future results, levels of activity, performance or achievements.

Definitions

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

Operating cash flow is intended to be the cash flow equivalent to normalised operating profit. Operating cash flow is defined as the statutory cash flow including the following, as appropriate: cash generated from operations and proceeds from disposals of property, plant and equipment, and less the following, as appropriate: finance lease additions, purchase of property, plant and equipment, purchase of intangible assets, payments to associates, payments in relation to exceptional items, UK rail franchise entry and exit cash flows and discontinued operations' cash flows.

Net debt is defined as cash and cash equivalents (cash overnight deposits, other short-term deposits), and other debt receivables offset by borrowings (loan notes, bank loans and finance lease obligations) and other debt payable.

EBITDA is 'Earnings Before Interest and Tax' plus depreciation and amortisation. It is calculated by taking normalised profit from operations and adding depreciation, fixed asset grant amortisation, normalised profit on disposal of non-current assets and share-based payments.

Net interest expense is finance costs less finance income.

Net capital expenditure is the increase in net debt arising on the purchase of property, plant and equipment and intangible assets less proceeds from disposals of property, plant and equipment. It excludes capital expenditure arising from UK rail franchise entry and exits and discontinued operations, which are included in these headings.

NATIONAL EXPRESS GROUP PLC

GROUP INCOME STATEMENT
For the year ended 31 December 2008

	Note	**Total before goodwill impairment, intangible amortisation and exceptional items 2008 £m**	**Goodwill impairment, intangible amortisation and exceptional items 2008 £m**	**Total 2008 £m**	Total before goodwill impairment, intangible amortisation and exceptional items 2007 £m	Goodwill impairment, intangible amortisation and exceptional items 2007* £m	Total 2007* £m
Continuing operations							
Revenue	3	**2,767.0**	**–**	**2,767.0**	2,612.3	–	2,612.3
Operating costs before goodwill impairment, intangible amortisation and exceptional items		**(2,513.1)**	**–**	**(2,513.1)**	(2,401.9)	–	(2,401.9)
Intangible amortisation	3	**–**	**(55.2)**	**(55.2)**	–	(32.9)	(32.9)
Exceptional items	3	**–**	**(30.9)**	**(30.9)**	–	(15.8)	(15.8)
Total operating costs		**(2,513.1)**	**(86.1)**	**(2,599.2)**	(2,401.9)	(48.7)	(2,450.6)
Group operating profit	3	**253.9**	**(86.1)**	**167.8**	210.4	(48.7)	161.7
Profit on disposal of non-current assets		**–**	**5.1**	**5.1**	–	16.2	16.2
Profit from operations		**253.9**	**(81.0)**	**172.9**	210.4	(32.5)	177.9
Share of post tax results from associates and joint ventures accounted for using the equity method		**–**	**–**	**–**	0.4	–	0.4
Finance income	4	**17.4**	**–**	**17.4**	17.0	–	17.0
Finance costs	4	**(68.9)**	**(11.5)**	**(80.4)**	(46.0)	–	(46.0)
Profit before tax		**202.4**	**(92.5)**	**109.9**	181.8	(32.5)	149.3
Tax (charge)/credit	5	**(52.3)**	**75.5**	**23.2**	(49.5)	12.1	(37.4)
Profit after tax for the year from continuing operations		**150.1**	**(17.0)**	**133.1**	132.3	(20.4)	111.9
Loss for the year from discontinued operations		**(5.5)**	**(7.9)**	**(13.4)**	(3.4)	(2.9)	(6.3)
Profit for the year		**144.6**	**(24.9)**	**119.7**	128.9	(23.3)	105.6
Profit attributable to equity shareholders		**143.7**	**(24.9)**	**118.8**	128.4	(23.3)	105.1
Profit attributable to minority interests		**0.9**	**–**	**0.9**	0.5	–	0.5
		144.6	**(24.9)**	**119.7**	128.9	(23.3)	105.6
Earnings per share:							
– basic earnings per share	7			**77.9p**			69.2p
– diluted earnings per share	7			**77.4p**			68.7p
Normalised earnings per share:							
– basic earnings per share	7	**94.3p**			84.4p		
– diluted earnings per share	7	**93.6p**			83.9p		
Earnings per share from continuing operations:							
– basic earnings per share	7			**86.8p**			73.3p
– diluted earnings per share	7			**86.1p**			72.8p
Dividends per ordinary share:							
– interim	6			**12.72p**			11.56p
– final	6			**10.00p**			26.40p
				22.72p			37.96p

*Adjusted for the final purchase price allocation in relation to Continental Auto and The Kings Ferry Limited in accordance with IFRS 3 and restated for the presentation of dot2dot as a discontinued operation.

Dividends of £59.6 million were declared and payable during the year (2007: £54.0 million). Dividends of £34.6 million were proposed for approval during the year (2007: £57.8m).

NATIONAL EXPRESS GROUP PLC

GROUP BALANCE SHEET
At 31 December 2008

	Note	2008 £m	2007* £m
Non-current assets			
Intangible assets		**1,519.6**	1,206.9
Property, plant and equipment		**841.5**	696.4
Financial assets – Available for sale		**9.2**	7.2
– Derivative financial instruments		**1.5**	5.3
Investments accounted for using the equity method		**7.9**	11.8
Other receivables		**7.0**	10.0
Deferred tax asset		**20.0**	–
		2,406.7	1,937.6
Current assets			
Inventories		**24.4**	20.0
Trade and other receivables		**332.3**	272.4
Financial assets – Derivative financial instruments		**2.5**	10.0
Current tax assets		**4.0**	9.5
Cash and cash equivalents	9	**105.9**	157.2
		469.1	469.1
Assets in disposal group classified as held for sale		**0.7**	–
Total assets		**2,876.5**	2,406.7
Non-current liabilities			
Financial liabilities – Borrowings		**(1,215.0)**	(652.3)
– Derivative financial instruments		**(59.3)**	(5.4)
Deferred tax liability		**(124.9)**	(158.1)
Other non-current liabilities		**(20.7)**	(3.7)
Defined benefit pension liability	8	**(45.0)**	(29.8)
Provisions		**(39.0)**	(43.5)
		(1,503.9)	(892.8)
Current liabilities			
Trade and other payables		**(557.3)**	(574.0)
Financial liabilities – Borrowings		**(71.6)**	(415.7)
– Derivative financial instruments		**(79.3)**	(17.7)
Current tax liabilities		**(32.5)**	(24.7)
Provisions		**(44.3)**	(44.8)
		(785.0)	(1,076.9)
Liabilities directly associated with disposal group assets classified as held for sale		**(2.2)**	–
Total liabilities		**(2,291.1)**	(1,969.7)
Net assets		**585.4**	437.0
Shareholders' equity			
Called up share capital		**7.7**	7.7
Share premium account		**195.7**	195.3
Capital redemption reserve		**0.2**	0.2
Own shares		**(15.2)**	(16.3)
Other reserves		**133.7**	30.4
Retained earnings		**257.2**	215.8
Total shareholders' equity		**579.3**	433.1
Minority interest in equity		**6.1**	3.9
Total equity		**585.4**	437.0

*Adjusted for the final purchase price allocation in relation to Continental Auto and The Kings Ferry Limited in accordance with IFRS 3.

NATIONAL EXPRESS GROUP PLC

GROUP STATEMENT OF CASH FLOWS
For the year ended 31 December 2008

	Note	2008 £m	2007 £m
Cash generated from operations	10	**218.2**	272.1
Tax paid		**(5.0)**	(18.8)
Net cash from operating activities		**213.2**	253.3
Cash flows from investing activities			
Payments to acquire businesses, net of cash acquired		**(11.4)**	(485.0)
Deferred consideration for businesses acquired		**(0.3)**	(1.7)
Purchase of property, plant and equipment		**(124.4)**	(149.7)
Proceeds from disposal of property, plant and equipment		**33.7**	22.9
Payments to acquire intangible assets		**(8.2)**	–
Receipts from disposal of available for sale investments		**–**	10.7
Receipts from disposal of businesses, net of cash disposed		**5.4**	34.3
Payments in respect of discontinued operations		**(6.1)**	(1.9)
Interest received		**17.4**	17.0
Net cash used in investing activities		**(93.9)**	(553.4)
Cash flows from financing activities			
Proceeds from issue of ordinary shares		**0.4**	5.5
Purchase of treasury shares		**(1.7)**	–
Interest paid		**(66.5)**	(39.5)
Finance lease principal payments		**(32.8)**	(26.3)
Net loans advanced/(repaid)		**14.0**	424.9
Payments for the maturity of foreign currency swaps		**(33.0)**	–
Dividends paid to minority interests		**(0.4)**	(0.1)
Dividends paid to shareholders of the Company		**(59.6)**	(53.9)
Net cash (used in)/from financing activities		**(179.6)**	310.6
(Decrease)/increase in cash and cash equivalents		**(60.3)**	10.5
Opening cash and cash equivalents		**157.2**	143.6
Increase in cash and cash equivalents		**(60.3)**	10.5
Foreign exchange		**9.0**	3.1
Closing cash and cash equivalents	9	**105.9**	157.2

NATIONAL EXPRESS GROUP PLC

GROUP STATEMENT OF RECOGNISED INCOME AND EXPENSE
For the year ended 31 December 2008

	2008 £m	2007* £m
Income and expense recognised directly in equity		
Exchange differences on retranslation of foreign operations	**413.7**	82.9
Exchange differences on retranslation of foreign currency borrowings	**(264.2)**	(89.1)
Exchange differences on retranslation of minority interests	**1.3**	0.2
Actuarial (losses)/gains on defined benefit pension plans	**(24.8)**	11.7
(Loss)/gain on cash flow hedges taken to equity	**(79.4)**	21.5
	46.6	27.2
Transfers to the income statement		
On cash flow hedges	**(9.2)**	(1.0)
	(9.2)	(1.0)
Tax on exchange differences	**17.6**	14.3
Tax on share-based payments	**(1.6)**	0.4
Deferred tax on actuarial gains	**7.0**	(3.5)
Deferred tax on cash flow hedges	**24.8**	(6.1)
Tax on items taken directly to or transferred from equity	**47.8**	5.1
Net gain recognised directly in equity	**85.2**	31.3
Profit for the financial year	**118.8**	105.1
Profit attributable to minority interests	**0.9**	0.5
Total recognised income and expense for the year	**204.9**	136.9
Income and expense attributable to equity shareholders	**202.7**	136.2
Income attributable to minority interests	**2.2**	0.7
	204.9	136.9

*Adjusted for the final purchase price allocation in relation to Continental Auto and The Kings Ferry Limited in accordance with IFRS 3.

NATIONAL EXPRESS GROUP PLC

NOTES TO THE ACCOUNTS
For the year ended 31 December 2008

1. Basis of preparation
The results have been prepared in accordance with International Financial Reporting Standards ("IFRS") and the International Financial Reporting Interpretations Committee's interpretations as adopted by the European Union, and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS.

These results have been prepared using the accounting policies set out in the Group's 2008 statutory accounts.

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

2. Exchange rates
The most significant exchange rates to UK sterling for the Group are as follows:

	2008 Closing rate	**2008 Average rate**	2007 Closing rate	2007 Average rate
US dollar	**1.46**	**1.85**	1.98	2.00
Canadian dollar	**1.78**	**1.96**	1.98	2.15
Euro	**1.05**	**1.26**	1.36	1.46

If the results for the year to 31 December 2007 had been retranslated at the average exchange rates for the year to 31 December 2008, North America would have achieved normalised operating profit of £40.8m on revenue of £334.2m, compared to normalised operating profit of £37.7m on revenue of £308.0m as reported, and Europe would have achieved a normalised operating profit of £59.0m on revenue of £345.3m, compared to normalised operating profit of £50.9m on revenue of £298.0m as reported.

3. Segment analysis

Analysis by class and geography of business

	External revenue 2008 £m	**Inter-segment sales 2008 £m**	**Segment revenue 2008 £m**	External revenue 2007 £m	Inter-segment sales 2007 £m	Segment revenue 2007 £m
UK Bus	**340.0**	**1.0**	**341.0**	320.2	2.1	322.3
UK Trains	**1,332.5**	**–**	**1,332.5**	1,472.1	–	1,472.1
UK Coach	**238.9**	**5.8**	**244.7**	214.0	13.9	227.9
Inter-segment sales elimination	**–**	**(6.8)**	**(6.8)**	–	(16.0)	(16.0)
UK operations	**1,911.4**	**–**	**1,911.4**	2,006.3	–	2,006.3
North American Bus	**372.5**	**–**	**372.5**	308.0	–	308.0
European Coach & Bus	**483.1**	**–**	**483.1**	298.0	–	298.0
Revenue from continuing operations	**2,767.0**	**–**	**2,767.0**	2,612.3	–	2,612.3
Discontinued operations	**5.1**	**–**	**5.1**	3.1	–	3.1
Total revenue	**2,772.1**	**–**	**2,772.1**	2,615.4	–	2,615.4

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.

3. Segment analysis (continued)

	Continuing			Continuing		
	Normalised operating profit 2008 £m	**Goodwill impairment, intangible amortisation and exceptional items 2008 £m**	**Segment result 2008 £m**	Normalised operating profit 2007 £m	Goodwill impairment, intangible amortisation and exceptional items 2007 £m	Segment result 2007 £m
UK Bus	**40.0**	**(3.5)**	**36.5**	43.5	(1.2)	42.3
UK Trains	**81.3**	**(13.2)**	**68.1**	63.3	(2.9)	60.4
UK Coach	**27.0**	**(2.3)**	**24.7**	27.9	(0.3)	27.6
UK operations	**148.3**	**(19.0)**	**129.3**	134.7	(4.4)	130.3
North American Bus	**32.5**	**(15.8)**	**16.7**	37.7	(13.3)	24.4
European Coach & Bus	**83.3**	**(51.3)**	**32.0**	50.9	(28.2)	22.7
Central functions	**(10.2)**	**–**	**(10.2)**	(12.9)	(2.8)	(15.7)
Result from continuing operations	**253.9**	**(86.1)**	**167.8**	210.4	(48.7)	161.7
Profit on disposal of non-current assets			**5.1**			16.2
Profit from operations			**172.9**			177.9
Share of post tax results from associates and joint ventures			**–**			0.4
Net finance costs			**(63.0)**			(29.0)
Profit before tax			**109.9**			149.3
Tax expense			**23.2**			(37.4)
Profit for the year			**133.1**			111.9

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

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

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

In 2008 non-operating exceptional items comprise £5.1m of profit on disposal of businesses owned by Alsa.

4. Net finance costs

	Normalised 2008 £m	Exceptional 2008 £m	Total 2008 £m	Normalised 2007 £m	Exceptional 2007 £m	Total 2007 £m
Bank interest payable	**(59.0)**	**(11.5)**	**(70.5)**	(37.9)	-	(37.9)
Finance lease interest payable	**(6.7)**	**-**	**(6.7)**	(5.0)	-	(5.0)
Other interest payable	**(0.1)**	**-**	**(0.1)**	(0.1)	-	(0.1)
Unwind of provision discounting	**(3.1)**	**-**	**(3.1)**	(3.0)	-	(3.0)
Finance costs	**(68.9)**	**(11.5)**	**(80.4)**	(46.0)	-	(46.0)
Finance income: Bank interest receivable	**17.4**	**-**	**17.4**	17.0	-	17.0
Net finance costs	**(51.5)**	**(11.5)**	**(63.0)**	(29.0)	-	(29.0)

The 2008 exceptional charge of £11.5 million relates to interest rate swaps that ceased to qualify for hedge accounting, as the underlying currency borrowings which the interest rate swaps were hedging were switched into sterling.

5. Taxation

	2008 £m	2007 £m
Current taxation:		
UK corporation tax	**19.0**	24.9
Overseas taxation	**10.5**	9.7
Current income tax charge	**29.5**	34.6
Adjustments with respect to prior years – UK	**4.8**	(2.0)
Total current income tax	**34.3**	32.6
Deferred taxation:		
Origination and reversal of temporary differences – continuing operations	**(56.9)**	–
Total tax (credit)/charge	**(22.6)**	32.6
The tax (credit)/charge in the income statement is disclosed as follows:		
Income tax expense on continuing operations	**(23.2)**	37.4
Income tax charge/(credit) on discontinued operations	**0.6**	(4.8)
	(22.6)	32.6
The tax expense on continuing operations is disclosed as follows:		
Tax charge on profit before intangible asset amortisation and exceptional items	**52.3**	49.5
Tax credit on intangible asset amortisation and exceptional items	**(75.5)**	(12.1)
	(23.2)	37.4

6. Dividends paid and proposed

	2008 £m	2007 £m
Declared and paid during the year		
Ordinary final dividend for 2007 paid of 26.40p per share (2006: 24.00p per share)	**40.2**	36.4
Ordinary interim dividend for 2008 paid of 12.72p per share (2007: 11.56p per share)	**19.4**	17.6
	59.6	54.0
Proposed for approval (not recognised as a liability at 31 December)		
Ordinary final dividend for 2008 of 10.00p per share (2007: 26.40p per share)	**15.2**	40.2

7. Earnings per share

	2008	2007
Basic earnings per share – continuing operations	**86.8p**	73.3p
Basic loss per share – discontinued operations	**(8.9p)**	(4.1p)
Basic earnings per share – total	**77.9p**	69.2p
Normalised basic earnings per share	**94.3p**	84.4p
Diluted earnings per share – continuing operations	**86.1p**	72.8p
Diluted loss per share – discontinued operations	**(8.7p)**	(4.1p)
Diluted earnings per share – total	**77.4p**	68.7p
Normalised diluted earnings per share	**93.6p**	83.9p

Basic earnings per share is calculated by dividing the earnings attributable to equity shareholders of £118.8m (2007: £105.1m) by the weighted average number of ordinary shares in issue during the year, excluding those held by employee share ownership trusts and those held as treasury shares which are both treated as cancelled.

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

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

	2008	2007
Basic weighted average shares	**152,457,518**	151,914,241
Adjustment for dilutive potential ordinary shares	**1,077,289**	976,000
Diluted weighted average shares	**153,534,807**	152,890,241

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

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

	2008			2007		
	£m	**Basic EPS p**	**Diluted EPS p**	£m	Basic EPS p	Diluted EPS p
Profit attributable to equity shareholders	**118.8**	**77.9**	**77.4**	105.1	69.2	68.7
Loss from discontinued operations	**13.4**	**8.9**	**8.7**	6.3	4.1	4.1
Profit from continuing operations attributable to equity shareholders	**132.2**	**86.8**	**86.1**	111.4	73.3	72.8
Intangible asset amortisation	**55.2**	**36.2**	**36.0**	32.9	21.7	21.6
Exceptional items	**30.9**	**20.3**	**20.1**	15.8	10.4	10.3
Profit on disposal of non-current assets	**(5.1)**	**(3.3)**	**(3.3)**	(16.2)	(10.7)	(10.6)
Finance cost	**11.5**	**7.5**	**7.5**	–	–	–
Tax relief on goodwill and exceptional items	**(75.5)**	**(49.5)**	**(49.2)**	(12.1)	(8.0)	(7.9)
Normalised profit from continuing operations	**149.2**	**98.0**	**97.2**	131.8	86.7	86.2
Normalised loss from discontinued operations	**(5.5)**	**(3.7)**	**(3.6)**	(3.4)	(2.3)	(2.3)
Normalised profit attributable to equity shareholders	**143.7**	**94.3**	**93.6**	128.4	84.4	83.9

8. Pensions and other post-employment benefits

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 unfunded post-employment benefits to employees in North America and Spain, which are disclosed in the Other category below.

The total pension cost for the year was £23.5m (2007: £27.5m), of which £3.9m (2007: £3.2m) relates to the defined contribution schemes.

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

	2008 £m	2007 £m
UK Bus	**(3.6)**	(5.1)
UK Coach	**(1.2)**	(4.9)
UK Train	**(38.7)**	(18.8)
Other	**(1.5)**	(1.0)
Total	**(45.0)**	(29.8)

9. Net Debt

Net debt at 31 December 2008 comprises cash and cash equivalents of £105.9 million (2007: £157.2 million), other debt receivables of £0.9 million (2007: £nil), current interest bearing loans and borrowings of £71.6 million (2007: £415.7 million) and non-current interest bearing loans and borrowings of £1,215.0 million (2007: £652.3 million).

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

Short term deposits included within liquid resources relate to term deposits repayable within three months. Changes in cash and cash equivalents arising from acquisitions and disposals in the year are disclosed separately on the face of the cash flow statement.

The £19.0 million cash outflow (2007: £424.9m inflow) within bank loans comprises of £33.0 million (2007: £nil) of payments for the maturity of foreign currency swaps and £14.0 million of net loans advanced (2007: £424.9m) to the Group.

Other non-cash movements in net debt represent finance lease additions of £15.8 million (2007: £0.2 million) and £1.6 million (2007: £0.9 million) amortisation of loan arrangement fees.

10. Cash flow statement

The net cash inflows from operating activities include outflows of £27.6 million (2007: £11.3 million) from continuing operations which are related to exceptional costs.

Reconciliation of Group profit before tax to cash generated from operations

Total Operations	**2008 £m**	2007 £m
Net cash inflow from operating activities		
Profit before tax from continuing operations	**109.9**	149.3
Loss before tax from discontinued operations	**(12.8)**	(4.8)
Net finance costs	**63.0**	29.0
Profit on disposal of non-current assets	**(5.1)**	(16.2)
Share of post tax results under the equity method	**–**	(0.4)
Depreciation of property, plant and equipment – continuing operations	**96.0**	79.6
Depreciation of property, plant and equipment – discontinued operations	**0.3**	–
Amortisation of leasehold property prepayment	**0.1**	0.1
Goodwill impairment	**0.7**	–
Intangible asset amortisation	**55.2**	32.9
Amortisation of fixed asset grants	**(1.8)**	(1.3)
Profit on disposal of non-current assets (in operating profit)	**(2.0)**	(4.3)
Share-based payments – continuing operations	**4.3**	3.1
Share-based payments – discontinued operations	**0.1**	0.1
Increase in inventories	**(1.0)**	(2.1)
(Increase)/decrease in receivables	**(0.2)**	17.7
Increase/(decrease) in payables	**(69.4)**	5.9
Decrease in provisions	**(19.1)**	(16.5)
Cash generated from operations	**218.2**	272.1

11. Financial information

The financial information set out above, which was approved by the Board on 26 February 2009, is derived from the full Group accounts for the year ended 31 December 2008 and does not constitute the full accounts within the meaning of section 240 of the Companies Act (as amended). The Group accounts on which the auditors have given an unqualified report, which does not contain a statement under section 237 (2) or (3) of the Companies Act 1995, will be delivered to the Registrar of Companies in due course.

The Annual Report will be posted to shareholders on 26 March 2009 and will also be available from the Company Secretary at 7 Triton Square, London, NW1 3HG. Copies will be available via www.nationalexpressgroup.com.