



National
Express
Group

Annual Report 2000



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National Express Group is a leading international public transport group. We carry over one billion passengers a year worldwide through our bus, train, tram and express coach operations.

We operate local transport businesses which are run by local people to meet the needs of the communities we serve.

We conduct our business to ensure that these communities receive both economic and social benefits.

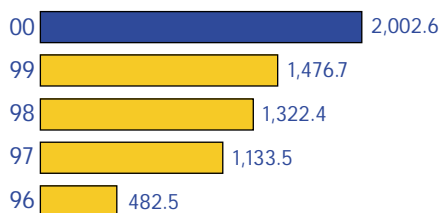
Our 40,000 employees are committed to improving the quality, value for money and the safety of all our services.

We invest in all aspects of our services, to attract more passengers and maximise the use of public transport systems.

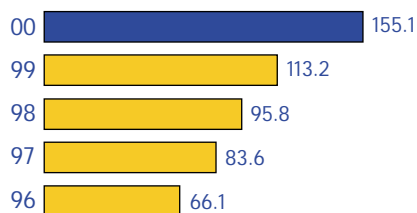
We are committed to taking advantage of the many opportunities for growth which exist in the international public transport market.

National Express Group PLC at a glance

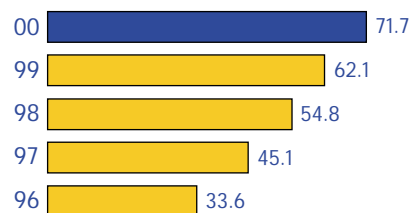
Turnover (£m)



Operating profit before goodwill and exceptionals (£m)



Diluted earnings per share - normalised (p)



Divisions

Services

Buses

High-frequency urban bus services operating primarily in Birmingham and across the West Midlands - representing the largest single area bus network in the UK outside London. Also operator of the Midland Metro light-rail service.

Trains

Largest train operator in the UK. Nine train operating companies provide a range of intercity, urban and rural passenger train services and a dedicated train maintenance operation.

Coaches

Extensive and integrated network of scheduled and contracted coach services in three business segments - UK express coaches, airport services and European coaching.

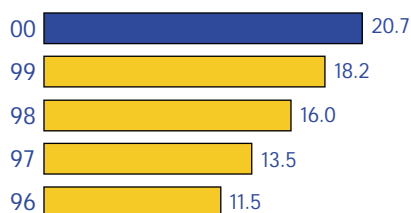
USA

One of the largest private operators of student transportation bus services, public transit bus services and demand-response services.

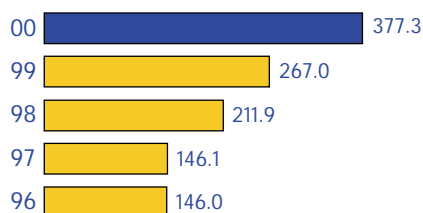
Australia

Largest private operator of public transport in Australia. Provides bus services in Sydney, Melbourne, Perth and Brisbane, and train and tram operations in Melbourne and across the State of Victoria.

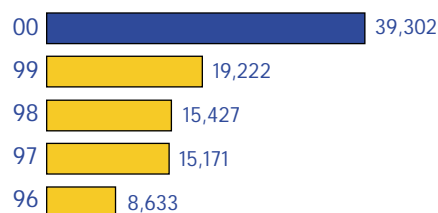
Dividends per share (p)



Net assets (£m)



Average number of employees



Principal brands	Continuing operations	2000	1999
Travel West Midlands	Turnover (£m)	200.1	196.4
Travel Midland Metro	Operating profit (£m)	50.6	47.6
Travel Dundee	Operational fleet	2,086	2,101
Group Bronckaers	Passenger journeys (m)	361	358
	Employees	5,462	5,479
Caledonian Sleeper, c2c, Central Trains, Gatwick Express, Maintrain, Midland Mainline, ScotRail, Silverlink, Stansted Express, Valley Lines, Wales & West, WAGN	Turnover (£m)	1,058.6	921.8
	Operating profit (£m)	34.1	28.0
	Operational fleet	959	595
	Passenger journeys (m)	180	145
	Employees	10,784	7,790
UK express coach services: "Rapide" and "Shuttle"	Turnover (£m)	186.8	168.2
Airlinks: Airbus, Flightlink, Jetlink, Heathrow Hotel Hoppa, Railair, Speedlink	Operating profit (£m)	11.3	11.0
Eurolines: UK and The Netherlands	Operational fleet	376	282
	Passenger journeys (m)	22	19
	Employees	2,007	1,358
Student transportation: Bauman, Crabtree-Harmon, Durham, Robinson, School Services and Leasing (SS&L)	Turnover (£m)	301.6	64.6
Public transit and demand-response: ATC, Forsythe, Intelitran, MultiSystems	Operating profit (£m)	32.7	9.5
Airports: Stewart International	Operational fleet	11,150	7,843
	Passenger journeys (m)	243	46
	Employees	16,635	2,379
Buses: Blue Ribbon, National Bus Company, Southern Coast Transit, Westbus	Turnover (£m)	221.5	91.8
Trains and trams: M>Train, M>Tram, V/Line Passenger	Operating profit (£m)	13.3	4.2
	Operational fleet: buses	1,197	972
	trains and trams	568	568
	Passenger journeys (m)	215	96
	Employees	3,998	1,760

Highlights of the year

2000 was another busy year for all our businesses worldwide. A sample of key events is shown below.

January

George Reid, MSP (right) with Janette Anderson (left), Director, Railtrack Scotland, and Alastair McPherson, Managing Director of ScotRail, opening ScotRail's Dunfermline Communications Centre. The centre provides on-line CCTV and help points to 16 stations in the east of Scotland.

February

Continuing its expansion in airport-related services, the coach division acquired the Airbus brand. Following its relaunch in May, the high-frequency links between central London and London's Heathrow, Gatwick and Stansted airports were promoted. Existing Jetlink services were merged into the new Airbus brand and new timetables, livery and merchandising were introduced.

March

A A\$1bn order for 62 new trains and 59 new trams for Melbourne's public transport system was placed in March. The rolling stock, scheduled for delivery between 2002 and 2005, will improve comfort for passengers, increase energy efficiency and reduce noise in residential areas through which the services operate.

April

Airport Express's marketing and sales alliance with BAA was launched. Under this brand, the benefits of travelling to and from Heathrow and Gatwick airports by rail are promoted. Following the acquisition of Prism Rail, Stansted Express will be incorporated into Airport Express during 2001.

May

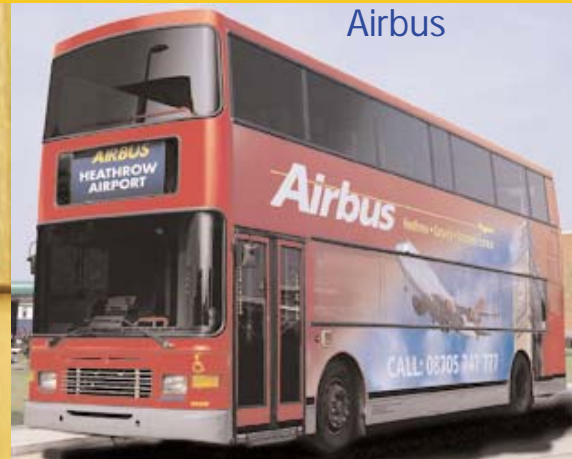
In Australia, we introduced disciplines such as Customer Service Charters, safety management, and drug and alcohol policies on our bus operations – the first of their type to be introduced.

June

As part of its initiative to promote safe public travel, M>Train, in conjunction with Australia's Victoria Government, introduced 53 patrollers on trains to encourage even safer late-night travel. Such initiatives have been well received by passengers.



Dunfermline CCTV opening



Airbus



M>Train launch



Australian tram



Midland Mainline



Olympic flame

July

Following an upgrade in services, Gatwick Express was relaunched. We undertook a complete overhaul of its corporate identity as part of an investment programme to replace its entire fleet of rolling stock. Advertising, PR, sponsorship, signage and internal communications were used to increase awareness of the newly launched service. Tony Blair, the UK's Prime Minister, visited Gatwick Express in the autumn.

Our Australian businesses, Blue Ribbon, National Bus Company and Westbus, mobilised a force of 171 drivers and a fleet of 315 buses and coaches to manage two of the key Olympic bus routes to major Olympic venues. The Olympic Flame made an historic journey aboard a Swanston Tram as part of its 11,000km trip around Australia.

August

GoByCoach.com was launched by the coach division, replacing existing coach internet booking sites. Following its launch, the site recorded around three million hits a month and bookings increased significantly. The site currently accounts for 6% of ticket sales a month. During the fuel crisis and rail disruption, the site was particularly helpful by providing valuable information on coach services to passengers.

As part of the UK train refranchising process, Midland Mainline was awarded a two year extension to 2008. We committed to investing £22m in stations, including the construction of East Midlands Parkway Station, a £17m multi-modal park and ride facility as well as increased frequency of trains, faster journey times, new destinations and improved punctuality.

September

We completed the acquisitions of Prism Rail in the UK which brought two new busy London commuter businesses, WAGN and c2c, and the Welsh businesses, Wales & West and Valley Lines, into our trains division. In the USA, we acquired School Services and Leasing (SS&L), which consolidated our position as the third-largest provider of student transportation in the USA operating in 19 states.

October

In recognition of her work in promoting links with the local community, Anna Barrett, Travel Adviser at Silverlink, won the prestigious national "Station Employee of the Year" prize. This is awarded to individuals who are committed to voluntary work in the community.

November

Swanston Trams' and Bayside Trains' operations were rebranded under the M>Tram and M>Train brands. This rebranding enables services in Melbourne to be jointly promoted under the banner of "Moving Melbourne". Victoria's Transport Minister, Peter Batchelor, launched Melbourne's rebranded M>Train Service.

December

Following the opening of the Midland Metro we were awarded the European Public Transport Prize 2000 for Culture and Mobility, for the accessibility and quality of Wolverhampton's transport scheme.

SS&L



Gatwick Express



Anna Barrett



c2c



Midland Metro



Chairman's statement

2000 was another successful year. We focused on investing in and developing our existing operations as well as integrating our newly acquired businesses. Highlights of the year included the acquisition of Prism Rail and SS&L and the two year extension of the Midland Mainline franchise to 2008.

Financial results and dividend

- Turnover exceeded £2.0bn for the first time, up 35.6% on last year (1999: £1.48bn)
- Operating profit before exceptional costs and amortisation of goodwill up 37.0% to £155.1m (1999: £113.2m)
- Normalised profit before tax up 11.1% to £119.3m (1999: £107.4m)
- Normalised diluted earnings per share up 15.5% to 71.7p (1999: 62.1p)
- Final dividend up 14.1% to 14.2p per ordinary share (1999: 12.45p), making the total for the year 20.7p per share (1999: 18.2p)
- Operating cash flow of £167.5m (1999: £95.1m)
- EBITDA interest cover of 5.3 times on continuing activities
- Significant investment continues – £370.5m on acquiring new businesses
- Net assets of £377.3m (1999: £267m)
- Disposal of airports division for £241m post year end.

A detailed commentary on the financial results can be found in William Rollason's report on pages 30 to 33.

Highlights

Highlights of the year included the acquisition of Prism Rail, which brought two busy London commuter businesses, WAGN and c2c, and the Welsh train operating companies, Wales & West and Valley Lines, into our UK trains division, and the two year extension of the Midland Mainline franchise to 2008.

The Prism acquisition has enabled us to enlarge our train portfolio by adding two long-distance London commuter businesses, an area that we have successfully grown and developed since privatisation. The combination of National Express and Prism Rail presents an excellent opportunity for us to enhance our position in the train sector of the UK's public transport market.

In addition the Prism acquisition brought Stansted Express into the already-established Airport Express marketing alliance, a joint venture between National Express and BAA plc, which was launched in early April 2000. The alliance will seek to integrate sales and marketing operations in the UK and overseas, enabling Gatwick Express, Heathrow Express and Stansted Express to develop an integrated marketing approach to airport rail services.

The excellent progress of the trains division during the first nine months of the year was severely set back by the tragic Hatfield derailment in October. On behalf of National Express I extend our condolences to the families of the bereaved at Hatfield and, more recently, at the Selby accident. The Hatfield incident resulted in emergency speed restrictions being introduced across the UK network. This significantly disrupted services and caused considerable inconvenience and frustration both to passengers and staff.

In the UK, we extended our presence in the airport coaching market through the acquisitions of Capital Logistics and Airbus, making Airlinks the leading provider of bus and coach services to BAA and the international airline community. Overseas, acquisitions in the USA included School Services & Leasing Inc (SS&L), the second-largest privately owned student transportation bus company, and Forsythe, a public transit business on the West Coast. In Australia, we acquired Blue Ribbon, which provides school bus services to the north of Sydney, in February. Such bolt-on acquisitions are consistent with our strategy to grow the business by concentrating on geographic markets that complement our existing operations.

In February 2001 we announced the sale of our airports division and received clearance by the Office of Fair Trading on 21 March. We expect this transaction to be completed on 27 March. As a result of the expansion of the Group over the



Michael Davies, Chairman,
in London, UK

past 18 months, our UK airports have become less material to the Group. This disposal is part of our strategy to focus on our core transport operations, both in the UK and overseas.

Safety

In 1999 the Board commissioned an independent report on the effectiveness of the Group's safety systems. The findings concluded that the Group has a strong safety culture. The Board Safety Committee met regularly during the year and continues to focus on improving safety standards across our operations worldwide.

Board changes

After eight years with the Group, Alun Cathcart resigned as a Non Executive Director and Deputy Chairman in September 2000 because of an increase in his other business commitments. Alun had been a Director of the Group since 1992 and Deputy Chairman since 1998. He made a major contribution during that time.

As we announced at the beginning of February, Clive Myers, who has been a Non Executive Director since our flotation in 1992, will not seek re-election to the Board at the Annual General Meeting, and James Watson, a Non Executive Board member since 1994, will be standing down. I would like to thank both Clive and James for their considerable contributions.

I would like to take this opportunity to welcome Tim Stevenson and David Ross who join the Board as Non Executive Directors. Tim, who becomes the Senior Independent Director, brings 25 years' of international experience at Burmah Castrol PLC, which culminated in his appointment as Chief Executive in 1998. David, who is Chief Operating Officer of The Carphone Warehouse Group PLC, brings additional marketing experience to the Group.

Outlook and current trading

The year has started well. In our trains division there is still ongoing disruption but passenger numbers for the first ten weeks of the year have been gradually increasing and are now down only 3% year on year. We are focused on attracting patronage back on to our services and have initiated marketing campaigns which are designed to stimulate growth within each of our companies.

As a major provider of passenger train services, we are aiming to retain our strong position in the UK public transport market by working closely with the SRA and assisting it in its refranchising process.

Within the coach and bus market, we expect continued growth in 2001 supplemented, where appropriate, by bolt-on acquisitions and investment in Quality Partnerships to relieve congestion and thereby increase the appeal of bus travel. We will continue to extend our presence within the American and Asia Pacific marketplaces.

We continue to have the financial headroom to develop in key geographic markets and to invest in public transport systems. We look to the year ahead with confidence.

Michael Davies *Chairman*



Chief Executive's statement

In 2000, we continued to increase the scope of our businesses with more than 26% of Group turnover and 29% of operating profit arising from our overseas operations. We increased our international presence by acquiring seven businesses during the year, of which four were overseas. Our record has shown that our operating practices can make a difference to the quality of services provided.

Throughout the year considerable progress was made on a range of issues including acquisitions, integration of businesses and marketing initiatives, to improve the quality and efficiency of our services. A number of unique events took place, including the Olympics in Australia which presented specific challenges for our operations, especially in Sydney.

In the UK, the progress of the trains division was severely set back by the Hatfield incident. Whilst the impact of emergency speed restrictions (ESRs) was variable across our train companies, passenger revenue across our operations was impacted, with revenues being between 10-15% down over the last quarter of the year. There is still ongoing disruption but passenger numbers for the first ten weeks of the year have been gradually increasing and are now only down 3% year on year. We are focused on attracting patronage back on to our services and have initiated marketing campaigns which are designed to stimulate growth within each of our companies. However, it is notable that passenger revenue growth across the trains division for the nine months prior to Hatfield was running at over 10%, with revenues falling by 14% immediately following this event.

New businesses

We increased our international presence by acquiring seven businesses during the year, of which four were overseas. We also continue to seek opportunities overseas including joint-venture partnerships with third parties where we can bring benefit to local operations.

Our businesses have a common purpose – to deliver the best possible service. We operate a decentralised organisation, run by local people who understand local cultures and how to meet local needs.

New challenges

The post Hatfield disruption presented serious challenges to our UK train operations. During the normal course of business, only a small number of ESRs are in force across the network. Following Hatfield up to 550 ESRs were put on the network with over 30 being placed on Midland Mainline (MML) alone. This severely impacted on travelling times. On MML, for example, at the peak of the disruption, average journey times from London to Sheffield were more than doubled from 2 hours 18 minutes to 4 hours 48 minutes and as a result train frequency was more than halved. We are vigorously pursuing recovery of losses arising as a consequence of the Hatfield incident from both Railtrack and our insurers, currently through negotiation but, if necessary, through legal action.

New assets

We have made a significant investment in rolling stock for our train companies, but are frustrated by the lack of progress in bringing new rolling stock into service; Gatwick Express and ScotRail fleets continue to be affected by delays in delivery. In addition, c2c, Central and ScotRail have all experienced poor performance of new rolling stock because of design and manufacturing deficiencies. We are working hard with the manufacturers to ensure that new trains come into service as quickly as possible with as few breakdowns as possible. The slow progress is particularly frustrating when we can see what a difference new rolling stock makes. In the instances where we have been able to introduce rolling stock on schedule, we have been able to add new services – in some cases doubling the frequency – and new destinations.

In January 2001 we placed a £23m order for 180 new low floor Euro III compliant double-deck buses for Travel West Midlands, bringing our total investment in new buses for TWM to more than £100m since its acquisition in 1995.



Phil White, Chief Executive,
in Melbourne, Australia

New franchises

The number of passengers using the UK's rail network has grown by 30% in the past five years. Against this background, and the Strategic Rail Authority's (SRA) franchise replacement programme, there is growing public expectation of more capital investment by the franchise holders. We believe, however, that to justify the significant investment needed to develop our train portfolio, we need longer-term franchises and the potential for significant earnings growth. Only under these conditions can we continue to deliver good returns to our shareholders.

We believe we can make a substantial contribution to helping the SRA achieve its objectives in its franchise replacement programme. We were pleased to be shortlisted for the Wales and Borders franchise and to be one of the parties requested to submit proposals for the new Wessex franchise. The SRA recently announced that it has extended our Valley Lines and Wales & West franchises, together with the Great Northern part of our West Anglia Great Northern franchise. This will ensure that services continue under our stewardship until the new franchises for Wales and Borders, Wessex and Thameslink are awarded. We are disappointed by the SRA's recent announcement on halting the Central Trains' refranchising process. We will work with the SRA to try to resolve this matter since we believe our proposals will significantly improve services.

New technology

New technology continues to drive the provision of information and ticketing to our customers. For example, the success of GoByCoach.com shows that passengers like easy methods of booking. We continue to invest to meet further demands in this area and, during the year, we purchased a 20% shareholding in Prepayment Cards Limited, whose other shareholders are FirstGroup, Stagecoach, Sema and ERG, to develop

smartcards in the UK. On our bus services in Coventry, smartcard technology is to be trialled on 200 buses during 2001. We are gaining operational experience of the benefits of this initiative, enabling the eventual roll-out of the technology in due course.

New people

We announced three senior appointments during the year. Craig Wallace, who has over 15 years' experience of the Asia Pacific transport market, was appointed Chief Executive of our Australian Division. This position was created to drive development of our existing business whilst looking for new opportunities in the Australasian market and the Far East. In the USA, John Elliott, with over 25 years' experience of the student transportation market, joined our USA division as Chief Operating Officer of the transportation division. In the UK, Brian Jackson became Managing Director of Travel West Midlands. He joined from Arriva in May.

I would like to thank all staff for their commitment and efforts. This has been a challenging year for them, particularly in our trains division where everyone has had to deal with passenger frustration as a result of the Hatfield incident. The disruption also increased pressure on our coach operation where the ability of staff to cater for the increased demand was pushed to the fore. In Australia, our staff at Blue Ribbon, National Bus Company and Westbus, mobilised more than 170 drivers to manage two of the key Olympic bus routes to major venues.

Working together we can continue to grow this business, providing quality, value-for-money services that passengers want to use.

Phil White *Chief Executive*

Buses

For the third successive year 1% more passengers used TWM's services. Increased patronage was driven by investment in Quality Partnerships and infrastructure.

Travel West Midlands (TWM) is Europe's largest fleet of easy access vehicles operating on a single area bus network. Our fleet of 1,800 buses provides more than 500 services to 361 million passengers each year. TWM performed well during 2000, despite the disruption caused by the redevelopment of Birmingham city centre. Passenger growth was driven primarily by our investment in Quality Partnerships and infrastructure. In addition, we extended our marketing activity and ticketing range. Sales of group tickets and travelcards continued to increase and sales of day tickets increased by 14%.

Services

Road closures and the relocation of bus stops as a result of the work on Birmingham city centre adversely affected our services. However, once the reconstruction is completed the city centre will be a far more attractive destination for shopping and entertainment. Our services will benefit from this investment in the city.

During the year, we launched the "Infrastructure Investment Project", a £30m three-year investment in vital congestion-busting schemes across the region. Working in partnership with the seven local metropolitan councils, we invested in new bus lanes, new signage, bus slip roads, lower kerbing, better bus shelters and information systems as well as landscaping on bus routes. These investments will help beat congestion, attract passengers and improve services. During 2001, we will be investing £6m in a variety of such schemes.

We continue to develop additional Quality Partnership Showcase routes. There are currently five such schemes delivering passenger growth of over 20%. Through these partnerships, we work with the local councils to increase the appeal of bus travel by relieving congestion. As individual Showcase routes develop across the region, "Showcase Zones" which encompass a number of routes, are being created. During the year one of these, the 67 Tyburn Road route which uses a dedicated fleet of articulated single-deck buses, won a National Bus Industry Award for innovation.

We are meeting the needs of a number of new destinations that are being developed outside Birmingham city centre. For example, we extended our bus services to the new Star City Cinema complex at Spaghetti Junction in June, and will provide extra bus services to serve the Touchwood Court shopping centre, in Solihull, which is due to open in 2001.

Integrating transport

Following its launch in 1999, Midland Metro became an integral part of the West Midlands public transport network and a total of 5.4 million journeys were made on the Metro. A new range of tickets and passes was introduced to encourage further integration between train and bus. More than 50% of fare-paying Metro passengers now use multi-modal tickets.



Integration

Supporting an integrated transportation system, TWM operates out of multi-modal locations which provide links between bus, coach, train and Metro services.



Comfort

Grab rails in bright colours help people who have mobility difficulties and restricted vision. Quality lighting and large windows make the environment more appealing to passengers.



Improvement

In 2000, TWM launched the "Infrastructure Investment Project". Working in partnership with seven Midlands-based metropolitan councils, TWM aims to invest a total of £30m over three years on vital congestion-busting schemes to aid bus travel. A typical package of initiatives includes new bus lanes, signage, bus slip roads, lower kerbing, better bus shelters and information systems as well as landscaping on bus routes.



Security

New digital video recording equipment introduced onto the fleet provides the largest on-board CCTV system in a single region. 180 new buses have been ordered which incorporate the latest on-board CCTV systems. These systems have assisted TWM in combating crime. Evidence also illustrates that this type of investment deters further criminal activity on board services.

Following the commencement of the Metro service we were awarded a European Public Transport Prize 2000 for Culture and Mobility, for the accessibility and quality of Wolverhampton's transport.

Training

We invest in our staff to ensure we can provide quality services. With increased turnover of drivers, we believe this investment is essential.

We continue to support the New Deal initiative. Under the scheme, long-term unemployed people who wish to return to work, are retrained. On the back of the closure of a number of large, established businesses in the Midlands, we have set up job shops to attract potential recruits.

More than 40% of TWM staff have achieved, or are working towards, National Vocational Qualification level 2. This is double the target which we had set for the end of 2002. Our aim is to register a further 700 drivers for NVQ level 2 during 2001. This is a nationwide qualification which recognises drivers' skills and competence. It forms part of the Government initiative to ensure that drivers are professionally qualified to do their jobs, an initiative that we wholeheartedly support.

Security

In 1999 we launched Operation Hackney, in co-operation with the West Midlands Police, to reduce vandalism and abuse of staff on buses. In 2000, TWM sponsored police officers to combat anti-social behaviour on the region's public transport, and considerable efforts are being made to visit schools and educate students. To date, Operation Hackney has resulted in more than 350 arrests for a variety of offences, from fare evasion through to drug-related offences. We are committed to ensuring that our passengers can travel safely on our services.

The future

We continue to invest in the future by developing local partnerships and investing in our operations, particularly in our fleet. In early 2001, we placed a £23m order for 180 new low floor double-deck buses to be introduced over the next 18 months. These vehicles will be the first in the UK to be fitted with Euro III engines – the lowest emission engine currently on the market. This brings TWM's investment in new buses to more than £100m since acquisition in 1995.



Accessibility

All new buses are low floor, easy access, enabling mothers with buggies and people with disabilities to get on and off buses more easily.

Information

Bus stop information has been improved with clearer identification of bus stop locations and improved service information provision making it easier for passengers to use services.



Trains

2000 was a year of landmark events for the trains division: the Prism Rail acquisition and the extension of the Midland Mainline franchise.

The acquisition of Prism Rail, completed in September, brought four new train operating companies into the Group: c2c, WAGN, Wales & West and Valley Lines. This enabled us to rebalance our train portfolio through the acquisition of two London commuter businesses.

In August, Midland Mainland (MML) was awarded a two year extension to 2008, thereby enabling an increase and acceleration of our investment in the service. This will see £22m worth of improvements at stations and the construction of a new £17m multi-modal park-and-ride facility, East Midlands Parkway Station. This investment will also see increased frequencies, faster journey times, new destinations and higher punctuality through the introduction of 28 new high-speed trains worth £135m.

Over the first nine months of the year, record passenger revenue growth was achieved through new services and attractive marketing campaigns. However, the post Hatfield disruption presented serious challenges to our UK rail operations. To illustrate the scale of the disruption, during the normal course of business, only a small number of ESRs are in force across the network. Following Hatfield up to 550 ESRs were put on the network with over 30 being placed on MML alone. This severely impacted on travelling times. On MML, for example, at the peak of the disruption, average journey times from London to Sheffield were more than doubled from 2 hours 18 minutes to 4 hours 48 minutes and as a result train frequency was more than halved.

Following Hatfield we have initiated marketing campaigns within each of our companies to stimulate growth. At the same time, we are vigorously pursuing recovery of losses arising as a consequence of the Hatfield incident from both Railtrack and our insurers, currently through negotiation but, if necessary, through legal action.

Integration

We continue to improve the accessibility of our train companies by co-ordinating our services with local bodies and other transport operators. The rail-bus integration initiative, introduced on Central Trains in conjunction with Telford and Wrekin Council, provides bus stops at Telford station, bus priority traffic lights in the town, through-ticketing and easily-accessible travel information. At Wales & West, the introduction of a flexipass, which provides access to rail and bus operators throughout Wales, also proved popular. Working in conjunction with other local bodies, such as South Wales Integrated Fast Transit (SWIFT), Valley Lines has developed Caerphilly station to become a true interchange between bus and rail, making travel to Cardiff easier. ScotRail extended its rail-bus through-ticketing scheme to new destinations in Fife, Tayside and the north of Scotland. Simple initiatives such as these, encourage more people to use public transport.

The Airport Express marketing and sales alliance with BAA became effective earlier this year. Under this brand we market the benefits of travelling to and from the airport by rail.



Security help points

Help points have been installed at remote stations across the network. This project has proved popular on Valley Lines where services run across rural communities.



Comfort

On-board services are a vital part of travel experience. Services such as mobile phone free train carriages have been introduced on Midland Mainline. Food and the provision of beverages have also been improved through the "mm's" bar which offers a wider range of more contemporary meals and drinks. Selected companies have also introduced frequent traveller reward schemes for regular travellers.



Technology

The use of technology can make the process of travelling simpler and more convenient. Short Message Services, being trialled on c2c and MML services, provide passengers with up-to-the-minute information about their trains as well as offering alternative routes and times, if requested. Evaluation of the pilots will take place during the course of this year.



Following the acquisition of Stansted Express, there are plans to develop this initiative further.

Investment

New trains This year, we introduced 45 new trains across our companies with a further 108 scheduled for 2001. When Central Trains introduced its fleet of 33 new Class 170 Turbostar trains, the last 1960s slam door trains were withdrawn – two years ahead of the SRA's deadline. ScotRail completed the introduction of 24 new Turbostar diesel trains on the Glasgow/Aberdeen/Edinburgh route, and Turbostars significantly reduced journey times on selected services from Glasgow and Edinburgh to Inverness. ScotRail also completed the £7m refurbishment of rolling stock for the Caledonian Sleeper services, introducing wheelchair-accessible cabins and overnight seating. Silverlink overhauled and refurbished its entire Class 150 fleet. In Wales, the refurbishment of the Alphaline Class 158 and Class 143 trains was completed.

However, we are disappointed by the lack of progress in bringing new rolling stock into service, Gatwick Express and ScotRail fleets continue to be affected by delays in delivery. In addition, c2c, Central and ScotRail have all experienced poor performance of new rolling stock because of design and manufacturing deficiencies. We are working hard with the manufacturers to ensure that new trains come into service as quickly as possible with as few breakdowns as possible. The slow progress is particularly frustrating when we can see what a difference new rolling stock makes. In the instances where we have been able to introduce rolling stock on schedule, we have been able to add new services – in some cases doubling the frequency – and new destinations.

Reliability and punctuality are the principal reasons why people choose to travel on public transport. During the year,

we introduced initiatives to improve those of our services which operate on older infrastructure and rolling stock. At Valley Lines these resulted in reducing delays and cancellations by 50%, making it the UK's most improved train operator. ScotRail maintained its position as Britain's most punctual mainland operator.

Improvements New rolling stock enabled us to expand timetabled services. On Central Trains, 30 services had carriages added to create a total of 4,000 extra seats a day. New and more frequent Sunday services were introduced between Birmingham, Walsall and Rugeley, and on Snow Hill Lines.

Improved connections on Silverlink's County Line, between Bedford and Bletchley, were introduced and eight extra destinations, including Luton Airport, were added to MML's timetable.

Providing accurate travel information to customers continues to be a priority. On WAGN, we have installed real-time information systems, obtained through sensors in the track, to enable us to give passengers up-to-the-minute information.

We are rolling out real-time information plasma screens at c2c and Silverlink stations. Silverlink has trialled screens, which incorporate messaging facilities and regular news, at Willesden Junction, London. It has also introduced customer information points at Euston, Milton Keynes and Northampton.

Technology The increased use of technology across our train companies will continue to drive improvements by providing passengers with more user-friendly easier-to-access services as well as assisting revenue protection. We are investing £10m in developing and launching a new mobile ticketing system for the UK rail network. This will provide a broader range of



Facilities

Plasma screens have been introduced at selected railway stations on the Silverlink network. Features include an up-to-date messaging facility and regular bulletins from ITN 24 hours. Advertising revenue from these screens enables us to make further investment in station facilities.

Reliability

Improved engineering and the fitting of trains with new features, such as sanders, ensure that they are able to withstand fluctuating weather conditions.



services than the technology currently in use, printing rail tickets to and from anywhere in the UK (including those for use through London Underground-style barriers), as well as providing a portable database of up-to-date rail network timetabling and fare information. This incorporates leading edge technology which will provide greater flexibility, efficiency and improved service for passengers and staff.

All our train companies host websites detailing their services and providing valuable travel information. This proved to be particularly useful to passengers following the Hatfield incident. A new call centre in Sheffield was opened in February 2001 to cater for increased internet sales. We continue to develop our own website which will give passengers access to train service and fare information. This will be launched during the second quarter of the year.

We invested £1.8m in latest-generation ticket machines at c2c. We are also installing ticket-on-departure machines, which, with the growth of internet purchasing, are set to increase at stations. We are also installing machines at busy commuter stations as a queue-busting measure.

Marketing

Throughout the year, our train companies all launched promotions to generate new business. Central Trains and MML promoted off-peak leisure travel; Silverlink and MML introduced loyalty and frequent-user campaigns to generate new commuters, where extra capacity exists, and to encourage commuters to buy off-peak leisure products. MML also invested in its first TV advertising. At ScotRail new “walk on” GroupSave fares, and ScotRail Shortbreaks, to the North of England, Troon, Gleneagles and St Andrews, proved to be popular.

Safety and security

We continue to invest in increasing safety and security for our passengers. CCTV and customer help points have been installed at remote stations.

During 2000, c2c became Britain’s first train company to have all its stations accredited to the DETR’s Secure Stations Scheme. Certification is awarded, by the British Transport Police and Crime Concern, to stations which reach specified standards in crime management, station design management and customer perceptions.

Training

It is our policy to invest in the quality of our staff. During the year we announced the opening of the industry’s first central Customer Service Academy for training staff across the Group. Located at Derby, it will provide a centre of excellence for the Group’s staff and will provide the opportunity to gain recognised NVQ qualifications. Central Trains spearheaded the production of a disability awareness training video for on-train staff. This will be used during 2001 across all our UK train companies.

The future

After a challenging end to the year, we continue to focus on attracting patronage back onto the railways. We will work with the industry to once again make trains a preferred method of travel.

As a major supplier of quality passenger rail services, we aim to retain our strong position in the UK public transport market by working closely with the SRA to assist it in its refranchising objectives.



Customer service

Face to face contact with passengers continues to be a priority with the provision of information desks to assist passengers at modal junctions.



Training

This year saw the launch of the Group’s first graduate fast-track recruitment scheme targeted at individuals who can help shape the future of public transport.



Integrated services
The Airport Express marketing alliance, a joint venture between National Express and BAA, integrates sales and marketing in the UK and overseas, enabling airport rail services to and from London to be promoted as a package. Following its acquisition in September 2000, Stansted Express is being integrated into Airport Express.



Convenience

Airlinks, the airport coach company, is the market leader in the provision of both scheduled and contract services to London's airports. It incorporates Flightlink, Hotel Hoppa, Jetlink, Railair and Speedlink. During the year Airbus, which provides high frequency bus services between central London and Heathrow, Gatwick and Stansted airports, was acquired complementing the division's existing operations.

Coaches

National Express operates the UK's largest express coach fleet. In 2000, we achieved a 15% growth in passenger numbers through acquisitions, increased marketing and the success of GoByCoach.com.

Throughout the year we continued to enhance the coach network's profile by investing in information technology and ticketing systems.

UK express coach services

Our strategy of developing our high-frequency shuttle routes, introducing marketing initiatives, developing relationships with partners, such as the Royal British Legion and the British Tourist Authority, and the success of GoByCoach.com resulted in a 1% growth in passengers using these services.

We increased the frequency of services into London and to regional airports. In the summer, major improvements were made to the cross-country network, thereby providing a broader network. In addition, we continued to improve ticket accessibility by using direct sales. In August, we launched our website, GoByCoach.com and by the end of the year, were selling 6% of tickets through the internet.

We won contracts for carrying passengers to the Millennium Dome, in collaboration with New Millennium Experience Company and McDonalds; and for transporting asylum seekers from reception centres to long-term accommodation.

Airport services

In February, we acquired the Brighton Shuttle services and the Airbus brand, which added a further dimension to our airport services. We are investing in improving our airport coach

terminals, sales desks and lounge facilities at Heathrow, Gatwick and Stansted.

We strengthened our position as market leader in providing scheduled and contract services to London's three international airports when Airlinks acquired Capital Logistics in April 2000. Airlinks is the largest UK provider of airport coach services to BAA and many international airlines. In April, we won the airside and landside coaching contract at Gatwick airport.

In May, in conjunction with the bus division, we introduced an experimental Birmingham Airbus service which links Birmingham International Airport with city centre hotels. The service operates 16 hours a day, seven days a week and provides a vital connection for travellers.

European coaching

Competition in the UK from low-cost airlines intensified but marketing initiatives to re-establish Eurolines as the best value for European travel, resulted in a good performance on the key London, Paris and Amsterdam routes. We continued to invest in sales and distribution.

The future

We will continue to develop new products. Further investment in our direct sales will make coach travel more accessible and easier to use thereby increasing its appeal thereby providing continued growth.



Customer service

We continue to improve ticket accessibility by using direct sales. In August, we launched our website, GoByCoach.com, and by the end of the year, were selling 6% of tickets through the internet.

Ease of use

Following the award of all BAA Gatwick's airside and landside coaching services, we transfer landside staff to and from car parks and operate airside inter-terminal shuttle, airside crew bussing and airside passenger bussing.



USA

National Express Corporation (NEC) consists of three divisions: Student Transportation, Public Transit and Airport Management. Each made good progress during the year.

During the year, we acquired SS&L, which operates a fleet of 3,100 vehicles in eight states, and Forsythe, which runs more than 250 vehicles for eight transit authorities, as well as 90 school buses for two school districts. The acquisition of SS&L strengthens our position in the geographic areas with the greatest growth in the student population. On the back of recent acquisitions, we integrated the back office functions of acquired businesses into the NEC head office, a process which will save more than £2m per annum.

Student transportation

The acquisition of SS&L consolidated our position as the third-largest provider of student transportation services in the USA with operations in 19 states. Following a reorganisation into regions, the division is improving further its contract-tendering process. We added new contracts in California, Illinois, Michigan, Missouri and Pennsylvania. During the year, we won a number of significant awards for the quality of our services.

With the growth of the business, there is added focus on employee training, asset utilisation and driver recruitment programmes. Standardisation of best practices across these businesses is being implemented. We further strengthened the management team with the appointment of John Elliott who, with more than 25 years' experience of the student transportation market, joined as Chief Operating Officer of the transportation division.

Public transit

We continued to win contracts and maintain our reputation for quality service and growth despite a background of increased fuel costs, labour shortages and increased health and liability insurance.

We are the second-largest public transit provider in the USA. We won new, or expanded existing, paratransit contracts in Cobb County, Dallas, Denver, San Francisco and San Jose. We achieved extensions to fixed-route contracts in the Chicago suburbs, East Bay, California, Las Vegas and Napa Valley.

Airport management

Control of Stewart International Airport was transferred to the Group on 1 April 2000. Since then, we have focused on improving its management and operational structure. In December, Charles Seliga, formally General Manager of New York's JFK Airport, was appointed Managing Director.

The future

There continue to be excellent opportunities for further growth in the sectors in which we operate: only 30% of the student transportation sector and 8% of the public transit sector is privatised. Recent integration of operations has positioned us to take better advantage of growth opportunities which may exist.



Quality
Training at the Durham University ensures a consistent competence and skill level.



Frequency
Following the award of a public transit contract in Las Vegas, we provide valuable urban services.



Safety

More than 104 million student passenger journeys take place each year. NEC ensures students arrive safely and on time. We serve 280 school districts in 19 states on 8,700 vehicles. Safety of students is a priority, therefore training of staff focuses on this area ensuring that a "Safety First" philosophy dictates all areas of our operations.

Technology

New technology continues to drive the provision of information and ticketing to our customers. This technology is being further developed on the Westbus fleet in Sydney, making the loading of passengers on services more efficient. Smartcard pilots are being trialled across our Australian businesses, most notably in conjunction with the Australian government.



Australia

During our first full year of ownership we introduced new services, ticketing, rebranding and operating standards to achieve further growth. In addition, we introduced disciplines such as a Customer Service Charter, safety management and drug and alcohol policies.

Through these initiatives we have seen passenger numbers grow by more than 4%.

Rail

Towards the end of the year, Swanston Trams and Bayside Trains were renamed under the M>Tram and M>Train brands, creating an integrated brand under the marketing banner of "Moving Melbourne".

Across M>Tram, M>Train and V/Line nearly 1,000 extra services a week have been added to the weekly schedules. We have worked closely with the Victoria State Government on a number of initiatives, including options for fast rail links to regional cities. With Victoria's population growing at 1% per annum, we are looking to expand existing rail services into new residential growth areas. We committed over A\$1bn of investment to new rolling stock, this will provide 62 new trains for M>Train and 59 new trams for M>Tram for delivery between 2002 and 2005. We have also started to introduce refurbished rolling stock on M>Train services.

Buses

We provided buses and coaches as part of the national effort to support the Sydney Olympics. It was widely agreed that the transport services that supported the event were a major contributor to the Games' overall success.

Improved timetabling and service delivery resulted in an increase of over 10% in passenger numbers at National Bus Company for the first time in five years. Southern Coast Transit in Perth broadened its core business to include 18 school bus contracts in October and a second Central Area Transit (CAT) service in November.

The future

In December, Craig Wallace, who has more than 15 years' transport experience in Asia Pacific, was appointed Chief Executive of our Australian operations. He will seek opportunities to increase our presence in the Australasian market and Asia Pacific.

During 2001, Melbourne-based passengers will begin to experience the benefit of our investment with rebranding, an A\$40m train station improvement programme and better customer service information.

Bus patronage is forecast to increase as a result of improving the linking of services and redirecting fleet resources towards areas of increasing demand. We will increase our focus on working with local and state Governments to improve access and priority measures for bus services in Melbourne and its inner suburbs.



Service

Twenty-five million people use Westbus services each year.

Efficiency

The efficiency of Melbourne's M>Tram network has been enhanced by investment in new tracking systems which enable us to manage the fleet better.



Corporate responsibility

In our operations, we take into account the interests of all our stakeholders, including shareholders, employees, passengers and suppliers, as well as the local communities we serve and the environments in which we operate.

We aim to treat passengers fairly, value our employees highly, conduct our relationships with suppliers and subcontractors based on mutual respect, and seek to be good corporate citizens who abide by the laws of the countries in which we operate.

An important element of our philosophy is to attract more people on to our services and maximise the use of public transport to achieve environmental and social benefits for the communities we serve.

Industry involvement

Being at the heart of public transport systems, we are committed to working with our industry partners to develop a more fully integrated transportation system and to ensure quality and value by continued investment. Development of the industry depends on building partnerships between operators and policy makers to enable positive change to be made.

In October, Richard Brown, Commercial Director, was elected Chairman of the Association of Train Operating Companies (ATOC) which acts on behalf of the train operating companies. Since Hatfield, Richard has been guiding the rail industry through difficult times. In June 2001, David Leeder, the Group's Director of Marketing, is to be appointed President of the Confederation of Passenger Transport UK (CPT) which represents the interests of the bus and coach industry.

Working with industry partners, we actively participate in a range of organisations including:

- Association of Train Operating Companies (ATOC) – represents all the UK train operating companies;
- Confederation of Passenger Transport UK (CPT) – the trade association of the bus, coach and light rail industry. It acts as the sector's main interface with local, regional, national and European governments;
- Commission for Integrated Transport (CfIT) – responsible for monitoring the Government's progress on the ten-year transport plan;
- Transport 2000 – lobbies to improve facilities for pedestrians, cyclists and public transport users;
- Union International des Transports Publics (UITP) – promotes public transport at European and international levels.

We also participate in a range of trade organisations overseas which influence, lobby or produce industry policy.

In addition, we maintain close links with a variety of passenger and consumer groups, including the Rail Passengers' Councils, local rail user groups and the National Federation of Bus Users. This dialogue is supplemented by a variety of tracking surveys and market research programmes which are aimed at improving our understanding of passengers' needs and priorities.

We work closely with local authorities and passenger transport executives to develop statutory local transport plans and bus strategies that can facilitate more attractive and reliable bus, coach and train services. We maintain a dialogue with local officials and politicians and have developed many joint projects that co-ordinate plans and pool funding to create the facilities that foster growth.

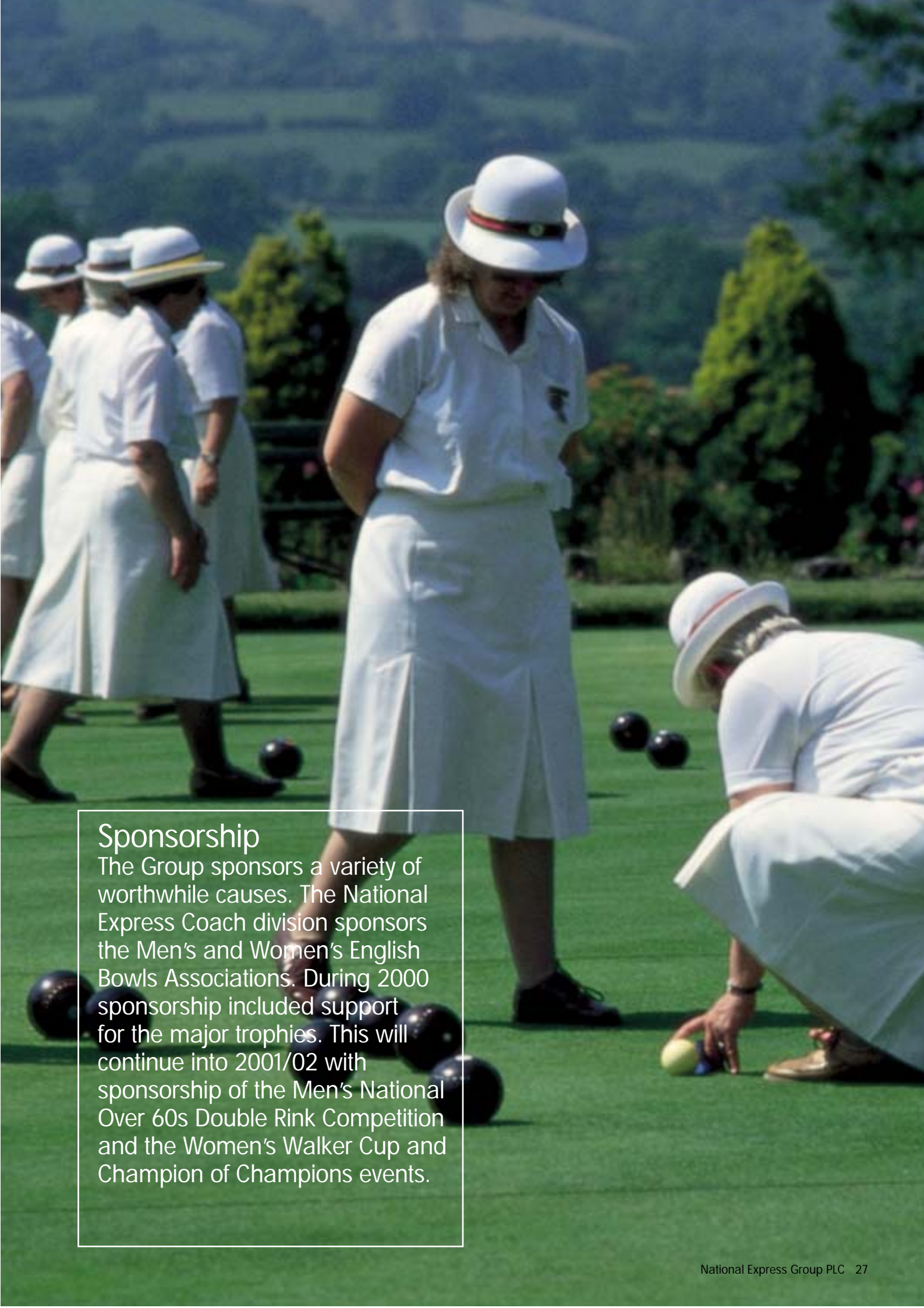
Environmental initiatives

As a leading international public transport group, we make a significant contribution to improving the environment by reducing congestion and associated pollution. We believe that growth in our overall business, undertaken responsibly and efficiently, will help create a sustainable future for both the business and the environment. We recognise, however, that our business operations consume resources and have a significant impact on the environment. As a result, we are committed to improving our environmental performance and minimising our overall environmental impacts as far as is reasonably practicable.

We will:

- consider the environment in all strategic business decisions at all levels across the Group;
- continually improve our service and thereby encourage the use of public transport;
- comply with all environmental legislation and, so far as is reasonably practicable, exceed the relevant environmental standards in the regions in which we operate;
- work pro-actively and determinedly to prevent polluting incidents, reduce our environmental emissions and optimise the energy efficiency of all our transport modes;
- select and measure Key Environmental Performance Indicators (KEPIs) and strive to improve our performance against these indicators, year on year. We will do this by setting ourselves annually reviewed objectives and targets for improvement against the KEPIs;
- work in partnership with our stakeholders and other organisations to implement a more sustainable transport policy and help create an integrated public transport system;
- use our influence with contractors and suppliers to encourage them to adopt environmental performance standards that accord with this policy;
- provide regular reports on our environmental performance to our stakeholders; and
- provide the necessary training, support and resources in order to ensure our staff are empowered to implement this policy.

During the year, an audit and review of environmental issues at all our main locations took place. This provides a strategy and action plan that will drive our environmental programme forward. It highlighted specific environmental impacts associated with each division. During 2001, we will



Sponsorship

The Group sponsors a variety of worthwhile causes. The National Express Coach division sponsors the Men's and Women's English Bowls Associations. During 2000 sponsorship included support for the major trophies. This will continue into 2001/02 with sponsorship of the Men's National Over 60s Double Rink Competition and the Women's Walker Cup and Champion of Champions events.



Community involvement

TWM launched Operation Hackney, in co-operation with the West Midlands Police, to reduce vandalism and abuse of staff on buses. It has sponsored two police officers, PC Steve Wright and PC Martin Sewell (above), to combat anti-social behaviour on public transport. Regular visits to schools are undertaken to speak to students about responsible behaviour. To date, more than 350 arrests for a variety of offences have been made.

disseminate our environmental policy and monitor measurable performance indicators that reflect our activities.

Subsequent phases will determine the baseline level of environmental performance and review the important environmental issues which face the Group.

Additional individual initiatives across subsidiaries continued:

- Maintrain's maintenance depots made progress towards the achievement of ISO 14001 accreditation;
- TWM took part in Business in the Environment's West Midlands Index of Corporate Environmental Engagement; and
- the Coach division undertook a reconstruction and modernisation programme at its major coach stations, resulting in environmental and occupational hygiene benefits for passengers and staff.

In addition, our bus and coach companies continued to improve their environmental performance by specifying modern engines and fuel-efficient systems in new vehicles. Similarly, we purchased environmentally-friendly new vehicles as part of our contribution towards Quality Partnerships, a key aspect of the Government's strategy for integrated transport.

In Australia, National Bus Company (NBC) became involved in the Federal Government's Greenhouse Challenge. Under this arrangement, NBC committed to making an active contribution to reducing greenhouse gases by measures such as energy conservation, the use of alternative energy and efficient resource management. As part of this initiative, a liquid petroleum gas (LPG) prototype vehicle was tested with encouraging results. A full commercial trial recently received backing from the Greenhouse Office with half the costs of conversion being met through Federal Government grants. NBC is pursuing this initiative as a real opportunity

to demonstrate a commitment to the environment and to save fuel costs through LPG's lower market price and favourable taxation treatment. Trials have been in progress for 18 months and work is continuing toward a possible operational roll-out during 2001.

When we place orders for rolling stock, particularly in Australia where our operations run through major residential areas, we aim to achieve increased energy efficiencies and to reduce noise through design and, where applicable, replacing track.

Community initiatives

We participate in community initiatives in the areas in which we operate. In addition to financial support for charities, we aim to provide transport services where practicable. For example, in the UK, TWM regularly provides transport for local community events; and in the USA, Durham continues to provide transport support for the Special Olympics, a once a year athletics competition held in 20 USA cities. Durham provides year round training programmes for children and adults with physical and/or mental disabilities. Many of Durham's staff also give their time in support of this initiative.

Increasing crime has an impact on our operations; ScotRail, WAGN, TWM, and our Australian train, tram and bus operations have become involved in safety and crime prevention initiatives. MML has a representative who sits on the management board of Derby Youth Offending Service and is committed to taking placements of youths involved in offences against the railways, with a view to preventing repeat occurrences. Valley Lines is co-operating with the Suzy Lamplugh Trust Research to sponsor a pioneering project to examine public perceptions of safety on routes to stations. This research project, which began last September, will turn qualitative information and personal perception into quantifiable facts about personal safety.

Durham Transportation provides transport for the Special Olympics, a once a year athletics competition held in 20 USA cities.



Swanston Trams supports the Salvation Army by promoting its brand on vehicles.



Finance Director's report

2000 was another successful year, with record results since flotation in 1992. Turnover exceeded £2.0bn for the first time and normalised profit before tax increased by 11%.

Year at a glance

Turnover exceeded £2.0bn for the first time, representing a 35.6% increase over last year (1999: £1.48bn), and normalised operating profit increased by 37.0% to £155.1m (1999: £113.2m). After interest and the Group's share of losses from associated undertakings, normalised profit before tax increased by 11.1% to £119.3m (1999: £107.4m).

Normalised diluted earnings per share increased by 15.5% to 71.7p (1999: 62.1p) and normalised basic earnings per share were up 12.6% to 78.5p (1999: 69.7p).

Total dividends per share for 2000 at 20.7p (1999: 18.2p) are 13.7% higher than in 1999.

Group operating cash flow remained strong at £167.5m (1999: £95.1m), before interest, tax and dividends. This enabled the Group to fund gross capital investment in existing businesses of £89.3m (1999: £97.9m) and the £230.4m (1999: £259.6m) cash element of the investment in new businesses, with net debt increasing from £315.9m at the start of the year to £556.6m at 31 December 2000.

Net assets increased by 41.3% to £377.3m (1999: £267.0m) and gearing at the year end was 147.5% (1999: 118.3%).

Post balance sheet event

As announced on 19 February 2001, the Airports division has been sold for gross sale proceeds of £241m, resulting in a profit on disposal after expenses of approximately £96m, (including £36m negative goodwill taken to reserves on the acquisition of the airports, which has no effect on net assets or shareholders' funds). This will be reflected in the accounts for the year ending 31 December 2001.

The following table provides a proforma balance sheet as at 31 December 2000, as if the sale had taken place on that date, and shows that taking into account the net proceeds of £231.0m, net gearing falls to 74.4%.

	Group balance sheet as reported £m	Disposal of net assets of Airports division £m	Sale proceeds net of expenses £m	Proforma balance sheet £m
Fixed assets	1,204.6	(176.2)	–	1,028.4
Current assets	347.8	(5.2)	–	342.6
Creditors and provisions	(618.5)	82.0	(72.0)	(608.5)
Net debt	(556.6)	0.4	231.0	(325.2)
Total net assets	377.3	(99.0)	159.0	437.3
Net gearing	147.5%			74.4%

Divisional review

Buses

Notwithstanding the disruption caused by the redevelopment of Birmingham city centre, turnover in 2000 increased by 1.9% to £200.1m (1999: £196.4m). Operating profit before goodwill and exceptional items increased by 6.3% to £50.6m (1999: £47.6m), reflecting increased efficiencies, resulting in an improvement in the operating margin to 25.3% (1999: 24.2%). The return on net assets fell to 42.2% (1999: 45.8%), due to further investment during the year.

Trains

Turnover in 2000 increased by £136.8m or 14.8% to £1,058.6m (1999: £921.8m). This includes £129.6m from the Prism train operating companies acquired in September 2000, of which £33.8m was franchise subsidies from the Strategic Rail Authority. This was offset by a £19.4m reduction in franchise subsidies to £448.8m (1999: £468.2m) for our train operating companies other than Prism. Excluding Prism and franchise



William Rollason, Finance Director,
in Austin, USA

subsidies, turnover increased by £26.6m or 5.9%. This is a very satisfactory performance given that from October 2000 the national rail network was severely disrupted by the emergency speed restrictions imposed following Hatfield.

Operating profit before goodwill and exceptional items increased by £6.1m or 21.8% to £34.1m (1999: £28.0m), of which £7.1m was generated by the Prism train operating companies. Adjusting for this contribution from Prism, offset by the reduction in franchise subsidies, operating profit increased by £18.4m. The operating margin for the division was 3.2% (1999: 3.0%).

Coaches

Turnover increased by 11.1% to £186.8m (1999: £168.2m) reflecting the development of our high-frequency shuttle routes, as well as the acquisition of Airbus in February 2000 and Capital Logistics in April 2000. Operating profit before goodwill and exceptional items increased by 2.7% to £11.3m (1999: £11.0m), resulting in a fall in operating margin to 6.0% (1999: 6.5%). The return on net assets also fell to 30.0% (1999: 32.8%) as a result of further investment in the Airlinks operation during 2000.

USA

Our businesses in the USA now represent a significant part of the Group, generating £301.6m (1999: £64.6m) or 15.1% of Group turnover and £32.7m (1999: £9.5m) or 21.1% of Group operating profit before goodwill and exceptional items. These results reflect a full year benefit from the acquisitions in 1999 of Robinson (February 1999), Bauman (July 1999), Durham (August 1999) and MultiSystems and ATC (December 1999), as well as a contribution to turnover (£42.0m) and operating profit (£6.7m) from the acquisitions made in 2000, principally Forsythe (January 2000) and SS&L (August 2000). The operating margin has fallen to 10.8% (1999: 14.7%), but the return on net assets has increased to 5.6% (1999: 3.3%).

Australia

In 2000, 11.1% of Group turnover and 8.6% of Group operating profit before goodwill and exceptional items was generated by our Australian businesses. These businesses contributed turnover of £221.5m (1999: £91.8m), including £69.6m (1999: £27.9m) of franchise payments from the State of Victoria, and £13.3m (1999: £4.2m) of operating profit. These results reflect a full year benefit from the bus operations acquired in May 1999 and the train and tram franchises operated from September 1999, as well as a small contribution from the Blue Ribbon bus operation acquired in February 2000. Operating margin has increased to 6.0% (1999: 4.6%) and the return on net assets at the year end was 18.1% (1999: 6.3%).

Discontinued operations

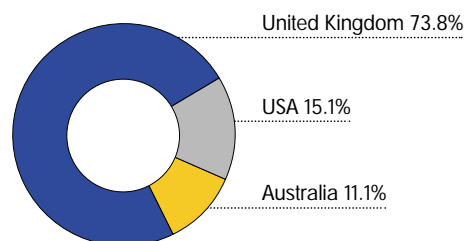
Airports

Turnover in 2000 was flat year on year at £34.0m (1999: £33.9m). Operating profit before goodwill and exceptional items increased by 1.6% to £13.1m (1999: £12.9m), notwithstanding the £1.0m incremental impact in 2000 of the loss of duty free from July 1999. Consequently, the operating margin increased to 38.5% (1999: 38.1%). The return on net assets fell to 7.5% (1999: 7.8%) due to further investment at East Midlands Airport ("EMA"). As this division has been sold subsequent to the year end, it is disclosed as a discontinued business in the accounts.

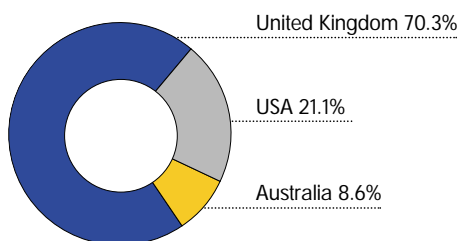
Share of operating losses of associated undertakings

We own 33% of Altram LRT Limited, which started operating the Midland Metro in June 1999, and 40% of Inter-Capital and Regional Rail Limited, which manages the operations of Eurostar (UK). Our share of the operating loss from these businesses was £1.8m (1999: nil).

Turnover
by geographical market



Operating profit
by geographical market



Interest

Net interest payable during the year was £34.0m (1999: £5.8m), reflecting the significant increase in debt due primarily to the acquisition of businesses in 1999 (£259.6m) and 2000 (£230.4m). Earnings before interest, tax, depreciation, amortisation and exceptional items were £197.2m (1999: £139.8m) and EBITDA interest cover for 2000 was 5.8 times (1999: 24.1 times). Excluding discontinued operations, EBITDA interest cover was 5.3 times.

Goodwill and exceptional items

The goodwill charge of £22.7m (1999: £3.3m) reflects the significant acquisitions made in 1999 and 2000, with goodwill being written off between four and 20 years.

In 2000 there were exceptional operating charges of £30.6m (1999: £14.7m). These include:

- £16.5m (1999: nil) in respect of the full and final settlement (with no admission of liability) of the litigation brought against us in the USA by Atlantic Express Transportation Group Inc. in 1998;
- £7.2m (1999: £7.5m) on the reorganisation of our UK operations (including the ongoing integration of Prism acquired in the year);
- £2.4m (1999: nil) on the ongoing reorganisation of our Australian operations;
- £1.5m (1999: £0.2m) on the reorganisation of our US operations (including SS&L acquired in the year);
- £2.4m (1999: £4.9m) on introducing new trains across our UK franchises; and
- £0.6m (1999: £nil) abortive acquisition costs.

Other exceptional items are a £1.0m (1999: nil) loss on the closure of Fregata Travel, a non-core business.

The tax credit associated with goodwill and exceptional items was £12.8m (1999: £4.8m).

Tax

The tax charge on normalised profit before tax of £119.3m (1999: £107.4m) was £25.7m (1999: £27.6m), which represents an effective tax rate of 21.5% (1999: 25.7%). Tax relief on goodwill and exceptional items was at 23.6% (1999: 27.0%), resulting in an effective tax rate of 19.8% (1999: 25.4%) on the overall profit before tax.

These tax rates reflect the mix of earnings in the UK, USA and Australia, plus the benefit to UK corporation tax from capital allowances arising from the continued high level of investment in the UK. The level of planned investment in future years means that a full provision is not required for deferred tax.

Cash flow

We generated £167.5m (£95.1m) of operating cash flow, reflecting the increase in operating profit in the year. Net interest paid was £19.2m (1999: £4.7m), as a result of the Group's average borrowings for the year exceeding last year following significant acquisitions being made. Tax paid increased to £26.6m (1999: £15.9m) due primarily to 2000 being the first full year without the benefit of consortium relief.

Gross capital expenditure in 2000 of £89.3m (1999: £97.9m) included £24.1m on infrastructure and rolling stock in Australia trains, £11.7m on school buses in the USA and £9.0m on the runway at EMA. In addition, £1.6m (1999: £7.8m) was invested in 305,000 (1999: 1,040,000) shares to satisfy the employee Save As You Earn Scheme and £230.4m (1999: £259.6m) was spent on the acquisition of businesses. The principal cash payments for acquisitions in 2000 were £140.5m for SS&L and £41.7m for Prism (with additional consideration for Prism being settled by the issue of shares).

Dividends paid in 2000 absorbed £22.0m (1999: £19.4m) and new shares issued for cash in the year raised £4.9m (1999: £1.3m).

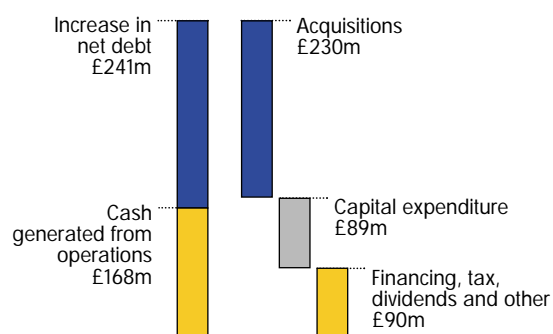
Overall there was a net cash outflow of £226.2m (1999: £308.8m).

Balance sheet

Net assets increased in total by £110.3m to £377.3m (1999: £267.0m) at 31 December 2000, due primarily to £25.1m of retained earnings and £80.5m of shares being issued as consideration for the acquisition of Prism.

Other principal balance sheet movements arising from acquisitions include the capitalisation of £284.5m (1999: £236.6m) goodwill. In addition, net debt increased from £315.9m to £556.6m due to a net cash outflow of £226.2m (1999: £308.8m) and a £14.5m (1999: £42.2m) adverse effect of non cash movements (which has arisen in 2000 largely from movements in exchange rates).

Cash flow



Based on net assets of £377.3m (1999: £267.0m) and net debt of £556.6m (1999: £315.9m), gearing at 31 December 2000 was 147.5% (1999: 118.3%). Following the disposal of the Airports division gearing has fallen to 74.4%.

Treasury

Financial risk management

We use financial instruments, in particular currency denominated borrowings and interest rate swaps, to manage the financial risks associated with our underlying business activities. Our financial risks are managed from our centralised Treasury function, whose primary objective is to identify and minimise those risks. The Treasury function does not trade in financial instruments and has been set up as a service provider and not as a profit centre.

Liquidity and funding

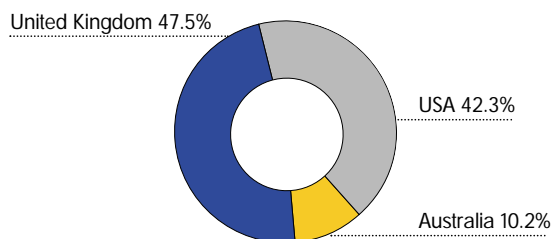
Our policy is to ensure that we have access to sufficient medium and long term committed credit facilities to be able to meet all of our current and forecast financial requirements as cost effectively as possible. As at 31 December 2000, the Group had committed credit facilities of £800m, of which £201.3m was undrawn. While we centralise these facilities to minimise cost of funds, we also have access to uncommitted working capital facilities in the UK, USA and Australia to help maximise funding flexibility.

Cash deposits are placed with banks which have as a minimum an 'A' long term credit rating.

Interest rates

It is our policy to maintain an appropriate balance between fixed and floating interest rates on borrowings in order to minimise the impact of interest rate fluctuations. Interest on the Group's debt is based on LIBOR and, to minimise the impact of interest rate fluctuations, £312.4m of debt was hedged at 31 December 2000 using interest rate swaps which mature within three to ten years. This relatively low level of hedging at 31 December 2000 reflected the fact that funds were anticipated from the disposal of the Airports division. Each 1% increase in interest rates would cost the Group approximately £3.3m.

Average number of employees by geographical location



Currency rate risk

We actively manage our balance sheet translation exposures by funding our overseas operations, which are primarily in the USA and Australia, in the currency of the underlying net assets and cash flows, to provide a natural hedge against foreign currency exposure. It is our policy to re-balance periodically the borrowing profile to match our foreign currency asset position, thereby taking account of profits retained overseas.

The average exchange rates for the year for the US dollar and the Australian dollar were US\$1.51 (1999: US\$1.61) and A\$2.63 (1999: A\$2.49) respectively. Each 1% weakening of the US and Australian dollar exchange rates would reduce the Group's operating profit by approximately £0.5m.

The Group also has transactional currency exposures. With the exception of fuel purchases (see below), we believe that such exposures are immaterial.

Commodity prices

We are exposed to commodity price risk as a result of fuel usage. We manage this exposure by entering into medium-term purchase contracts which fix the price in sterling for a proportion of our worldwide fuel requirements.

Accounting policies

The Group has adopted two new Financial Reporting Standards (FRS) in the year, namely FRS 15, "Tangible Fixed Assets", and FRS 16, "Current Taxation". FRS 15 requires that each class of tangible fixed assets is either revalued regularly or not at all. The policy that has been adopted is not to revalue in future although, as permitted by the standard, properties that have been revalued in the past have been retained at their existing book value. The effect of FRS 16 on the Group is not material.

FRS 17, "Retirement Benefits", FRS 18, "Accounting Policies" and FRS 19, "Deferred Tax" were issued at the end of 2000. The Group will adopt these standards in the years in which they become mandatory.

William Rollason *Finance Director*

Board of Directors



Michael Davies



Phil White



Richard Brown



Barry Gibson



Clive Myers



Ray O'Toole



William Rollason



David Ross



Tim Stevenson



James Watson

Michael Davies *Non Executive Chairman*

Michael Davies has been Chairman since 1992. He holds a number of directorships. He is Chairman of Simon Group plc and the Corporate Services Group. He is also a Non Executive Director of British Airways plc. Aged 66.

Phil White *Chief Executive*

Phil White was appointed to the Group Board in January 1996 whilst Managing Director of West Midlands Travel. He became Chief Executive in January 1997. Aged 51.

Richard Brown *Commercial Director*

Richard Brown, formerly head of the Group's trains division, with 25 years' experience at British Rail, joined the Board in July 1999 as Commercial Director. Aged 48.

Barry Gibson *Non Executive Director*

Barry Gibson joined the Board in November 1999. He is also the Group Chief Executive of Littlewoods Organisation plc. Aged 49.

Clive Myers *Non Executive Director*

Clive Myers has been on the Board since 1991. He was previously Managing Director of National Express Limited, a position which he had held since 1984. Aged 58.

Ray O'Toole *Chief Operating Officer*

Ray O'Toole joined the Board in November 1999 as Chief Operating Officer. Formerly with FirstGroup plc, he was responsible for their operations in Yorkshire and the North West, and group engineering. Aged 45.

William Rollason *Finance Director*

William Rollason joined the Board in December 1999 as Finance Director. He was formerly an Associate Director at Carlton Communications Plc. Aged 40.

David Ross *Non Executive Director*

David Ross joined the Board in February 2001. He is Chief Operating Officer of The Carphone Warehouse Group PLC which he joined in 1990. He is a chartered accountant. Aged 35.

Tim Stevenson *Non Executive Director*

Tim Stevenson joined the Board in February 2001 as the Senior Independent Non Executive Director. He had a 25-year career at Burmah Castrol PLC, retiring as Chief Executive in August 2000. He is a qualified barrister. Aged 52.

James Watson *Non Executive Director*

James Watson was appointed to the Board in 1994. Until September 1999, he was Chairman of Alldays plc. Aged 66.

National Express Group principal brands

www.nationalexpressgroup.com

Buses



The leading bus operator in the West Midlands covering over 450 routes
www.travelwm.co.uk



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



Provides a fast, efficient tram link between Wolverhampton and Birmingham city centre
www.travelmetro.co.uk



Provides bus services throughout Eastern Belgium

Trains



Provides overnight services between London Euston and main cities in Scotland
www.scotrail.co.uk



Links South Essex towns, including Southend and Basildon, with Fenchurch Street station in London
www.c2c-online.co.uk



Provides high-frequency local train services in the East and West Midlands and long-distance services between the Midlands and East Anglia, Mid and South Wales, the North of England and the East Coast
www.centraltrains.co.uk



Provides non-stop 24-hour service between central London and Gatwick Airport
www.gatwickexpress.co.uk



Provides operational maintenance services to a wide range of rail customers including train operating companies



Operates inter-city services along the M1 corridor between Yorkshire, the East Midlands and London
www.midlandmainline.com



Provides suburban, inter-urban and rural services north of the border and the Caledonian Sleepers linking Scotland with London
www.scotrail.co.uk



Silverlink County runs from Birmingham to London and provides a regular service to local communities in-between. Silverlink Metro service provides a suburban train service to communities in North, East and West London, with links to London Underground and other suburban rail services
www.silverlink-trains.com



Provides train services between central London and Stansted Airport
www.stanstedexpress.co.uk



Operates an urban and commuter network within Wales
www.valleylines.co.uk



Operates rural and inter-urban services between Manchester, Holyhead, Birmingham, Fishguard, London, Brighton and Penzance
www.walesandwest.co.uk



Operates services from London terminals King's Cross, Liverpool Street and Moorgate, to Eastern Hertfordshire, Cambridgeshire, West Norfolk, North Essex and North-East London. Services inner London and regional centres including Cambridge, Huntingdon, Peterborough and Stevenage
www.wagn.co.uk

Coaches



Operates coach services across the UK
www.gobycoach.com



Provides high-frequency coach services between major towns and cities
www.gobycoach.com



Offers a range of airport coach services landside and airside
www.airlinks.co.uk



Provides high-frequency bus services between central London and Heathrow, Gatwick and Stansted airports
www.airlinks.co.uk



Offers dedicated airport coach services to/from many UK towns and cities
www.airlinks.co.uk



Provides special coach services between London airports and the Home Countries/East Anglia
www.airlinks.co.uk



Links Heathrow terminals with many of the airport leading hotels
www.airlinks.co.uk



Connecting coach service between Heathrow, Woking and Watford rail services
www.airlinks.co.uk



Provides premium coach services linking Heathrow and Gatwick airports
www.airlinks.co.uk



Operates a pan-European express coach network
www.eurolines.com

USA

Student transportation



Operates routes in five school districts of Pittsburgh, PA
www.baumanbus.com



Operates buses in Colorado, Iowa, Kansas, Nebraska, Oklahoma and Utah
www.crabtree-harmon.com



Operates vehicles in California, Idaho, Oregon, Texas and Washington
www.durhamtrans.com



Provides transportation in Illinois, Michigan and Pennsylvania
www.nationalexpresscorp.com



Operates fleets in Connecticut, Illinois, Kansas, Massachusetts, Missouri, New Mexico, Oklahoma and Wisconsin
www.nationalexpresscorp.com

Public transit



Provides paratransit and transit fixed-schedule bus services in 63 cities in 20 states
www.intelitrans.com



Runs vehicles for eight transit authorities in California and Arizona as well as 90 school buses for three school districts
www.nationalexpresscorp.com



The largest manager of paratransit bus services for those with disabilities. Manages more than 7.1m trips annually in seven states
www.intelitrans.com



Provides in-house consulting and information technology resources on a variety of transportation services including general fixed-route, commuter shuttles, paratransit and contract management bus services
www.multisystems.com

Airports



Located in New Windsor, New York, currently serves over 600,000 passengers annually
www.stewartintlairport.com

Australia



Operates school bus services to the north of Sydney
www.nationalexpressgroup.com



Operates commuter routes and school runs throughout Melbourne
www.nationalbus.com.au



Provides Transperth bus services in the southern region of Perth, Western Australia
www.sctransit.com.au



Provides local and long-distance commercial services and contracted bus operations across New South Wales, Australia
www.westbus.com.au



Formerly Bayside Trains. Serves Melbourne's northern, western and south-eastern suburbs with its fleet of 77 trains on a network of nine rail lines
www.movingmelbourne.com



Formerly Swanston Trams. Serves Melbourne's north-western and south-eastern suburbs and central business district with its fleet of 275 trams across 17 routes
www.movingmelbourne.com



Provides train and coach lines covering more than 5,500 route kilometres throughout the State of Victoria
www.vlinepassenger.com.au

