Press release

Thursday 28 February 2008

National Express Group PLC
Preliminary Results
For the year ended 31 December 2007

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

Highlights

	2007	2006	Change
Revenue	£2.6 billion	£2.5 billion	+4%
Group operating profit	£162.3 million	£141.6 million	+15%
Normalised operating profit*	£205.6 million	£184.8 million	+11%
Profit before tax	£149.9 million	£104.1 million	+44%
Normalised profit before tax*	£177.0 million	£156.1 million	+13%
Operating cash flow**	£196.7 million	£209.7 million	-6%
Diluted earnings per share from continuing operations	73.1 pence	52.5 pence	+39%
Normalised diluted earnings per share*	83.9 pence	76.5 pence	+10%
Final dividend per share	26.4 pence	24.0 pence	+10%
Total dividend for the year per share	37.96 pence	34.75 pence	+9%
Net debt	£910.8 million	£438.4 million	+108%

* Normalised results are the statutory results excluding the profit or loss on the sale of businesses, 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 Finance Review, before franchise entry and exits.

- Results at the top end of market expectations;
- Strong passenger growth in all divisions - 6% in trains, 3% in coaches, 2% in buses and 4% in Spain;
- Completion of the acquisition of Continental Auto for £459.8 million (€659.3 million) to create Spain's leading coach and bus operator;
- Award with launch in December of National Express East Coast franchise;
- Restructuring of UK operations to form one division, releasing £11 million of annualised savings, well underway;
- Record North American bid season and Business Transformation project on course;
- Positive start to 2008; and
- Commitment to increase the Group's dividend by 10% per annum for the next three years reflecting the Board's confidence in the Group's future prospects.

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Registered in England no. 2590560
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Commenting on current trading and prospects, Chairman, David Ross said:

"Over the last year, National Express has undertaken significant change to deliver a more customer focused service culture, which has contributed to another year of passenger growth for the Group. Growing awareness of the positive environmental impact of public transport and population growth within our core markets continues to support long term growth trends within our operations.

The acquisition of Continental Auto and the award of the East Coast franchise in the final quarter of 2007 reinforced our strong market positions in the Spanish and UK markets. Our diversified portfolio of transport activity provides robust cash flow, market leading margins and significant opportunities for future growth. Despite the current economic backdrop, all operations have started the year well and we have seen no adverse impact on current trading.

Our new dividend policy, announced today, underlines our commitment to delivering value for shareholders. We remain confident about the Group's prospects for the year ahead."

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- There will be an analyst and investor meeting at 0900 hours on 28 February 2008 at Merrill Lynch, 2 King Edward Street, London, EC1A 1HQ.
- A webcast of the analyst presentation will be available on our website www.nationalexpressgroup.com at 0900 hours on 28 February 2008.
- High resolution images are available for the media to view and download, free of charge, from www.vismedia.co.uk or telephone 020 7613 2555.

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National Express Group PLC
Preliminary Results
For the year ended 31 December 2007

Chairman's Statement

National Express Group PLC ("the Group") today reports on trading for the year ended 31 December 2007. I am delighted to announce that we traded strongly throughout the year and that our results are at the top end of market expectations. All divisions provided a healthy contribution. We have delivered 10% earnings growth and increased the Group margin to 7.9%.

Safety continues to be of paramount importance to us. During 2007 we saw two serious coach accidents, one tragically involving the loss of three lives. Our condolences and thoughts remain with those families affected. In our Coach business, as with all our operations, our policy is one of continuous improvement in safety.

We have restructured our three UK Divisions into a single UK business. This will enable us to put much greater focus on the needs of our customers and be more responsive to new opportunities. We are well on track to deliver the £11 million of annualised savings from this project and we are already seeing the benefits of a much more integrated approach to product and service design and delivery.

Our trains business has seen revenue growth of 11%. We believe the addition of National Express East Coast ("NXEC"), the UK's premier railway business, to our trains portfolio significantly strengthens our position in the key long distance market.

Our bus business delivered revenue growth of 7% and we are particularly pleased that the voluntary partnerships we have entered into with Centro in the West Midlands are already delivering strong passenger growth on some of these routes of up to 10%. We are already working on the next network of services, which we expect to launch in April this year.

Coach travel is the most environmentally friendly form of transport with the lowest carbon emissions of any motorised mode. Our coach business has had another outstanding year, both on core scheduled routes as well as on new products related to supporting events at major venues. Scheduled coach revenue growth has been 6%.

In North America, our Business Transformation project is on track and will deliver significant efficiencies and improved stability of earnings. This will make us the most efficient and competitive North American school bus operation, with a goal to attract those school boards yet to outsource their operations. We remain on course to offer school boards the best value and safest product in the market.

Our Spanish bus and coach operations traded well with passenger growth of 4%. Our acquisition of Continental Auto makes us the number one private operator of public transport services in Spain. Continental Auto's complementary set of geographical routes and business segments especially commuter buses and urban transport, positions us very well for future growth and further market liberalisation, particularly in urban bus and rail. The acquisition of Continental Auto is the largest acquisition the Group has made to date and we are making good progress with the integration and are on track to deliver the benefits and returns we announced at the time of the acquisition.

It is clear that there is an opportunity to create value through developing closer relationships through greater communications with our UK customers. We have started to roll out our masterbrand strategy across all our UK operations enabling our customers to relate to the wide range of services that we offer, leveraging the greater awareness of the National Express brand. We have begun to address a broader range of opportunities to grow our top line including events related activities. Other sales & marketing initiatives are also starting to show real success and growth. In 2007 we ran a series of marketing campaigns aimed purely at our rail customers. From a database of 150,000 customers we generated incremental profit of around £1 million representing a return on investment of 100%. In 2008 we will broaden this activity to our NXEC, National Express East Anglia and coach customers, a combined database of over 2.3 million customers. In November our focus on improving the quality of our services was recognised when we won the business to business category at the UK Customer Service Experience Awards, which identify and recognise industry leaders in customer service, featured in the Sunday Times. The award recognised the Group's efforts to increase customer satisfaction in every part of the business.

It is becoming clear that wider recognition of the environmental credentials of public transport over the car and the plane is contributing to the increased use of our services. Businesses, as well as consumers, are becoming more focused on reducing their carbon footprint for travel and we are developing a range of corporate products to encourage this.

With the changes in the Group's portfolio during the year, I would like to thank all our people for their efforts during the year to deliver an excellent set of results. I also welcome those new employees who have recently joined us and also to thank those who have left the Group during the year. It is down to the efforts and commitment of our people that we are able to further develop this Group and improve our customer offering in the markets where we operate.

Board changes

Following a further strengthening of the Board in October when Roger Devlin was appointed as a non executive director, Sue Lyons retired in November after six years service as a non executive director. On behalf of the Board I would like to thank Sue for her invaluable contribution particularly in her role as Chairman of the Safety Committee. In November Adam Walker, Group Finance Director, announced he would be leaving the Group after seven years. Adam was promoted to the Board back in 2003. He has made a significant contribution to the strategic development of the Group and overseen our entry into new markets such as Spain. Adam will be leaving the Group on 26 March and the Board wish him well in his next role. The recruitment process for a successor is well advanced.

Outlook and current trading

Over the last year, National Express has undertaken significant change to deliver a more customer focused service culture, which has contributed to another year of passenger growth for the Group. Growing awareness of the positive environmental impact of public transport and population growth within our core markets continues to support long term growth trends within our operations.

The acquisition of Continental Auto and the award of the East Coast franchise in the final quarter of 2007 reinforced our strong market positions in the Spanish and UK markets. Our diversified portfolio of transport activity provides robust cash flow, market leading margins and significant opportunities for future growth. Despite the current economic backdrop, all operations have started the year well and we have seen no adverse impact on current trading.

Our new dividend policy, announced today, underlines our commitment to delivering value for shareholders. We remain confident about the Group's prospects for the year ahead.

Results and Dividend

Revenue was £2.6 billion (2006: £2.5 billion) and normalised Group operating profit was £205.6 million (2006: £184.8 million). After interest and the Group's share of profits from associated undertakings, normalised profit before tax was £177.0 million (2006: £156.1 million). Normalised diluted earnings per share from continuing operations were 83.9 pence (2006: 76.5 pence).

We are recommending a final dividend of 26.4 pence per ordinary share (2006: 24.0 pence), an increase of 10%, to be paid on 9 May 2008 to shareholders on the register at 25 April 2008. Including the interim dividend, the proposed total dividend for the year is 37.96 pence (2006: 34.75 pence).

Based on the Board's confidence in the Group's prospects and the greater visibility of rail earnings following the completion of the recent round of rail franchising, we have announced today a commitment to increase our dividend by 10% per annum for the next three years. This reflects the Board's confidence in the Group's future prospects.

Operational Review

UK highlights

- Passenger growth of 6% in trains, 3% coaches and 2% in buses;
- Award with launch in December of National Express East Coast franchise
- Sales & marketing initiatives to drive top line growth taking place across all UK operations with early signs of success and value creation;
- Bus Partnership launched in West Midlands with encouraging signs of substantial growth;
- Masterbrand strategy rolling across UK operations;
- Rail businesses continue to lead the industry performance tables;
- Launch of National Express Dot2Dot; and
- Restructuring of UK operations to form one division, releasing £11 million of annualised savings, well underway.

Overseas highlights

- Completion of the acquisition of Continental Auto, one of Spain's leading coach and bus operators, for £459.8 million (€659.3 million);
- Passenger growth in Spain of 4%;
- Record bid season in North America with over $38 million of new business won and over 95% of existing business retained;
- North American Business Transformation project on course to deliver first benefits in 2008; and
- Sale of Stewart airport completed.

Trains

We operate c2c, Gatwick Express, National Express East Anglia including the Stansted Express, and National Express East Coast. We provide 218 million passenger journeys per year and employ 7,500 people.

Revenue for the year was £1,472.1 million (2006: £1,497.6 million) with normalised operating profit of £63.3 million (2006: £49.1 million). These results were ahead of expectations and reflect strong passenger growth throughout the year. There were excellent contributions from one railway, recently renamed National Express East Anglia ("NXEA"), and Midland Mainline, reflecting the growth that can be achieved in long distance railways when performance levels are sustained. This is particularly encouraging given that National Express East Coast ("NXEC") joined the Group in December 2007.

The reduction in revenue reflects the three franchises that left the Group in November: Central Trains, Midland Mainline and Silverlink. This also impacts the cash outflow from this business in 2007 and 2008.

We saw strong passenger growth of 6%. We believe that growth has been driven by a number of factors, including performance. Our franchises lead the way in the performance league tables with c2c and Gatwick Express at the top of the tables. c2c is the best performing railway in Britain and this continued high performance is attracting good levels of additional off peak business. At NXEA we have improved punctuality from 87.4% to over 90% - its best year for the franchise to date. This has been achieved by implementing joint performance improvement plans with Network Rail and managing their delivery.

During the year we incurred bid costs of £7.5 million (2006: £9.8 million). We were delighted to be awarded the premier East Coast franchise in August and started running the service on 9 December. This new franchise, which runs until 2015, will receive an investment of £44.0 million. We have made an immediate and positive impact in terms of customer service such as introducing free wi-fi internet access for all customers, not just first class and we are making the 100 day joint improvement plan with Network Rail, a top priority. We know from experience elsewhere that improving performance leads to more passengers travelling on our services. Further improvements will be introduced including real time running information accessible by mobile phone; print at home tickets; a website which will enable total journey booking including parking and onward connections in a single visit; and Smartcard ticketing. In addition more and faster services are scheduled from 2010, with the addition of five more trains to the fleet and a further 25 services providing 14,000 extra seats daily.

Another major contributor to our strong revenue performance has been our focus on yield management and pricing strategies. Our industry leading yield management capability at Midland Mainline enabled us to sell otherwise under-utilised capacity and this strategy has enabled us to maximise yield across a wide range of tickets and related services. We have brought all the technology and experience gathered around the Group to the NXEC franchise.

As agreed with the Department for Transport in April last year, Gatwick Express will leave our portfolio in June 2008 prior to the competition for the Southern franchise, which we will enter, being announced later in the year.

Buses

We operate over 2,000 buses, providing approximately 390 million passenger journeys and employ 7,250 people in the West Midlands, Dundee and London. We also operate the Midland Metro, the light rail service in the West Midlands.

Revenue for the year was £322.3 million (2006: £300.8 million) and normalised operating profit was £43.5 million (2006: £40.7 million). Profits have increased in our bus division for the first time since 2001 and margins have been maintained at 13.5%.

In order to stimulate growth and encourage customer loyalty and repeat journeys, we did not increase the price of a number of our travelcard products in 2007. We achieved 2% passenger growth in our deregulated services with increases in both concessionary and non concessionary passengers.

We were delighted to sign a ground breaking voluntary partnership with Centro to deliver improved performance and customer satisfaction on six key routes through Birmingham, Walsall and West Bromwich. We have set ourselves demanding targets and, despite only starting the first of the routes in November, we have already seen year on year passenger growth of up to 10% on these routes. These partnership routes provide more frequent services, improved infrastructure, new or refurbished vehicles with the latest CCTV systems and improvements to timetables and employee training. The success has given both the Group and Centro real confidence to develop further ambitious partnership schemes. A new jointly agreed network for Dudley, which covers approximately 40 routes, will be rolled out in April this year and it is intended that this will form the basis of a wider partnership scheme.

Our London operations account for a quarter of our overall bus revenues and we have been pleased to be awarded four new contracts during the period by Transport for London. In December we introduced five hybrid fuel vehicles into the Travel London fleet to operate on the 127 service between North Greenwich and the Cutty Sark in south east London. These vehicles use up to 40% less fuel. In mid February 2008 we received planning permission for the redevelopment of the Battersea bus depot in London which will see a doubling of capacity at this site.

Travel Dundee performed well in the period. It was awarded the 2007 Scottish Disability and Business Award in November for driver training on disability and its contribution to community work with a range of community groups in the city. This award followed Travel Dundee becoming the first UK based urban bus company to have 100% low-floor easy- access vehicles in 2004.

Coaches

National Express coaches provide Britain's only scheduled national coach network and serves more than 1,000 destinations, providing approximately 19 million passenger journeys each year. Eurolines offers value for money European travel by coach. The division employs over 2,100 people. National Express Dot2Dot was launched in 2007 operating over 70 vehicles in the south east.

Revenue for the year was £231.0 million (2006: £207.3 million) with a normalised operating profit of £23.1 million (2006: £23.7 million). As expected for a start up business, National Express Dot2Dot incurred losses in 2007 of £4.8 million on revenue of £3.1 million. In the rest of our coaches business, we have grown our top line and increased our margin through segmentation of our product and enhanced yield management.

Coaches experienced an excellent trading year with passenger growth of 3%. This was achieved by the use of yield management, fare innovations and changes in our service offering. We have increased direct sales within the business with internet sales accounting for 35% of all transactions. We believe that greater use of self service ticket kiosks, which are now installed in the majority of our major coach stations, will continue to reduce our costs within the business. Our investment in our retail systems has enabled us to accelerate the roll out of yield management across the network, with £1 funfares now offered on more than 50 popular routes.

We are continuing to grow our business around special events and venues where public transport is required and travel by private car is discouraged. This year we created a unique network offering customers direct coach services to Wembley Stadium to enable them to attend both sporting and music events. We carried around 1,000 people to each event at Wembley since the start of our association. We have developed similar arrangements with other venues such as the Millennium Stadium and Twickenham.

We believe that coach has a very strong role to play in Britain's future transport strategy and are encouraged by the increasing support we are receiving from Government and stakeholders around the country. We are responding to that support by developing and implementing a wide range of innovative products and services. In the summer we trialed a new commuter service operating between Milton Keynes and Canary Wharf in London. The service, which offers a direct and low cost alternative to rail travel, provides free wi-fi, seat back tables, electrical plugs, GPS tracking and leather seats. Customers are texted with up to date information about their services. The trial has gone extremely well and we are now rolling out this concept to other parts of the UK where commuter flows exist. We extended our knowledge of the commuter coach market through the acquisition of the Kings Ferry Travel Group in November. Kings Ferry is a well established Kent based coach operator providing popular commuter travel services in London and the South of England as well as providing a wide range of contract management services in the bus and coach sector.

During the year we became the first coach company to fit new child friendly areas, with child seatbelts. Existing coaches were fitted with eight seats offering height adjustable seat belts for children and isofix fixings for child car seats. All new coaches will have these facilities provided.

The redevelopment and transformation of our main coach hub, Digbeth, in Birmingham is well underway and we await planning permission. During the second half of the year we completed a seamless move to a new temporary site near Digbeth. The redevelopment is on schedule to be completed by early 2010.

In November we launched National Express Dot2Dot, a high quality, on demand, shared ride product, targeted primarily at the business to business market although with significant capability for the business to consumer market as well. It currently has over 70 vehicles within its fleet. The start up of operations has gone well and customer satisfaction ratings are amongst the highest we have ever seen for any public transport type service.

North America

The North American division consists of student transportation. It operates over 15,000 buses. The division employs over 19,000 people.

Revenue in the division for the year was £308.0 million (2006: £283.7 million) and normalised operating profit was £37.7 million (2006: £39.1 million). In local currency, revenue was US$617.5 million (2006: US$524.0 million) and normalised operating profit was US$75.5 million (2006: US$72.3 million). As previously announced, the expiry of a fuel hedge caused an increase in North America fuel costs of $13 million in 2007.

Following the successful sale of Stewart airport in October, we are now focused on school bus provision. Our school bus operations performed well during the year despite the increasingly competitive landscape. Whilst 2006 had seen our best bidding season, 2007 surpassed this record with $38 million of new business being won and a retention rate of more than 95% of contracts. Following our entry into two new states, Tennessee and South Carolina, the division now operates in 27 states and two Canadian provinces. During the period we acquired three small bolt-on operations which were integrated into the business. We are currently seeing lower levels of business coming out to tender, partly because of the cycle of contracts coming up for expiry and also because the competitive landscape is going through a period of change. Even so, we are well placed to be successful in the bidding opportunities that arise.

Our Business Transformation initiative is focused on changing our business in order to create the highest margin and highest quality school bus business in North America. By fundamentally differentiating ourselves from others and with a focus on quality of service, we aim to compete more effectively, including being uniquely positioned to develop conversion opportunities. Business Transformation is about how to work smarter and more efficiently, how to respond to new competitors and look at creative ways to grow our business. We are also investing in systems and tools which meet the demands of our planned growth. During 2008, we will spend $31 million and expect net benefits to arise in 2009. Full year benefit will commence in 2010. To complement our Business Transformation we are formalising our environmental practices by creating an industry leading environmental strategy.

As with all our businesses, safety is our prime concern and we were delighted to see a further significant improvement in preventable accidents in 2007 from an already low base.

Spain

We are Spain's leading private operator of coach and bus services. The division provides nearly 144 million passenger journeys per annum and employs over 6,400 people.

Revenue was £298.0 million (2006: £249.3 million) and normalised operating profit was £50.9 million (2006: £44.3 million). In local currency revenue was €434.9 million (2006: €365.6 million) and normalised profit was €74.3 million (2006: €65.0 million). 2007 results include a three month contribution from Continental Auto. Trading improved in the second half of 2007 and we achieved a full year margin of 17.1%.

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 orientated agenda in our existing businesses. Continental Auto has a higher proportion of urban and commuter services which balance the long distance services which is the largest part of Alsa. The integration of Continental Auto is proceeding to plan both in terms of timing and synergies delivered, adjusting and optimising resources. Already we have fully integrated finance, sales and routing systems and 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 which now means we do not have a single concession expiring before 2013. Competition 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 which we believe arises from having the scale of operations and the expertise to deliver on 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 incorporate this facility. In addition we launched a new loyalty card Bus Plus which provides loyalty benefit to our customers and etickets were rolled out on long distance routes. We are also reviewing our overall distribution costs and are pleased that now 15% of all sales for long distance and regional services are via the internet.

With over 60% of the Spanish transport market represented by bus and coach, we believe there are plenty of 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.

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Finance Review

Year at a glance

We have continued our track record of delivering strong financial results. Profit before tax increased by 44.0% to £149.9m (2006: £104.1m), driven by a 14.6% increase in operating profit to £162.3m (2006: £141.6m). Basic earnings per share from continuing operations improved 39.4% to 73.6p (2006: 52.8p).

Our financial key performance indicators are based on normalised results, which we feel reflect the performance of the business more appropriately. 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 thereon as appropriate.

Normalised group operating profit was up by 11.3% to £205.6m (2006: £184.8m), on revenue of £2,615.4m (2006: £2,525.5m) resulting in an increased operating margin of 7.9% (2006: 7.3%). Normalised profit before tax increased by 13.4% to £177.0m (2006: £156.1m), driving a 9.7% increase in normalised diluted earnings per share to 83.9p (2006: 76.5p).

Reflecting this earnings growth and the Board's confidence for its future prospects, the proposed final dividend per share will be increased by 10.0% to 26.40p (2006: 24.0p). This results in a full year dividend per share of 37.96p (2006: 34.75p), an increase of 9.2%.

Net debt increased by £472.4m to £910.8m (2006: £438.4m), with £481.9m of the increase resulting from our acquisition of Continental Auto in Spain.

Divisional review

Commentary on the divisional results is included in the Operational Review above. Specific financial points to note are included below.

Trains

Revenue decreased 2% as a result of franchises leaving the Group. Normalising the result for franchise exits, revenue increased by 11%.

The business margin has improved to 4.3% (2006: 3.3%). The Central Trains, Silverlink and Midland Mainline franchises expired in November 2007, and as part of the DfT re-mapping exercise, Gatwick Express leaves the Group in June 2008. The settlement of working capital balances in respect of Trains franchises that have finished will continue to result in operating cash outflows.

Coaches

The trading results for the start up business National Express Dot2Dot were in line with the business plan, with revenue of £3.1m resulting in an operating loss of £4.8m. This has been reported as part of the UK Coach results. Consequently on a life for like basis the Coach margins increase to 12.2% (2006: 11.4%).

Spain

In local currency, we generated normalised operating profit of €74.3m (2006: €65.0m) on revenue of €434.9m (2006: €365.6m). We are pleased to have maintained our margins above 17%.

The integration of Continental Auto into Alsa is a major project covering the systems for sales, vehicle maintenance and financial reporting. We started this project as soon as the sale completed in October and expect it to be completed by mid-2008. The valuation work on intangibles and key assets will be included in the 30 June 2008 balance sheet in accordance with IFRS 3, 'Business Combinations'.

North America

In local currency, North America increased normalised operating profit to US$75.5m (2006: US$72.3m). Revenue has increased by 18% to US$617.5m (2006: US$524.0m).

As reported in last year's results, historic fuel hedges that were in place ended in 2006, which resulted in US$13m increase in the cost base in 2007. This resulted in a lower margin of 12.2% (2006: 13.8%).

Following the Group's announcement of the planned sale of the operating lease on Stewart International Airport, the assets and related liabilities of the disposal group were separately identified in the 2006 balance sheet, in accordance with IFRS 5, 'Non-current assets held for sale and discontinued operations'. The business did not meet the definition of a discontinued operation, therefore the results, which do not make a significant contribution, are included within continuing operations in 2007 and 2006.

Fuel

We use fuel swaps to hedge short term movements in the fuel price. These swaps cover a number of different positions including ULSD and gasoil in the UK, heating oil in North America and Euro denominated ULSD in Spain. For 2008 and 2009 we have hedged 58% and 31% of our volumes respectively.

Joint ventures and Associates

The Group has a number of associates and joint ventures in Spain and holds a 40% investment in Inter-Capital and Regional Rail Limited ("ICRRL").

The results of the associates and joint ventures in Spain were a profit of £0.6m (2006: £0.2m) and a loss of £0.2m (2006: £0.2m loss) respectively.

The Group's Eurostar contract with ICRRL was designated an onerous contract in 2006. As a result there is no charge to the income statement in 2007, but in 2006 the total charge was £29.6m, comprising our share of the ICRRL result of £3.9m and a £25.7m exceptional charge for the onerous contract. We have provided for the Eurostar losses to the end of the contract in 2010.

Finance cost

Net finance costs increased to £29.0m (2006: £24.9m), reflecting the £481.9m increase in net debt following the acquisition of Continental Auto in October 2007.

Included in the net finance cost is a £3.0m (2006: £2.1m) charge to unwind the discounting on provisions, most notably the ICRRL onerous contract. Adjusting for the discounting charge and comparing to normalised operating profit before depreciation and other non-cash items ("EBITDA") of £282.9 (2006: £264.0m), the EBITDA finance cover was 10.9 times (2006: 11.6 times).

Amortisation of Intangible assets

Amortisation of £27.5m (2006: £27.8m) was charged on the intangible asset that arises from the Group's right to operate its rail franchises £1.1m (2006: £1.6m) and on contracts acquired in Alsa £20.2m (2006: £20.1m), UK Bus £1.1m (2006: £1.6m) and North America £5.1m (2006: £4.5m).

Exceptional items

Exceptional charges totalled £15.8m, incurred on the Business Transformation program in North America (£8.2m), UK Integration program (£4.2m), the Continental Auto integration (£2.6m) and the NXEC franchise mobilisation (£0.8m).

In 2006, exceptional items totalled a net income of £4.8m, comprising a credit of £6.7m in relation to defined benefit pension liabilities and charges of £1.9m in relation to the integration of Alsa.

The £16.2m profit on disposal of non-current assets arises from the sale of the operating lease on Stewart International Airport in October 2007. The £16.9m profit in 2006 resulted from the disposal a 14% shareholding in Trainline Holdings Limited (£9.4m) and the disposal of a car park in Sheffield (£7.5m).

Taxation

The total tax charge of £37.6m (2006: £23.6m) on profit before tax of £149.9m (2006: £104.1m) represents an effective rate of 25.1% (2006: 22.7%).

The tax charge on normalised profit of £177.0m (2006: £156.1m) was £48.1m (2006: £39.2m), which represents an effective rate of 27.2% (2006: 25.1%). Reductions in jurisdictional tax rates mean that the expected tax rate on normalised profit before tax decreased by 1.0% to 31.3%. However, the effective tax rate has increased by 2.1% to 27.2% due to the expiry of certain tax efficient financing arrangements.

The total tax charge includes a tax credit on exceptional items of £10.5m (2006: £15.6m) which includes the deferred tax benefit of the Group's non-deductible intangible asset amortisation.

Discontinued operations

An additional provision of £6.3m was recognised in relation to the Group's Public Transit business which was disposed of in 2005. The Group provided an indemnity to the purchaser at the time of the disposal regarding an industry employment issue in California. The issue is close to resolution and this charge reflects the Directors' best estimate of the Group's liability. The charge of £2.9m on the face of the income statement comprises £6.3m of additional liabilities in relation to the disposed operations, offset by a tax credit of £3.4m.

Cash flow

The Group continues to generate strong cash flow with normalised operating profit of £205.6m (2006: £184.8m) converted into operating cash flow before one-offs of £196.7m (2006: £209.7m). Net cash inflow from operations of £300.6m (2006: £297.1m) is then used to maintain high levels of investment across the Group, particularly in North America where capital expenditure is required for contract wins.

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Operating Cash Flow	UK Bus £m	UK Coach £m	UK Trains £m	North American Bus £m	Europe £m	Central functions £m	Total £m
Normalised operating profit	43.5	23.1	63.3	37.7	50.9	(12.9)	205.6
Depreciation	17.0	4.8	15.9	25.9	15.4	0.6	79.6
Amortisation of leasehold property prepayment	0.1	-	-	-	-	-	0.1
Amortisation of fixed asset grants	(0.1)	-	(0.8)	-	(0.4)	-	(1.3)
Profit on disposal	0.1	(0.2)	(2.8)	(0.6)	(0.8)	-	(4.3)
Share based payments	0.3	0.2	0.6	0.4	0.2	1.5	3.2
EBITDA	**60.9**	**27.9**	**76.2**	**63.4**	**65.3**	**(10.8)**	**282.9**
Working capital movement	(9.5)	(0.1)	43.1	(3.6)	1.5	(13.7)	17.7
Net cash inflow from operations	**51.4**	**27.8**	**119.3**	**59.8**	**66.8**	**(24.5)**	**300.6**
Net capital expenditure	(22.3)	(9.6)	(6.1)	(45.1)	(20.3)	(0.5)	(103.9)
Operating cash flow before one-offs	**29.1**	**18.2**	**113.2**	**14.7**	**46.5**	**(25.0)**	**196.7**
UK Train franchise entry and exits							(31.9)
Operating cash flow							**164.8**

Operating cash flow is intended to be the cash flow equivalent to normalised operating profit. To reconcile the operating cash flow to the statutory cash flow the following items are included: "Cash generated from operations" plus "Proceeds from disposal of property, plant and equipment" less "Finance lease additions" and "Purchase of property, plant and equipment" as set out in note 10 and the cash flow statement. The non-operating items are then excluded which comprise £8.4m payment to associates and £11.3m payments in relation to other exceptional items.

The working capital outflow in UK Bus comprises payments to the defined benefit pension schemes in excess of the income statement charge and the losses associated with the onerous contracts in our London business. The working capital inflow in UK Trains arises from a number of items including working capital phasing and non-cash charges at NXEC incurred in the franchise entry. The working capital outflow in Central Functions arises from the reversal of prior year working capital inflows and the settlement of foreign currency swaps.

Net capital expenditure was £103.9m (2006: £87.4m) including £0.2m (2006: £20.7m) of additions purchased under finance leases and £15.4m (2006: £6.8m) of proceeds from disposals.

The net operating cash outflow in respect of TOC franchise entry and exits was £31.9m (2006: £27.7m) comprising cash flows in respect of working capital and property, plant and equipment.

Reconciliation of net debt	2007 £m	2006 £m
Operating cash flow	164.8	182.0
Exceptional cash flow	(11.3)	(2.0)
Exceptional property proceeds	-	13.0
Payments to associates	(8.4)	(8.4)
Receipt in respect of investments	10.7	-
Net interest	(23.4)	(20.6)
Dividends paid to minority interests	(0.1)	-
Taxation	(18.8)	(9.0)
Free cash flow	**113.5**	**155.0**
Share buy back	-	(11.6)
Financial investments & shares	5.5	15.8
Acquisitions and disposals	(482.1)	(16.8)
Dividends	(53.9)	(49.7)
Net funds flow	**(417.0)**	**92.7**
Foreign exchange	(55.4)	32.3
Funds flow post exchange	(472.4)	125.0
Opening net debt	(438.4)	(563.4)
Closing net debt	**(910.8)**	**(438.4)**

Payments to associates of £8.4m (2006: £8.4m) represent the annual outflow in respect of the ICRRL onerous contract. In 2007 £10.7m was received on the redemption of preference shares following the completion the Channel Tunnel Rail Link.

Net interest paid of £23.4m (2006: £20.6m) comprises the cash outflow of £22.5m (2006: £19.7m) adjusted for loan fee amortisation of £0.9m (2006: £0.9m). The increase in interest paid follows the acquisition of Continental Auto in October 2007.

As disclosed last year, the 2006 tax payments were reduced by the receipt of tax rebates in respect of prior years.

Acquisitions and disposals in the year increased net debt by £482.1m, principally due to the £481.9m increase resulting from the acquisition of Continental Auto. Three bolt-on acquisitions in North America and the acquisition of the Kings Ferry Group and Hotelink in the UK were funded by the disposal of Stewart Airport in North America.

Movements in foreign currency exchange rates increased net debt by £55.4m principally due to the strengthening of the Euro. The increase in net debt due to exchange is hedged by a corresponding increase in our net investment in Euro denominated assets.

Dividend

A final dividend of 26.40p per share will be paid in May 2008, bringing the total dividend for the year to 37.96p. This is a 9.2% increase in total dividends declared compared to 2006 reflecting the 9.7% increase in normalised diluted earnings per share. This dividend is covered 2.2 times (2006: 2.2 times) by normalised profits after tax.

In light of the consistent nature of our rail portfolio for the medium term and based on the Board's confidence in the Group's future prospects, it is proposed to announce a three year commitment on dividend growth of 10% per annum.

Liquidity

At 31 December 2007, the Group had two bank debt facilities: an £800 million revolving credit facility maturing in June 2011 and a €500m term loan facility expiring in April 2008. At 31 December 2007, the headroom under the facility was £199.4m (2006: £247.8m). The Group has complied with all of its banking covenants in the year.

Since year end we have replaced the €500m term loan facility with a €540m term loan facility expiring in February 2009 with a one year extension to February 2010 at the Group's option.

NATIONAL EXPRESS GROUP PLC
GROUP INCOME STATEMENT
For the year ended 31 December 2007

	Note	**Total before goodwill impairment, intangible amortisation and exceptional items 2007 £m**	**Goodwill impairment, intangible amortisation and exceptional items 2007 £m**	**Total 2007 £m**	Total before goodwill impairment, intangible amortisation and exceptional items 2006 £m	Goodwill impairment, intangible amortisation and exceptional items 2006 £m	Total 2006 £m
Continuing Operations							
Revenue	3	**2,615.4**	**-**	**2,615.4**	2,525.5	-	2,525.5
Operating costs before goodwill impairment, intangible amortisation & exceptional items		**(2,409.8)**	**-**	**(2,409.8)**	(2,340.7)	-	(2,340.7)
Goodwill impairment	3	**-**	**-**	**-**	-	(20.2)	(20.2)
Intangible amortisation	3	**-**	**(27.5)**	**(27.5)**	-	(27.8)	(27.8)
Exceptional items	3	**-**	**(15.8)**	**(15.8)**	-	4.8	4.8
Total operating costs		**(2,409.8)**	**(43.3)**	**(2,453.1)**	(2,340.7)	(43.2)	(2,383.9)
Group operating profit		**205.6**	**(43.3)**	**162.3**	184.8	(43.2)	141.6
Profit on disposal of non-current assets	3	**-**	**16.2**	**16.2**	-	16.9	16.9
Profit from operations		**205.6**	**(27.1)**	**178.5**	184.8	(26.3)	158.5
Share of post tax results from associates and joint ventures accounted for using the equity method		**0.4**	**-**	**0.4**	(3.8)	(25.7)	(29.5)
Finance income	4	**17.0**	**-**	**17.0**	12.4	-	12.4
Finance costs	4	**(46.0)**	**-**	**(46.0)**	(37.3)	-	(37.3)
Profit before tax		**177.0**	**(27.1)**	**149.9**	156.1	(52.0)	104.1
Tax expense	5	**(48.1)**	**10.5**	**(37.6)**	(39.2)	15.6	(23.6)
Profit after tax for the year from continuing operations		**128.9**	**(16.6)**	**112.3**	116.9	(36.4)	80.5
Loss for the year from discontinued operations		**-**	**(2.9)**	**(2.9)**	-	(3.2)	(3.2)
Profit for the year		**128.9**	**(19.5)**	**109.4**	116.9	(39.6)	77.3
Profit attributable to equity shareholders		**128.4**	**(19.5)**	**108.9**	116.1	(39.6)	76.5
Profit attributable to minority interests		**0.5**	**-**	**0.5**	0.8	-	0.8
		128.9	**(19.5)**	**109.4**	116.9	(39.6)	77.3
Earnings per share:							
- basic earnings per share	7			**71.7p**			50.7p
- diluted earnings per share	7			**71.2p**			50.4p
Normalised earnings per share:							
- basic earnings per share	7	**84.5p**			77.0p		
- diluted earnings per share	7	**83.9p**			76.5p		
Earnings per share from continuing operations:							
- basic earnings per share	7			**73.6p**			52.8p
- diluted earnings per share	7			**73.1p**			52.5p
Dividends per ordinary share:							
- interim	6			**11.56p**			10.75p
- final	6			**26.40p**			24.00p
				37.96p			34.75p

Dividends of £54.0m were declared and payable during the year (2006: £50.1m). Dividends of £57.8m were proposed for approval during the year (2006: £52.5m).

NATIONAL EXPRESS GROUP PLC
GROUP BALANCE SHEET
At 31 December 2007

		Note	2007 £m	2006 £m
Assets				
Non-current assets				
Intangible assets			**1,173.9**	697.6
Property, plant and equipment			**678.7**	501.9
Financial assets	*- Available for sale*		**7.2**	13.5
	- Derivative financial instruments		**5.3**	0.3
Investments accounted for using the equity method			**11.8**	8.7
Other receivables			**10.0**	4.1
Deferred tax asset			**-**	10.6
			1,886.9	1,236.7
Current assets				
Inventories			**20.0**	15.5
Trade and other receivables			**272.4**	272.3
Financial assets	*- Derivative financial instruments*		**10.0**	8.1
Current tax assets			**9.5**	26.4
Cash and cash equivalents			**157.2**	143.6
			469.1	465.9
Disposal group assets classified as held for sale			**-**	20.1
Total assets			**2,356.0**	1,722.7
Non-current liabilities				
Financial liabilities	*- Borrowings*		**(641.6)**	(538.4)
	- Derivative financial instruments		**(5.4)**	(8.3)
Deferred tax liability			**(104.0)**	(84.3)
Other non-current liabilities			**(3.7)**	(3.0)
Defined benefit pension liability		8	**(29.8)**	(52.8)
Provisions			**(43.5)**	(61.3)
			(828.0)	(748.1)
Current liabilities				
Trade and other payables			**(573.3)**	(518.4)
Financial liabilities	*- Borrowings*		**(426.4)**	(43.6)
	- Derivative financial instruments		**(17.7)**	(6.4)
Current tax liabilities			**(24.7)**	(40.9)
Provisions			**(44.8)**	(17.4)
			(1,086.9)	(626.7)
Liabilities directly associated with disposal group assets classified as held for sale			**-**	(2.4)
Total liabilities			**(1,914.9)**	(1,377.2)
Net assets			**441.1**	345.5
Shareholders' equity				
Called up share capital		9	**7.7**	7.7
Share premium account		9	**195.3**	189.8
Capital redemption reserve		9	**0.2**	0.2
Own shares		9	**(16.3)**	(16.7)
Other reserves		9	**30.7**	7.9
Retained earnings		9	**219.6**	153.3
Total shareholders' equity			**437.2**	342.2
Minority interest in equity		9	**3.9**	3.3
Total equity			**441.1**	345.5

NATIONAL EXPRESS GROUP PLC
GROUP STATEMENT OF CASH FLOWS
For the year ended 31 December 2007

	Note	**2007** £m	2006 £m
Cash generated from operations	11	**272.1**	254.5
Tax paid		**(18.8)**	(9.0)
Net cash from operating activities		**253.3**	245.5
Cash flows from investing activities			
Payments to acquire businesses, net of cash acquired		**(485.0)**	(19.8)
Deferred consideration for businesses acquired		**(1.7)**	(3.0)
Purchase of property, plant and equipment		**(149.7)**	(73.5)
Proceeds from disposal of property, plant and equipment		**22.9**	24.3
Payments to acquire available for sale investments		**-**	(4.6)
Payments to acquire associates		**-**	(1.5)
Receipts from disposal of available for sale investments		**10.7**	13.2
Receipts from disposal of businesses, net of cash disposed		**34.3**	-
Payments in respect of discontinued operations		**(1.9)**	-
Receipts from disposal of intangible assets		**-**	1.5
Interest received		**17.0**	12.4
Net cash used in investing activities		**(553.4)**	(51.0)
Cash flows from financing activities			
Proceeds from issue of ordinary shares		**5.5**	15.8
Purchase of treasury shares		**-**	(11.6)
Interest paid		**(39.5)**	(32.1)
Finance lease principal payments		**(26.3)**	(21.5)
Net loans advanced/(repaid)		**424.9**	(89.9)
Loans receivable repaid		**-**	1.0
Dividends paid to minority interests		**(0.1)**	-
Dividends paid to shareholders of the Company		**(53.9)**	(49.7)
Net cash from/(used in) financing activities		**310.6**	(188.0)
Increase in cash and cash equivalents		**10.5**	6.5
Opening cash and cash equivalents		**143.6**	140.0
Increase in cash and cash equivalents		**10.5**	6.5
Foreign exchange		**3.1**	(2.9)
Closing cash and cash equivalents		**157.2**	143.6

NATIONAL EXPRESS GROUP PLC
GROUP STATEMENT OF RECOGNISED INCOME AND EXPENSE
For the year ended 31 December 2007

	Note	2007 £m	2006 £m
Income and expense recognised directly in equity			
Exchange differences on retranslation of foreign operations		**83.2**	(55.3)
Exchange differences on retranslation of foreign currency borrowings		**(89.1)**	46.8
Exchange differences on retranslation of minority interests		**0.2**	-
Actuarial gains on defined benefit pension plans		**11.7**	20.6
Gain/(loss) on cash flow hedges taken to equity		**21.5**	(12.1)
		27.5	-
Transfers to the income statement			
On cash flow hedges		**(1.0)**	1.6
		(1.0)	1.6
Tax on exchange differences on retranslation of foreign operations		**14.3**	(1.3)
Tax on share based payments		**0.4**	2.4
Deferred tax on actuarial gains		**(3.5)**	(6.2)
Deferred tax on cash flow hedges		**(6.1)**	3.7
Tax on items taken directly to or transferred from equity		**5.1**	(1.4)
Net losses recognised directly in equity		**31.6**	0.2
Profit for the financial year		**108.9**	76.5
Profit attributable to minority interests		**0.5**	0.8
Total recognised income and expense for the year		**141.0**	77.5
Income and expense attributable to equity shareholders		**140.3**	76.7
Income attributable to minority interests		**0.7**	0.8
		141.0	77.5

NATIONAL EXPRESS GROUP PLC
NOTES TO THE ACCOUNTS
For the year ended 31 December 2007

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 2006 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:

	2007 Closing rate	**2007 Average rate**	2006 Closing rate	2006 Average rate
US dollar	**1.98**	**2.00**	1.96	1.85
Canadian dollar	**1.98**	**2.15**	2.28	2.09
Euro	**1.36**	**1.46**	1.48	1.47
Australian dollar	**2.27**	**2.39**	2.48	2.44

If the results for the year to 31 December 2006 had been retranslated at the average exchange rates for the year to 31 December 2007, North America would have achieved normalised operating profit of £36.5m on revenue of £264.5m, compared to normalised operating profit of £39.1m on revenue of £283.7m as reported, and Europe would have achieved a normalised operating profit of £44.5m on revenue of £250.5m, compared to normalised operating profit of £44.3m on revenue of £249.3m as reported.

3. Segmental analysis

Analysis by class and geography of business

	Revenue 2007 £m	**Operating result 2007 £m**	Revenue 2006 £m	Operating result 2006 £m
UK Bus	**322.3**	**43.5**	300.8	40.7
UK Trains	**1,472.1**	**63.3**	1,497.6	49.1
UK Coach	**231.0**	**23.1**	207.3	23.7
Intercompany elimination	**(16.0)**	**-**	(13.2)	-
UK operations	**2,009.4**	**129.9**	1,992.5	113.5
North American Bus	**308.0**	**37.7**	283.7	39.1
European Coach & Bus	**298.0**	**50.9**	249.3	44.3
Central functions	**-**	**(12.9)**	-	(12.1)
Result from continuing operations	**2,615.4**	**205.6**	2,525.5	184.8
Goodwill impairment		**-**		(20.2)
Intangible asset amortisation		**(27.5)**		(27.8)
Exceptional items		**(15.8)**		4.8
Group operating profit		**162.3**		141.6
Profit on disposal of non-current assets		**16.2**		16.9
Profit from operations		**178.5**		158.5
Share of post tax results from associates		**0.4**		(29.5)
Net finance costs		**(29.0)**		(24.9)
Profit before tax		**149.9**		104.1
Tax expense		**(37.6)**		(23.6)
Profit for the year from continuing operations		**112.3**		80.5
Loss from discontinued operations		**(2.9)**		(3.2)
Profit for the year		**109.4**		77.3

Intercompany sales only occur between the Group's UK Divisions.

3. Segmental analysis (continued)

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

	Intangible asset amortisation 2007 £m	Exceptional items 2007 £m	Total 2007 £m
UK Bus	**1.1**	**0.1**	**1.2**
UK Trains	**1.1**	**1.8**	**2.9**
UK Coach	**-**	**0.3**	**0.3**
North American Bus	**5.1**	**8.2**	**13.3**
European Coach & Bus	**20.2**	**2.6**	**22.8**
Central functions	**-**	**2.8**	**2.8**
Total	**27.5**	**15.8**	**43.3**

In the year to 31 December 2007 exceptional costs of £4.2m for UK Integration were incurred in UK Bus, UK Trains, UK Coach and Central functions. Mobilisation costs of £0.8m were incurred in National Express East Coast. Integration costs of £2.6m were incurred in Continental Auto. Business transformation costs of £8.2m were incurred in North America.

In the year to 31 December 2007 non-operating exceptional items comprise £16.2m of profit on disposal of the trade and business of Stewart International Airport.

	Goodwill Impairment 2006 £m	Intangible asset amortisation 2006 £m	Exceptional items 2006 £m	Total 2006 £m
UK Bus	1.0	1.6	(4.9)	(2.3)
UK Trains	19.2	1.6	-	20.8
UK Coach	-	-	(1.3)	(1.3)
North American Bus	-	4.5	-	4.5
European Coach & Bus	-	20.1	1.9	22.0
Central functions	-	-	(0.5)	(0.5)
Total	20.2	27.8	(4.8)	43.2

In the year to 31 December 2006 exceptional income arose in UK Bus, UK Coach and Central Functions for a past service pension credit. Integration costs of £1.9m were incurred in Alsa.

In 2006 non-operating exceptional items comprise £7.5m of profit on the disposal of property and £9.4m of profit on disposal of investments, both items relate to the UK Trains division.

4. Net finance costs

	2007 £m	2006 £m
Bank interest payable	**(37.9)**	(28.2)
Finance lease interest payable	**(5.0)**	(7.0)
Other interest payable	**(0.1)**	-
Unwind of provision discounting	**(3.0)**	(2.1)
Finance costs	**(46.0)**	(37.3)
Finance income: Bank interest receivable	**17.0**	12.4
Net finance costs	**(29.0)**	(24.9)

5. Taxation

Analysis of taxation charge in the year

	2007 £m	2006 £m
Current taxation:		
UK corporation tax – continuing operations	**24.9**	10.0
Overseas taxation – continuing operations	**11.3**	8.8
Current income tax charge	**36.2**	18.8
Amounts under/(over) provided in prior years – UK	**(2.0)**	(4.8)
Amounts overprovided in prior years – Overseas	**-**	(0.2)
Total current income tax	**34.2**	13.8
Deferred taxation:		
Origination and reversal of temporary differences – continuing operations	**-**	9.8
Total tax charge	**34.2**	23.6
The tax charge in the income statement is disclosed as follows:		
Income tax expense on continuing operations	**37.6**	23.6
Income tax credit on discontinued operations	**(3.4)**	-
	34.2	23.6
The tax expense on continuing operations is disclosed as follows:		
Tax charge on profit before goodwill impairment, intangible asset amortisation and exceptional items	**48.1**	39.2
Tax credit on intangible asset amortisation and exceptional items	**(10.5)**	(15.6)
	37.6	23.6

6. Dividends payable and proposed

Declared and paid during the year	2007 £m	2006 £m
Ordinary final dividend for 2006 paid of 24.00p per share (2005: 22.25p per share)	**36.4**	33.9
Ordinary interim dividend for 2007 paid of 11.56p per share (2006: 10.75p per share)	**17.6**	16.2
	54.0	50.1
Proposed for approval (not recognised as a liability at 31 December)		
Ordinary final dividend for 2007 of 26.4p per share (2006: 24.00p per share)	**40.2**	36.3

7. Earnings per share

	2007	2006
Basic earnings per share – continuing operations	**73.6p**	52.8p
Basic loss per share – discontinued operations	**(1.9p)**	(2.1p)
Basic earnings per share – total	**71.7p**	50.7p
Normalised basic earnings per share – continuing operations	**84.5p**	77.0p
Diluted earnings per share – continuing operations	**73.1p**	52.5p
Diluted loss per share – discontinued operations	**(1.9p)**	(2.1p)
Diluted earnings per share – total	**71.2p**	50.4p
Normalised diluted earnings per share – continuing operations	**83.9p**	76.5p

Basic earnings per share is calculated by dividing the earnings attributable to equity shareholders of £108.9m (2006: £76.5m) 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.

7. Earnings per share (continued)

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

	2007	2006
Basic weighted average shares	**151,914,241**	150,847,303
Adjustment for dilutive potential ordinary shares	**976,000**	915,923
Diluted weighted average shares	**152,890,241**	151,763,226

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

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

	2007 £m	**2007 Basic EPS p**	**2007 Diluted EPS p**	2006 £m	2006 Basic EPS p	2006 Diluted EPS p
Profit attributable to equity shareholders	**108.9**	**71.7**	**71.2**	76.5	50.7	50.4
Loss from discontinued operations	**2.9**	**1.9**	**1.9**	3.2	2.1	2.1
Profit from continuing operations attributable to equity shareholders	**111.8**	**73.6**	**73.1**	79.7	52.8	52.5
Goodwill impairment on continuing operations	**-**	**-**	**-**	20.2	13.4	13.3
Intangible asset amortisation	**27.5**	**18.1**	**18.0**	27.8	18.5	18.3
Exceptional charge for associate onerous contract provision	**-**	**-**	**-**	25.7	17.0	16.9
Exceptional items	**15.8**	**10.4**	**10.3**	(4.8)	(3.2)	(3.1)
Profit on disposal of non-current assets	**(16.2)**	**(10.7)**	**(10.6)**	(16.9)	(11.2)	(11.1)
Tax relief on goodwill and exceptional items	**(10.5)**	**(6.9)**	**(6.9)**	(15.6)	(10.3)	(10.3)
Normalised profit attributable to equity shareholders	**128.4**	**84.5**	**83.9**	116.1	77.0	76.5

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 £27.5m (2006: £23.9m), of which £3.2m (2006: £3.4m) relates to the defined contribution schemes.

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

	2007 £m	2006 £m
UK Bus	**(5.1)**	(17.3)
UK Coach	**(4.9)**	(12.7)
UK Train	**(18.8)**	(21.1)
Other	**(1.0)**	(1.7)
Total	**(29.8)**	(52.8)

9. Share capital and reserves

	Share capital £m	Share premium £m	Capital redemp-tion reserve £m	Own shares £m	Other reserves £m	Retained earnings £m	Total £m	Minority interests £m	Total equity £m
At 1 January 2007	7.7	189.8	0.2	(16.7)	7.9	153.3	342.2	3.3	345.5
Shares issued	-	5.5	-	-	-	-	5.5	-	5.5
Own shares released to satisfy employee share schemes	-	-	-	0.4	-	(0.4)	-	-	-
Total recognised income and expense	-	-	-	-	22.8	117.5	140.3	0.7	141.0
Share-based payments	-	-	-	-	-	3.2	3.2	-	3.2
Dividends	-	-	-	-	-	(54.0)	(54.0)	-	(54.0)
Payments to minority interests	-	-	-	-	-	-	-	(0.1)	(0.1)
At 31 December 2007	**7.7**	**195.3**	**0.2**	**(16.3)**	**30.7**	**219.6**	**437.2**	**3.9**	441.1

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

Treasury shares include 1,825,000 (2006: 1,825,000) ordinary shares in the Company. During the year, the Group repurchased no (2006: 1,425,000) shares for consideration of £nil (2006: £11.6m). No additional (2006: 1,425,000) shares have been retained as treasury shares within equity for future issue under the Group's share schemes or cancellation. No shares were cancelled during the year (2006: nil). The market value of these shares at 31 December 2006 was £22.7m (2006: £20.6m).

Own shares include 447,554 (2006: 663,352) ordinary shares in the Company that have been purchased by the Trustees of the National Express Employee Benefit Trust (the "Trust"). During the year, the Trust purchased no (2006: nil) shares and 215,798 (2006: 186,105) shares were used to satisfy options granted under a number of the Company's share schemes. The value of shares within the Trust has been recognised as an investment in treasury shares. The market value of these shares at 31 December 2006 was £5.6m (2006: £7.5m). The dividends payable on these shares have been waived.

10. Net debt

Net debt at 31 December 2007 comprises cash and cash equivalents of £157.2m (2006: £143.6m), current interest bearing loans and borrowings of £426.4m (2006: £43.6m) and non-current interest bearing loans and borrowings of £641.6m (2006: £538.4m).

	At 1 January 2007 £m	Cash flow £m	Acquisitions/ Disposals £m	Exchange Differences £m	Other movements £m	**At 31 December 2007 £m**
Cash	43.7	22.4	-	1.9	-	**68.0**
Overnight deposits	21.6	(7.0)	-	-	-	**14.6**
Other short term deposits	78.3	(4.9)	-	1.2	-	**74.6**
Cash and cash equivalents	143.6	10.5	-	3.1	-	**157.2**
Borrowings:						
Loan notes	(0.8)	-	-	-	-	**(0.8)**
Bank loans	(478.1)	(424.9)	(4.4)	(57.6)	(0.9)	**(965.9)**
Finance lease obligations	(103.1)	26.3	(23.4)	(0.9)	(0.2)	**(101.3)**
	(582.0)	(398.6)	(27.8)	(58.5)	(1.1)	**(1,068.0)**
Net debt	(438.4)	(388.1)	(27.8)	(55.4)	(1.1)	**(910.8)**

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.

Other non cash movements in net debt represent finance lease additions of £0.2m (2006: £20.7m) and £0.9m (2006: £0.9m) amortisation of loan arrangement fees.

11. Cash flow statement

The net cash inflows from operating activities include outflows of £11.3m (2006: £2.0m) from continuing operations which related to exceptional costs.

The reconciliation of Group profit before tax to cash generated from operations is as follows:

Total Operations	**2007 £m**	2006 £m
Net cash inflow from operating activities		
Profit before tax	**149.9**	104.1
Net finance costs	**29.0**	24.9
Profit on disposal of non-current assets	**(16.2)**	(16.9)
Share of post tax results from associates and joint ventures	**(0.4)**	29.5
Depreciation of property, plant and equipment	**79.6**	81.7
Amortisation of leasehold property prepayment	**0.1**	0.6
Goodwill impairment	**-**	20.2
Intangible asset amortisation	**27.5**	27.8
Amortisation of property, plant and equipment grants	**(1.3)**	(2.0)
Profit on disposal of non-current assets (in operating profit)	**(4.3)**	(3.1)
Share-based payment	**3.2**	2.0
(Increase)/decrease in inventories	**(2.1)**	2.9
Decrease in receivables	**17.7**	27.3
Increase/(decrease) in payables	**5.9**	(21.1)
Decrease in provisions	**(16.5)**	(23.4)
Cash generated from operations	**272.1**	254.5

12. Financial information

The financial information set out above, which was approved by the Board on 28 February 2008, is derived from the full Group accounts for the year ended 31 December 2007 and does not constitute 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.

Copies of the Preliminary Results may be obtained from the Company Secretary at 7 Triton Square, London, NW1 3HG. Copies are also available via www.nationalexpressgroup.com.

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