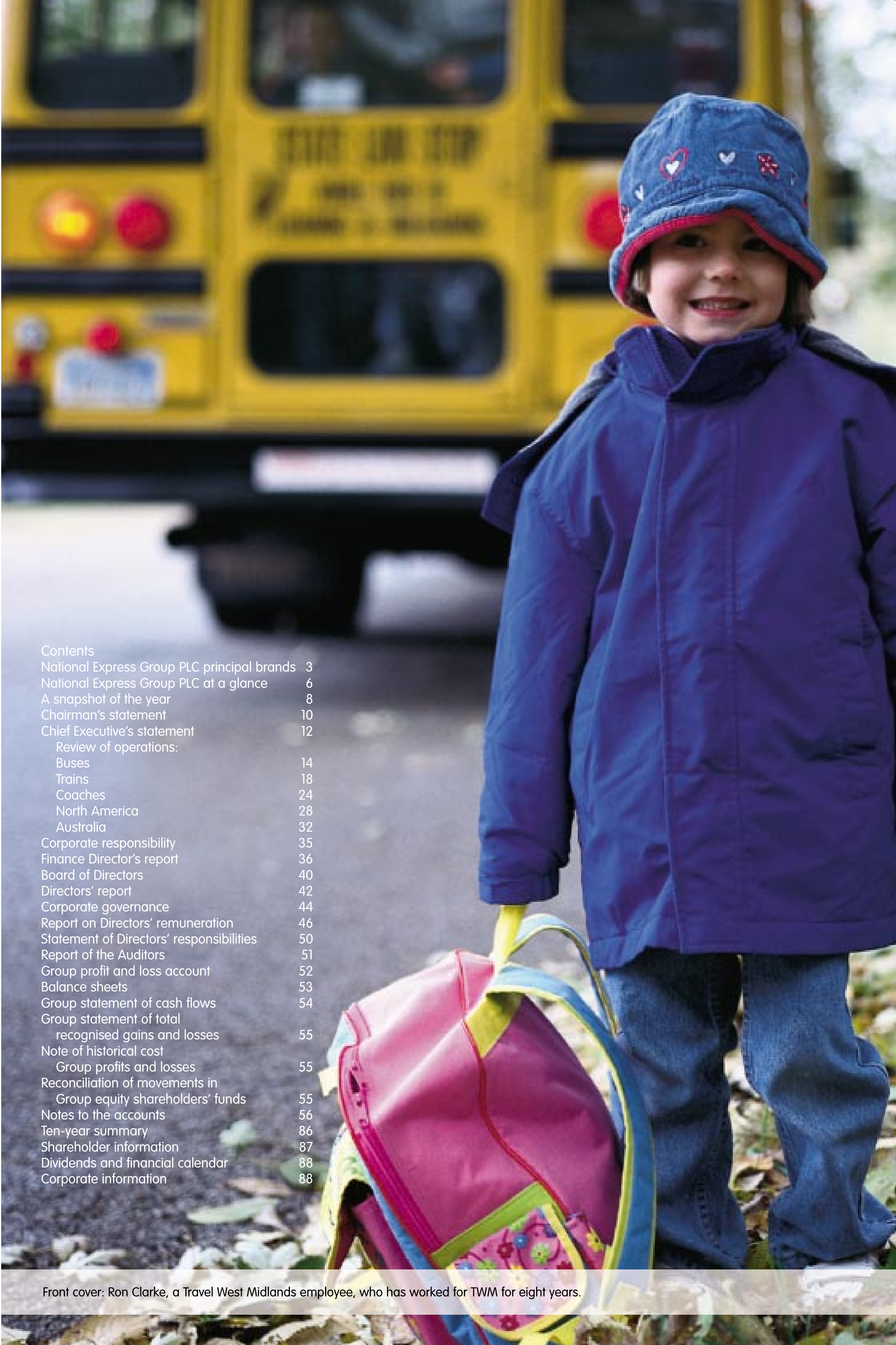
National Express Group

Annual Report 2002

People get on with us



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Front cover: Ron Clarke, a Travel West Midlands employee, who has worked for TWM for eight years.

National Express Group PLC principal brands

Buses

The leading bus operator in the West Midlands covering over 600 routes
www.travelwm.co.uk

Provides 100 buses covering routes in and around Coventry
www.travelcoventry.co.uk

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

Trains

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

Provides a high-speed rail link between London, Brussels and Paris. The Group has a 40% shareholding in Eurostar's parent company
www.eurostar.co.uk

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

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

Provides regular services between central London and Gatwick Airport
www.gatwickexpress.co.uk

The rail on-line ticketing service, Qjump.co.uk, provides accurate and impartial timetable and fares information, ticket purchase and reservations for all UK national rail journeys
www.Qjump.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 operational maintenance services to a wide range of rail customers, including train operating companies
www.maintrain.co.uk

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

Coaches

Provides a network of scheduled coach services around Britain
www.nationalexpress.com

Operates short, direct, high frequency services between major cities and towns in Britain. Customers benefit from a flexible payment system that allows them to buy a ticket at the departure point or from the driver.
www.nationalexpress.com

Operates a range of dedicated airport services to and around the UK's main airports, including over 500 daily departures from London Heathrow
www.nationalexpress.com

North America

Student transportation

Provides student transportation services throughout the United States
www.durhamschoolservices.com

Provides student transportation services in two provinces in Canada
www.stock-transport.com

Public transit

Provides paratransit and transit fixed-schedule bus services in 17 states
www.atc-nec.com

Australia

Operates scheduled bus services in Sydney
www.blue-ribbon.com.au

Operates scheduled bus services in Sydney
www.glenoriebus.com.au

Operates commuter routes and student transportation throughout Melbourne
www.nationalbus.com.au

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

Silverlink County runs from Birmingham to London and provides a regular service to local communities in-between. Silverlink Metro 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

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

Operates local and long-distance rail services in Cornwall, Devon, Somerset, Dorset, Wiltshire, Hampshire, Gloucestershire
www.wessextrains.co.uk

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

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

AirLinks holds operating licences for Heathrow, Gatwick and Stansted airports and provides airside services as well as engineering services for its entire fleet.
www.airlinks.co.uk

Provides scheduled coach services from the UK to over 500 destinations in continental Europe
www.nationalexpress.com

Airports

Located in New Windsor, New York
www.stewartintlairport.com

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

We are a leading international public transport group. We carry more than one billion passengers a year worldwide on our bus, train, light rail and express coach operations. We hold strong positions in each of our geographical markets – the United Kingdom, North America and Australia.

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 benefit economically from our activities while also receiving quality local services.

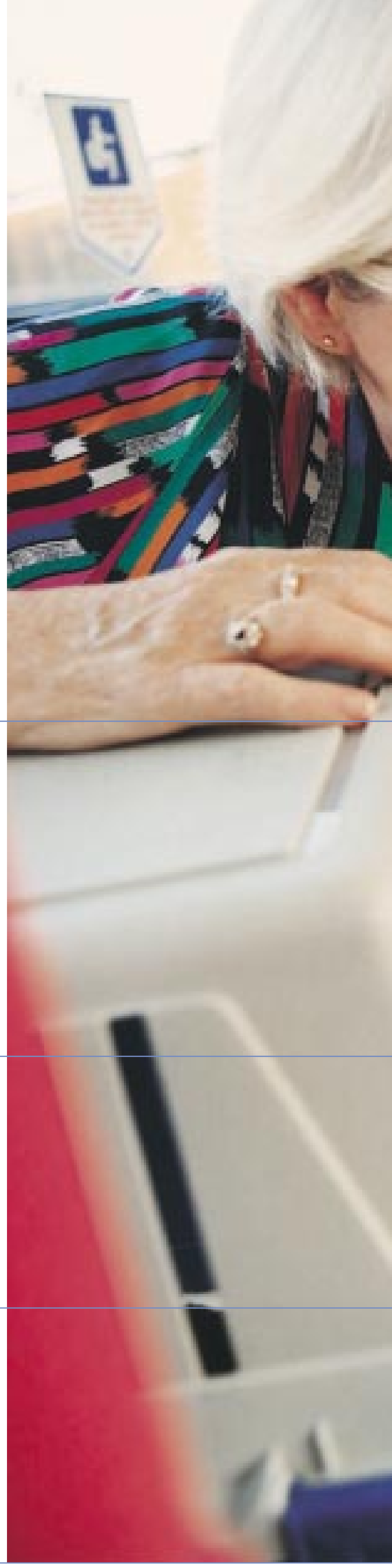
Our 46,000 employees are committed to improving the safety, quality and value for money of all our services.

We focus on:
- highly decentralised autonomous companies;
- local businesses run by local management teams;
- local brands which have a strong local presence;
- investing to drive growth; and
- a sufficient return to provide investment.

We invest in all aspects of our businesses to provide services that passengers want to use, thereby maximising the use of public transport systems.

We are committed to exploring the many opportunities for growth which exist in the public transport market.

National Express Group PLC at a glance



Operational highlights

- Turnover up to £2.6bn (2001: £2.5bn)
- Group operating profit before goodwill and exceptional items of £130.9m (2001: £157.8m)
- Strong cash flow from operations of £175.5m (2001: £185.5m)
- Profit before tax, goodwill and exceptional items of £106.8m (2001: £129.2m)
- Normalised fully diluted EPS of 60.3p (2001: 66.0p restated)
- Increase in total dividend per share of 11% to 24.5p (2001: 22.0p)
- Net debt of £334.6m (2001: £315.0m)
- Continuing EBITDA interest cover before exceptional items of 9.5 times (2001: 7.5 times)
- Heads of Terms agreed with the Strategic Rail Authority (SRA) for two-year extension for Central Trains
- Two-year extension for Silverlink under discussion with the SRA
- Purchase of Stock Transportation in Canada
- Withdrawal from Australian train and tram operations
- Limited share buy-back programme to be undertaken

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 operates buses in Dundee, Scotland, and the Midland Metro light-rail service in Birmingham.

Trains
A range of intercity, commuter and rural passenger train services and a dedicated train maintenance operation.

Coaches
Extensive integrated network of scheduled and contracted coach services in three business segments – shuttle, airport and European coaching.

Principal brands

Buses: Travel West Midlands, Travel Coventry, Travel Dundee, Travel Midland Metro

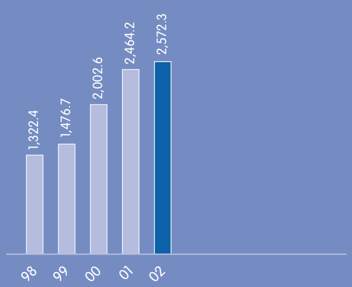
Trains: c2c, Caledonian Sleeper, Central Trains, Eurostar, Gatwick Express, Maintrain, Midland Mainline, Qjump.co.uk, ScotRail, Silverlink, Stansted Express, Wagn, Wales & Borders, Wessex Trains

Coaches: National Express, National Express Shuttle, National Express Airport, AirLinks, Eurolines

Continuing operations

	Buses 2001	Buses 2002	Trains 2001	Trains 2002	Coaches 2001	Coaches 2002
Turnover (£m)	208.3	208.7	1,458.2	1,553.2	181.3	184.5
Operating profit (£m)	52.8	49.8	40.6	33.9	10.6	12.2
Operational fleet	1,930	1,904	968	973	347	300
Passenger journeys (m)	357	346	261	260	17	17
Employees (FTEs)	5,225	5,327	12,349	13,217	2,006	1,807

Turnover (£m)



Operating profit from continuing operations before goodwill and exceptional items (£m)

Diluted earnings per share – normalised (p)

North America

The third-largest operator of student transportation bus services in the States as well as a provider of public transit and paratransit services.

Australia

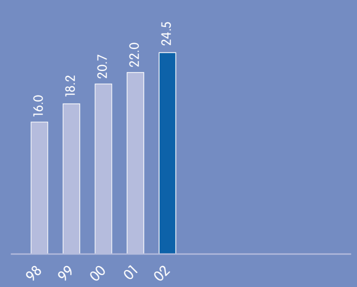
Bus services in Brisbane, Melbourne, Perth and Sydney.

Student transportation: Durham School Services, Stock Transportation
Public transit and demand-response: ATC
Airports: Stewart International

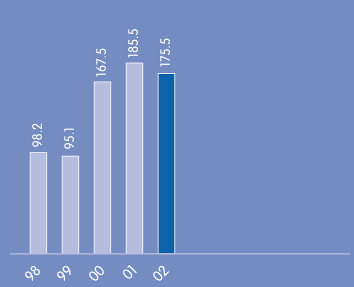
Blue Ribbon, Glenorie Bus Company, National Bus Company, Southern Coast Transit, Westbus

2001	2002	2001	2002
401.7	408.0	54.9	58.0
39.3	32.6	4.0	2.3
11,544	14,080	916	987
286	336	47	46
12,057	14,037	1,884	1,748

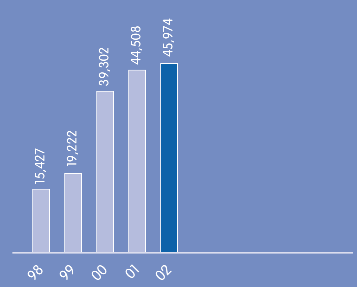
Dividend per share (p)



Cash flow from operations (£m)



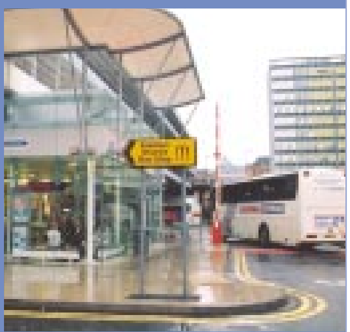
Average number of employees



A snapshot of the year


January


February


March

April


May

January
At the beginning of this year Sydney, Australia, experienced its worst bushfires since 1994. Westbus, one of our Australian bus operations, was instrumental in the rescue effort by providing much-needed support to the emergency services. After the main railway line and highway caught fire in Blue Mountain, we deployed a team of buses to rescue stranded residents from the local station.

February
In February, two Maintrain depots, Neville Hill in Leeds and Soho in Birmingham, achieved the International Standard ISO 14001. This award recognises the significant efforts which Maintrain has made to enhance and improve its environmental processes at these maintenance depots.

March
To coincide with this year's Commonwealth Games, the Rt Hon John Spellar MP, Minister for Transport, opened our state-of-the-art £2.7m Manchester coach station. Located in the heart of the city, the facility is now one of the most modern coach stations in Europe. Its features include improved facilities for less able customers, including automatic doors, disabled toilets and low-level ticket points, as well as CCTV throughout.

April
In April, the UK rail industry's first £2.0m Customer Service Academy was opened in Derby by Richard Bowker, Chairman of the Strategic Rail Authority. The centre has been designed to assist in the recruitment, induction, customer service and skills development of staff. The drivers' training room features training equipment, including route familiarisation software, which provides "virtual" training using a computer and CD-ROM. Staff can also gain professional qualifications such as a National Vocational Qualification in Customer Services.

May
After three years, the Group's graduate trainee scheme continues to attract interest. We have extended our promotion of the scheme during the course of the year by visiting a range of graduate careers fairs. The scheme attracts applications from individuals who want responsibility and ownership from the outset and real hands-on experience.

June
To celebrate the Queen's Jubilee, Travel West Midlands specially painted two of its new, easy-access double decker buses in purple and gold livery. The buses were launched by Her Majesty's official representative, the Lord Lieutenant of West Midlands, Robert Taylor. In addition, as part of the Jubilee commemoration, the Rt Hon John Spellar MP, Minister for Transport, officially launched the "Jubilee Line" to celebrate 50 years of bus services on the Bristol Road route in the West Midlands.

July

To strengthen further our strategic position as the third-largest school bus operator in North America, we acquired Stock Transportation, Canada's largest privately-owned school bus business, for £75.0m. Together with Durham School Services, this acquisition brings our total school bus count to over 10,500 buses operating in 20 states in the USA and two provinces in Canada. Stock carries 80,000 students a day and operates 1,880 vehicles which are liveried "On the Journey of Learning".

August

As part of our on-going programme to promote the use of public transport, we launched a new initiative which enables our customers to offset the carbon dioxide emissions generated from their coach and train travel by planting trees that reabsorb carbon dioxide. Through a tie-up with Future Forests, we are the first public transport company to offer this service for all our passengers who book coach and train tickets through our on-line ticket booking systems www.nationalexpress.com and www.Qjump.co.uk.

September

The success of the well-publicised £10 travel offer, which enables students and the over 50s to travel anywhere in the UK for just £10, illustrated that providing value-for-money travel attracts new customers. During this year over 200,000 passengers travelled under this promotion.

October

During the latter half of the year, Southeast Airlines began operating out of Stewart Airport, New York. The new low-fare service operates direct services to Fort Lauderdale, Orlando, Tampa and St Petersburg.

November

A major achievement for Qjump.co.uk was being awarded "Business Start Up of the Year" by the Sheffield Chamber of Commerce. The award recognised the achievements of Qjump.co.uk in establishing a significant position in the on-line ticketing market, its growth in capturing new business and its offer of a coherent service across a number of UK train operating companies.

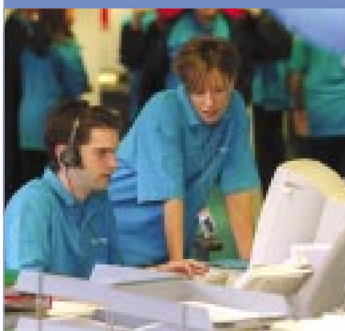
December

Travel Coventry was launched to create a local identity for a local bus service in the city of Coventry. The new bus logo, which features the famous Coventry three spires motif, is painted Coventry blue to reflect the heritage and importance of the city. Travel Coventry has also introduced a package of improved services for its customers, including a new website, a dedicated customer care facility, new bus-stop plates and roadside information and smartcard technology. These initiatives all complement a £4.5m investment in 20 easy-access double-decker buses and ten state-of-the-art bendi buses.


June

July


October


November

December

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A detailed report on the financial results can be found in the Finance Director's report on pages 36 to 39.

Achievements during the year

2002 was a year of significant developments. Despite the challenges we faced in our UK trains division and Australia, we generated a strong cash flow from operations of £175.5m (2001: £185.5m).

In the UK, our bus division continued to perform well with the number of fare paying passengers increasing despite the disruption in Birmingham city centre. We continued to invest in our operations in the West Midlands and Travel Dundee and to work to increase the number of bus priority measures through quality partnerships.

We have broadened the base of our London bus operations through an opportunity to develop a bus facility in south London, in partnership with Transport for London, with a view to bidding for bus routes during the spring and summer of 2003. We hope to operate a fleet of approximately 200 buses in this market during 2004.

Following the acquisition of Prism in September 2000, we hold a greater number of train operating companies (TOCs) than we planned due to the changes in the SRA's franchising programme. In the coming year, we aim to rationalise the division to ensure we have a viable portfolio of quality TOCs.

To help the SRA achieve its strategic plans, we will explore franchise extensions where we can achieve a reasonable return with strong cash flow. Heads of Terms have been agreed with the SRA for a two-year franchise extension for Central Trains from 1 April 2004. Subject to the agreement of Centro and approval by the Secretary of State, it is our intention to enter into a legally binding agreement shortly. We are discussing with the SRA a two-year extension from October 2004 for the Silverlink franchise. We recently reached agreement with the SRA on the payments relating to the effects of the industrial action early last year on our ScotRail operations.

Our coach business performed well during the period with passenger numbers increasing by 2%. Internet sales increased by over 75% during the year. Direct sales and internet bookings now account for nearly half of total sales.

In North America, we acquired one of Canada's most respected private student bus companies, Stock Transportation (Stock). The student transportation business, excluding Stock, produced good year-on-year organic growth and we increased operating margins during the year. We believe there are still plenty of opportunities to grow our North American business both organically and through bolt-on acquisitions and we look forward to further progress. Our public transit division performance was disappointing because of insurance cost pressures. We are putting initiatives in place to address this.

Safety is a priority for our business. We have made good progress in implementing the recommendations of the reports of Lord Cullen. The train protection warning system fitment programme continues on target with completion scheduled for the first half of 2003. Over 90% of our fleet is now fitted.

Challenges in the year

This year also included many challenges for the Group, particularly in our rail operations.

On 10 May 2002 the Potters Bar rail accident occurred. This was an event that no management team wishes to face and it took great strength from everyone involved to deal with the aftermath. My deepest condolences go to those families and friends whose loved ones died or were injured. Once again, thank you to our employees, the emergency services and our industry partners who worked so well together in handling a tragic situation.

Punctuality and reliability are key issues for our rail businesses. We continue to work with Network Rail, however they do not anticipate that infrastructure performance will improve in the short term. This will create additional challenges for our staff as they strive to provide reliable services.

In December, we exited from our Australian tram and train operations. After protracted discussions, we concluded that we had no option but to exit these operations. On 16 December we notified the Victorian Government of our intentions to cease funding the franchises and started working with the Government to ensure a smooth handover of operations without any disruption to services. We had invested over the period of a year a considerable amount of time to try and reach a revised financial agreement without incurring an unacceptable level of on-going operational and financial risk. This was not achieved, therefore, towards the end of the year, we decided to draw a line in the sand on our potential future losses in this market. The one-off cost to the Group of writing off these operations was £125.9m, a reduction on the expected cost at the time of announcing our withdrawal. We took the opportunity to assess the carrying value of our Australian bus division in light of our withdrawal from the train and tram operations, which has resulted in a goodwill impairment charge of £13.5m. I thank our Australian management team and those who oversaw our exit from these businesses.

The decline in stock market values has caused considerable speculation about the position of company pension schemes. The main defined benefit pension scheme for Travel West Midlands staff, which was closed to new members a number of years ago, reported a 19% surplus as at the triennial valuation. Whilst we are increasing our contributions to the rail schemes, our exposure is limited to the duration of these franchises. The coach division scheme has a small deficit and we sought to improve the funding level by injecting £5.0m in March 2003 into this scheme which was closed to new members during 2002. New employees in the bus and coach divisions have the option to join a defined contribution scheme.

The Board

At the beginning of March 2003, we announced that Adam Walker, formerly the Group's Corporate Development Director, had joined the Board as Finance Director. Larry Durham, Chief Executive Officer of our North American division also joined the Board, assuming a broader, corporate role. We look forward to the contributions Adam and Larry will bring to the Board.

Following a series of succession planning discussions with the Board, I shall be offering up my retirement from the Board at the AGM in 2004. We will be commencing the recruitment of a successor shortly.

The Board continues to review the recommendations of the Higgs report and the accompanying Smith report on audit committee reforms. We currently comply with many of their recommendations. The Board will be monitoring carefully the outcome of the consultation process on these reports and the resulting amendments to the Combined Code, and will review its corporate governance practices in accordance with any timescales set down.

The future

In 2002 we produced a solid operating profit which led to strong operating cash flow, a major characteristic of our business. We took the decision to withdraw from our Australian train and tram operations.

With six of our nine UK rail franchises coming up for renewal during 2004, we will be in a strong position to improve the cash returns in our trains division whilst, at the same time, rationalising our rail portfolio.

We look forward to developing our position in the UK bus and coach markets and to further growth in North America.

Our trading in 2003 is in line with our expectations. Given our strong cash flow and the current level of our share price, we intend to implement a limited share buy-back programme during 2003, without affecting the Group's dividend policy.

Michael Davies Non Executive Chairman

Michael Davies

This year saw a number of developments within our businesses. This statement highlights some of those significant events and initiatives which took place alongside further development of the business.

Throughout our operations safety remains a priority and we continue to develop our business against this background.

Travel West Midlands continues to be a high performing business in terms of the quality of service it provides, value for money it offers its customers and the role it plays within the local community. The level of returns we receive from this operation are a reflection of the level of service and investment that we have put into this business over our period of ownership.

We have an on-going commitment to provide local services that meet the needs of the communities we serve. Our comprehensive bus network serves the whole West Midlands population with over 90% of the West Midlands population living within 250 metres of a daytime bus service. Nearly 68% of services operate at intervals of ten minutes or better and fares remain competitive, being amongst the lowest outside London with a range of travelcards to meet everyone's needs. A combination of all these elements ensures continued progress at Travel West Midlands.

The launch of Travel Coventry, a sister brand of Travel West Midlands, has given the community of Coventry its own branded operation. This has been supported by the introduction of a number of new services illustrating our commitment to provide services that meet the needs of local communities. During the year we introduced 140 low-floor easy-access buses reducing the average age of the fleet to eight years. Over half of the fleet includes CCTV equipment to improve the safety of our staff and customers.

We were pleased to announce in January this year that we are developing our presence in the London bus market by working with Transport for London on the specification and refurbishment of an existing unused bus facility in south London. As a consequence of the introduction of the congestion charge, new buses to accommodate the growth have been introduced into London. We will be tendering to run services later this year. We believe this is a good opportunity for us to broaden our London bus operations and, if successful in the tenders, we anticipate commencing services in early 2004. Whilst we have previously had a small presence in the London bus market, our aim is to achieve critical mass. This new opportunity, combined with our current West Midlands and London operations, will strengthen our position in the UK bus market.

As the leading train operator in the UK, we are committed to improving the safety, punctuality and reliability of our services and investing further in our operations through our staff and fleet. We remain focused on improving performance where this lies within our control and endeavour at every opportunity to work with Network Rail to address the many infrastructure issues which exist on the network. Our management teams are experienced and enthusiastic and, through our Joint Boards with Network Rail, we have endeavoured to ensure that punctuality becomes a focus for all parties involved in delivering a reliable service on a daily basis. Joint Boards ensure that problematic areas of the network receive specific focus, ensuring engineering works are kept to a minimum.

We continue to invest in our people and the training of our staff. Our new Midland Mainline Customer Service Academy was opened in April 2002 and all Midland Mainline staff have undertaken training through the facility during the year. We believe the concept of regional training centres for rail staff is the way forward and will be reviewing a roll-out of this model to other parts of the Group.

Investment continues through orders for new rolling stock. Since privatisation £700m has been spent on new trains for our services and, during the year, as part of Midland Mainline's two-year franchise extension, we placed an order for a further 23 new trains. All these trains will be fully in service by 31 January 2005. In addition, earlier this year, 22 new three-car trains, which are expected to come on stream by autumn 2003, were ordered by ScotRail and the Scottish Executive.

Investment in new technology resulted in the further roll-out of the Advantix mobile ticketing technology across all of the National Express Group train operating companies. This technology enables customers to buy a range of rail tickets as well as having access to up-to-date rail information whilst they are travelling.

We have strengthened our trains division management team to give greater focus to customer operational issues. We are delighted that David Franks, who has over 25 years' experience in the rail industry, joined our rail division from Go-Ahead as Divisional Director (North) at the beginning of March. David will be responsible for Central Trains, Maintrain, Midland Mainline, Qjump.co.uk and ScotRail. Dominic Booth has been appointed Divisional Director (South), responsible for c2c, Gatwick, Silverlink, Wagn, Wales & Borders and Wessex. Both will report to Ian Buchan, Chief Executive of the Trains Division.

This year has been one of considerable progress for the coach division. With the launch of the new coach identity in March this year, the rejuvenated brand is being extended across the business, on coaches, on marketing literature, the website and at coach stations. As part of the relaunch, we have simplified the number of brands within the division particularly on the airport services, as we have failed historically to gain the aggregate benefits of running these services.

Two new coach stations in Manchester and Newcastle have opened in the past year. These facilities mark a step change in design for coach stations.

We are very pleased with the progress made in our North American operations during the year. The Stock Transportation acquisition brought another quality business into the portfolio.

Stock provides quality services, delivering students to and from school with safety a top priority. The quality of the workforce and the efficiency of the operations, ensures that this business continues to develop, based on the quality of the proposition rather than the price of the contract. We were particularly pleased with the progression of the operating margin from this division excluding Stock from 14.1% to 14.6%. We believe that this approach will ensure the continued retention of existing business and the award of new business. In our public transit operations, the year was difficult as insurance costs increased. However, we were re-awarded the largest public transit contract in the USA, in Las Vegas, where ATC is the incumbent operator.

In December, we were disappointed to announce our withdrawal from our Australian train and tram operations. Moving forward, we continue to operate buses in Brisbane, Melbourne, Perth and Sydney. While Australia continues to have high car ownership, new initiatives, such as the provision of specific commuter services from key regional areas into the central business districts, continue to make public transport attractive.

Industrial relations continue to be a strong feature of our industry, regardless of geography. We have brought innovation to the railway industry through the introduction of long-term agreements which provide stability of services. These long-term agreements include self-financing elements and productivity improvements. During the year, two-year and three-year driver agreements have been put in place at Silverlink and ScotRail respectively and, most recently, at Wales & Borders, where a five-year driver agreement has been implemented. These complement the package put in place at Travel West Midlands back in 2000.

I am delighted that our staff have risen to the challenges we have faced during the year. I would like to take this opportunity to thank our customers for their continued support and all our employees for their continuing hard work and commitment.

Phil White Chief Executive

Phil White

Buses

Travel West Midlands is the leading bus operator in the West Midlands. It employs over 5,300 people and has a fleet of 1,900 buses operating over 600 routes.

Having fun

In 2002, turnover in our bus division increased to £208.7m (2001: £208.3m) following the sale in October 2001 of Bronckaers, our Belgian bus business, which contributed £3.4m to turnover last year. Operating profit before goodwill reduced to £49.8m (2001: £52.8m) due to further vehicle operating leases and increasing insurance costs.

On-going redevelopment work in the centres of Birmingham and Coventry continued to make operations challenging. However, this construction work is due for completion by the end of 2003.

Fare paying passengers increased on last year and there was strong growth in day tickets and travelcards. The number of concessionary passengers decreased as a result of the service disruptions in Birmingham city centre. Our long-term five-year pay deal, agreed in April 2000, and our fuel hedging strategy ensure key costs are kept under control.

We work with a range of partners across the region to improve public transport and continue to promote major shopping and leisure attractions. The launch of our new website and our one-stop travel and Heart of England accredited tourist information centre in Walsall, launched in partnership with Centro and the Walsall Metropolitan Borough Council, have helped to promote local transport. In addition, our new Travelcard Information Centre in The Pavilions Central, one of Birmingham's most prestigious shopping centres, provides a central facility for information and travelcard sales.

In Coventry, construction of the new Millennium Square resulted in the relocation of bus services away from traditional points to modern, more accessible "bus hubs" around the city. We are working closely with Coventry city council to optimise the design of these facilities.

To complement the changing face and revitalisation of the city of Coventry, we rebranded our operations under the Travel Coventry brand, giving Coventry customers their own local identity. This initiative also included improved information, a new website, new bus-stop plates and roadside information, further investment in more easy-access buses, new "smartcard" ticketing technology and a dedicated Customer Care facility.

In September, we took delivery of our 1,000th low-floor bus; and, at the year end, 54% of the fleet comprised low-floor easy-access buses. To mark the Jubilee celebration, two new buses were painted in the Jubilee colours and a new "Jubilee Line" route was introduced.

Our involvement in Operation Safer Travel (OST), our partnership with the West Midlands Police, resulted in a TWM representative being asked to sit on the Government's Safer Travel Operation Panel committee. OST resulted in more than 500 arrests for a range of offences and a reduction of over 40% in driver assaults. Investment in driver training continues and currently more than 40% of our drivers have achieved NVQ Level II, compared with the national average of 31%. A further 16% are currently working towards this qualification.

We continue to achieve double-digit growth in patronage through our quality partnerships since their inception. Looking to the future, we are focusing on new quality partnership routes, including the Birmingham Outer Circle and the Walsall Showzone. At Travel Dundee, two quality partnerships were signed covering routes which serve Ninewells, a major regional

Right: Operation Safer Travel is a unique partnership between Travel West Midlands and West Midlands Police which aims to combat crime, vandalism and graffiti on our buses.

Centre: The arrival of an additional 140 new easy-access low-floor buses brings TWM's fleet to over 1,800. 16% of the fleet incorporates the latest environmentally friendly Euro III buses.

hospital. Revenue growth of 8% has been achieved on these routes in the year.

In January 2003, we were pleased to announce that the Group is further broadening its presence in the London bus market by working with Transport for London on the redevelopment of an existing bus facility in south London. This facility has the capacity for 120 buses. We begin bidding for contracts in spring and summer of this year. Together with our existing Feltham depot we are aiming for an initial London fleet of approximately 200 buses during 2004.

Midland Metro experienced better operational performance, which continues to improve. We are currently in discussions with Centro to improve its financial performance and stimulate passenger growth.

The new year has begun well. Birmingham city centre is now in the final stage of redevelopment and we anticipate that the opening of new department stores, such as Selfridges and Debenhams, in autumn 2003 will attract patronage back to the city centre.

Left: Travel Shops provide a one-stop shop for all TWM services. Open six days a week, they also sell National Express coach tickets, local and national rail tickets and short breaks throughout Europe.

Trains

We operate c2c, Central Trains, Gatwick Express, Midland Mainline, ScotRail, Silverlink, Wagn including the Stansted Express, Wales & Borders and Wessex franchises. The division employs 13,200 people.

Taking a break

Right: To mark Birmingham's marketing initiative to become European capital of culture of 2008, Central Trains introduced a new liveried train incorporating vibrant colours promoting Birmingham. This train is used on services to more than 40 towns and cities across central England, the North West and South Wales.

Turnover of our UK train operations in the year was £1,553.2m (2001: £1,458.2m), up 6.5%. Operating profit before goodwill and exceptional items was £33.9m (2001: £40.6m). The reduction was due to increased insurance premia and new rolling stock charges at c2c.

We are pleased to announce that Heads of Terms were agreed with the SRA for a two-year extension for Central Trains, to April 2006, with a much improved financial return. Furthermore, we are about to start negotiations with the SRA on a two-year extension for our Silverlink franchise. We expect this to be concluded later this year.

Performance across the trains division was mixed. Punctuality and reliability are key areas and we continue to work closely through Joint Boards with Network Rail to reduce the number of delays on the network. Network Rail does not expect a return to pre-Hatfield levels in the short term. We have been improving our own operational performance through self-help initiatives, such as the recruitment of additional drivers and staff at stations.

To give greater operational and customer focus, we announced a new management structure for our rail division in March 2003. We have restructured our operations into two distinct geographic areas which cover the north and south of the country. Dominic Booth will oversee c2c, Wagn, Silverlink, Gatwick Express, Wales & Borders and Wessex in his role as Divisional Director (South). David Franks, who recently joined the Group from Go-Ahead Group, has responsibility for Central, Maintrain, Midland Mainline, Qjump.co.uk and ScotRail in the role of Divisional Director (North). They report to Ian Buchan, Chief Executive of the division, whose team also addresses strategic issues.

We continue to invest in the trains division to ensure continued development of our services. Initiatives include improved ticketing systems such as Advantix Mobile and ticket-on-departure machines on stations. All these initiatives simplify the availability of tickets and information for our customers.

Across the division since the start of the new year we have noticed a small improvement in passenger numbers on the same period last year. With six out of our nine franchises coming up for renewal during 2004, we will be in a strong position to improve the cash returns of our trains division while at the same time rebalancing our train portfolio.

London and the South East

Turnover for the year was £535.2m (2001: £516.4m) with an operating profit of £21.8m (2001: £46.7m). The reduction in operating profit resulted from increased rolling stock leasing charges and reduced subsidies.

Our commuter train operating companies (c2c, Silverlink and Wagn), continued to make significant operational progress over the period. Performance remains a key issue and across all routes our operations have developed detailed plans to drive forward improvements.

Increased travelcard sales and improved revenue protection resulted in 11.6% passenger revenue growth at Silverlink. Operational performance was, however, affected by the West Coast Mainline project. A two-year self-financing pay deal was agreed with Silverlink drivers. Productivity gains were secured as part of this, including increased flexibility in working arrangements. A CCTV project to provide 13 additional CCTV systems and a control room for station staff was completed. Secure Station accreditation was achieved at Bletchley, Milton

Centre: During the year ScotRail added three new stations to the network including Beauly, west of Inverness, which offers commuters a 13-minute journey into the city. Other new stations were Brunstane and Newcraighall.

Left: Following the opening of the UK's first rail academy since privatisation, all Midland Mainline staff have passed through the £2.0m Academy, which is a multi-purpose centre for customer service, recruitment, induction and skills development.

Keynes, Northampton and Watford and a further four stations will be submitted for accreditation during 2003.

At c2c the introduction of the new rolling stock fleet was completed early in the year. On the Wagn franchise, punctuality and reliability improved after the replacement of signalling between Bethnal Green and Cheshunt, and Chingford and Enfield Town. During 2002, all West Anglia stations were refurbished and rebranded. The West Anglia Route Modernisation Programme, including improvements to track circuit equipment, signalling, point motors and detection gear, continued throughout the year. This had an impact on the Stansted Express service, particularly at weekends, when engineering work regularly took place. New early-morning and late-night services were introduced to cater for changing airline schedules. Marketing continued to focus on low-cost airline tie-ups and a new Air Berlin contract was signed providing a strong foothold in the market for air passengers to Germany.

Great Northern's performance was affected by the accident at Potters Bar and the subsequent imposition of temporary speed restrictions. To address driver shortages, 40 drivers qualified in the year bringing a full complement to the service. In partnership with Hertfordshire and Bedfordshire County Councils, a number of train and bus through ticketing schemes were introduced.

Gatwick Express continued to be affected by a significant change in the mix of airlines operating out of Gatwick Airport. In addition, the contraction of the North American market and increased competition on the route had an impact on growth. A new marketing and sales strategy was implemented to tackle the changing market conditions and a new internet retailing contract was agreed with Easyjet. As the market recovered, additional services were re-introduced into the timetable.

Long distance/intercity

Turnover for the year was £135.9m (2001: £121.7m), up 11.7% with an operating profit of £10.4m (2001: £10.5m). With an 8.1% growth in passenger volumes, Midland Mainline's performance was above the industry average. In February, we ordered 23 new trains for the franchise. In April, the new £2.0m Customer Service Academy was opened and all staff have attended courses at the centre since its opening.

During the year, a number of changes to the two-year franchise extension were agreed with the SRA. These included a fleetwide overhaul of the 13 high-speed trains, involving interior refurbishment and exterior repaint, and new engines for 14 of the high-speed train powercars. The first of the refurbished trains is currently being launched onto the network and will provide significant improvements to performance.

As a result of the West Coast Route Mainline project, Midland Mainline will assist the SRA by running hourly services between London and Manchester from summer 2003 until autumn 2004. On-going construction work for the Channel Tunnel Rail Link project at St Pancras continues, however, to cause disruption.

Regional services

Turnover for the year was £847.3m (2001: £779.9m) with an operating profit of £6.0m (2001: loss of £19.0m). In February 2002, we agreed new terms with the SRA for our Central and ScotRail franchises which provided £114.7m additional subsidy. In return, we made a cash payment to the SRA of £59.0m and continued to operate additional services above the minimum level required in the franchise agreements.

At Central, performance was affected by strike action at neighbouring train operating companies. However, forthcoming service changes will see Central acquire some important new routes, including Birmingham to Cardiff and Liverpool. A major focus on revenue protection during the year resulted in higher revenue at Birmingham New Street and Nottingham stations.

At ScotRail, the performance of the sleeper services continued to be affected by infrastructure issues. The strike action earlier in the year was resolved with a self-financing three-year pay arrangement. Developments on the network continued with the opening of the Edinburgh Crossrail scheme in June. In October, the Scottish Transport Minister Iain Gray opened the new £8.5m Strathclyde customer service centre in Paisley. This controls nearly 1,400 CCTV cameras which monitor 180 stations across the network. This facility is operated by ScotRail. In addition, three new stations at Beauly, Brunstane and Newcraighall were opened during the year.

In December, we agreed to procure 28 additional turbostar-type trains, funded by the Scottish Executive, and invested in the recruitment and training of extra drivers. These new trains, eight of which are expected to be delivered before the end of the current franchise in March 2004, will improve capacity requirements, particularly following the opening of the new Edinburgh Park station, scheduled for 2003.

At Wales & Borders, we completed the integration of the six Great Western stations into the franchise and will complete the remapping process in September this year when the First North Western train stations and services in North Wales are integrated into the new franchise. We submitted our initial bid for the Wales & Borders franchise and await the timetable for the best and final offer stage. In early 2003, we agreed a unique self-financing five-year driver pay deal for this franchise, the first of its type in the railway industry.

We continue to secure new rail performance plans (RPPs) which will be used to provide new and improved customer information systems at 46 railway stations in Wales and eight in England. Due to the remoteness of many of the franchise stations, safety and security remain key areas of focus. Initiatives such as safety signage on vehicles, initiatives to address trespass and vandalism and new fleet features such as emergency lighting and train protection warning system (TPWS) were all implemented. Carmarthen station became the first station in Wales to receive the Secure Station status. In September, an improved timetable was introduced between north and south Wales giving people in north-east Wales a real alternative to the car.

Following the creation of the Wessex Trains franchise out of the former Wales & West franchise, the SRA launched a consultation exercise on changes to rail franchises serving the South West. In November, the SRA concluded that there would be an amalgamation of the Wessex Trains, Thames Trains and Great Western Trains franchises into a single operation from 2006. This reorganisation will take time to implement and we are therefore discussing a two-year extension. In the meantime, the innovative marketing of services, including branded train units which promote tourist attractions and activities, and new ticket introductions have been well received.

Other

Turnover for the year was £34.8m (2001: £40.2m) with an operating loss of £4.3m (2001: profit of £2.4m) due primarily to losses at Qjump.co.uk as it develops its businesses in its second year of operation. The results at Maintrain were impacted by higher insurance costs and lower turnover.

Qjump.co.uk, our on-line rail ticketing service, was launched at the beginning of the year and won business with Arriva Trains, Go-Ahead Group and GNER. Major on-line partnerships with Expedia, Multimap, Teletext, Telegraph.co.uk, the London Tourist Board and Thisislondon were also signed up. In addition, two new accounts with the Department for Work and Pensions and the Employment Service were awarded. In April, Qjump.co.uk launched its business service, www.Qjump.co.uk/business, enabling companies to manage their travel spend by using a central accounts-based system, and an affiliate programme giving Qjump.co.uk the opportunity to advertise across many other smaller company websites.

During the year, two Maintrain depots were awarded the International Standard ISO 14001 environmental certification. Maintrain refurbished the high-speed trains for Midland Mainline and is currently contracted to fit the mandatory TPWS modification to approximately 15% of the trains operating on the UK network.

Enjoying the refreshments

Midland Mainline's restaurant service gives customers the chance to experience the great British breakfast.

Coaches

The coach division provides Britain's only scheduled national coach network and serves more than 1,700 destinations. The airport services provide premier, high-frequency scheduled coach services to all the UK's major airports, as well as airside coaching services. Eurolines offers value-for-money European travel by coach. The division has 1,700 employees.

Time to catch up

In the year, turnover in the coach division grew by 1.8% to £184.5m (2001: £181.3m) and operating profit increased by 15.1% to £12.2m (2001: £10.6m). This was generated by a 2% increase in passenger numbers and good cost control. We disposed of Eurolines Nederland BV in August 2002.

During the period we remained focused on improving passenger growth by way of product development and capacity and yield management. Promotion of low-price fares continued to attract a wide customer base, and increased investment in internet sales ensured that prices remained highly competitive. Sales through the internet increased by over 75% year on year as new initiatives, such as e-ticketing, were added to the service. Direct sales and internet bookings now account for nearly 50% of revenue. Well over one million passenger journeys a year are now booked through our website.

We are focused on broadening the appeal of coach travel to a greater range of customers, including the less able. In March, we introduced the first scheduled coach service accessible for wheelchair users, on the Bath–London route, with the support of the Department for Transport. Following an initial trial, these facilities have been extended to the entire fleet on this service. In addition, a new disability helpline and code of practice for less able travellers was launched in May.

We increased sales through direct channels and introduced new technology and initiatives to speed up the planning and booking journeys. The introduction of e-ticketing was well received and dedicated web promotions are also marketed regularly. To support our agent network we developed a new web-based portal, ensuring that our agents are kept up-to-date with the latest promotions.

Interactive voice-recognition technology was introduced to simplify sales and enquiries and to increase the capacity of our customer contact centre. Through this and our website we now offer a 24-hours a day, seven-days a week booking facility.

In March 2003, to coincide with the 30th birthday of the division, we launched the new National Express coach identity and, at the same time, rationalised the number of brands in the division. The new logo will be rolled out across the fleet and coach stations during 2003 and we have developed a marketing programme around the new brand proposition.

We continued to develop the network with focus on short to medium journeys such as Cambridge–London, where we increased frequency. Long-distance routes to the North West also performed well.

During the past two years, Manchester coach station was redeveloped, at a cost of £2.7m, before the Commonwealth Games. The new design marks a radical change in the perception of coach travel and provides a blueprint for future coach stations. The facility is more attractive for customers, being modern, innovative and more accessible, and offers improved passenger information. Since Manchester reopened, passenger numbers have increased by 11%. The £1.5m Newcastle coach station opened in March this year. We continue to discuss our plans for a new coach facility in Birmingham with the City Council as the current facility is in urgent need of modernisation.

The “Well Driven” scheme provides valuable feedback on driving standards and, in combination with a proactive accident reduction programme, has reduced accident rates by 20% during the year.

Right: In March 2002 the first scheduled coach service accessible to wheelchair users commenced. In advance of the legal requirements being introduced in January 2005, National Express coaches, in conjunction with the Department for Transport, introduced a new coach design which enables passengers to board and travel in their wheelchair with the aid of a mechanical lift at the side of the coach.

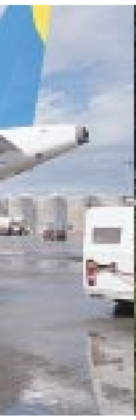
Airport services

Passenger journeys on scheduled services to airports returned to pre-September 2001 levels. We are looking to introduce new services to many of the expanding regional airports, particularly in the South East. The growth of low-cost airlines during the year also enabled a substantial upgrading of services to Stansted airport, and the development of a new operational base close to the airport ensured that we are well placed to serve it. With increased service frequency and new vehicles, we aim to capitalise on the growth already seen on the Airbus services between London and Stansted airport.

A new five-year contract with the hoteliers at Heathrow resulted in a new Hotel Hoppa contract, linking 17 airport hotels with Heathrow's terminals 1, 2 and 3. The 26-strong vehicle fleet will be refurbished and a new livery introduced.

European coaches

Eurolines performed well, despite competition from low-cost airlines and increased costs incurred to prevent the illegal entry of immigrants on our services. New day trips and scheduled services to Disneyland Paris are being introduced. To bring more focus to our UK operations, we sold Eurolines Nederland BV to our partner, Eurolines France, at the end of July.



Centre: The growth of low-cost air travel has resulted in many passengers being attracted to the value-for-money proposition of the coach division. New contracts in the airport division have resulted in encouraging growth.

Left: Eurolines provides value-for-money travel within Europe. New services to Disneyland Paris will be introduced this year.

Review of operations

North America

The North American division consists of student transportation, public transit operations and Stewart Airport in New York State. Following the acquisition of Stock Transportation, the North American division employs 14,000 people, provides services in more than 300 school districts and 70 public transit authorities while operating in 31 states and two Canadian provinces. It operates a fleet of 14,100 vehicles.


Arriving on time

Right: Stock Transportation provides a total transportation management solution to serve the differing needs of school districts. With "On the Journey of Learning" as its strapline, Stock ensures students arrive at school ready to learn.

Turnover for the North American division for the year was £408.0m (2001: £401.7m) and operating profit was £32.6m (2001: £39.3m). Operating profit declined primarily because of £7.5m insurance cost pressures in our public transit division and £1.6m adverse exchange rate movements.

Student transportation

Turnover for the year was £219.6m (2001: £206.2m) and operating profit was £30.9m (2001: £29.1m). Margins from continuing operations, excluding Stock, improved from 14.1% to 14.6%. Turnover and operating profit were adversely impacted by exchange movements and reported margins were impacted by the timing of the acquisition of Stock. These results include a £1.2m operating profit contribution from Stock, which was acquired in July 2002, just as it entered its summer vacation period when fleet utilisation is at its lowest level of the year.

The new school year started very smoothly. We experienced organic growth within our existing contracts, despite a general economic slowdown. During 2002, the student transportation division participated in an increased number of new bid opportunities and had significant new contract wins in Baltimore, Long Beach, Los Angeles and Seattle. In addition, a new contract win of 50 buses was awarded in Natchez, Mississippi, as part of our privatisation initiative. These developments, together with the increased focus by school boards on reducing costs against a background of decreased tax revenues, confirm our belief that there are plenty of opportunities for the Group in this market. Our unique safety culture has become a key selling attribute and a powerful tool for cost containment.

We were pleased to acquire Stock, a well-respected operator in the industry. It provides an excellent platform for growth as the second-largest private provider of student transportation in Canada. It transports 80,000 students a day and operates more than 1,800 vehicles in two Canadian provinces. Stock has been integrated well and we are already experiencing gains in procurement, particularly in the areas of vehicle maintenance and vehicle acquisition. We believe that substantial new consolidation opportunities exist in Canada, particularly in the province of Ontario.

The Durham School Services student management training curriculum is a leading programme in the industry. During the past year, significant improvements were made in the programme that will help drivers and local managers in their day-to-day roles by minimising the amount of student-management issues parents and teachers must address. This programme should also help with driver retention, since student management is one of the most significant challenges our drivers face.

We provide training support through Durham University. We are the first student transportation provider to offer management and skills using the internet which enable virtual classrooms and conferences to employees across North America. Durham University's Management Development Program provides continuing education credits recognised by the American Council on Education, the National Association of State Boards Accountancy and the International Association of Continuing Education and Training.

Public transit

Turnover for the year was £188.4m (2001: £195.5m), including an £8.1m adverse foreign exchange impact, and operating profit was £1.7m (2001: £10.2m). Increased insurance premiums and accident claims costs adversely affected performance. To address the division's financial performance, we substantially completed

Centre: ATC provides all the buses on the famous Las Vegas strip. This contract, which was renegotiated during the year, is one of the largest public transit systems in the USA.

Left: As well as delivering students to school, Durham School Services provides regular field trip services, summer school and camp and charter trips and services for special needs students.

an orderly exit of selected contracts, which did not meet our required financial criteria. In addition, we raised our financial targets and, as contracts are retendered, will bid at rates that reflect a more appropriate return for the business, including the increased insurance costs. New contracts in Chula Vista, California, and Columbus, Ohio, were won and extensive contract expansions were granted in San Jose and San Diego, California.

ATC was successful in renegotiating an extension of its fixed-route contract in Las Vegas, one of the largest public transit systems in the USA. The new four-year contract will deliver one of the most cost-effective large transit systems in the USA. The division received a number of awards for the quality of its fleet and services and the diversity of its workforce. ATC's performance in training and its environmental credentials are well above the industry average.

Moving forward, we will focus on achieving higher profits by reducing our total accident claims costs and labour costs. We have fully implemented a cost-reduction initiative designed to provide significant margin improvement in 2003.

Airport management
While growth at Stewart Airport continues to be slow, regional airports in the USA have recovered at a quicker pace than international airports. The economic environment is still challenging and the total number of daily departures nationwide continues to be substantially below pre-11 September levels. The airport has good relationships with a number of airline operators. During the year, it strengthened its customer base when local cost carrier, Southeast Airlines, commenced new non-stop services to Fort Lauderdale, Orlando, and scheduled new services to Tampa and St Petersburg. In addition new flights to Baltimore and Los Angeles have been scheduled.

Review of operations

Australia

The Australian bus division operates the Blue Ribbon, Glenorie, National Bus Company, Southern Coast Transit and Westbus brands. Operations are in Brisbane, Melbourne, Perth and Sydney and employ 1,700 people.

Getting there on time

Turnover for our Australian operations totalled £217.9m (2001: £207.9m) and generated an operating profit of £2.4m (2001: £13.4m). Turnover for the train and tram operations, which we ceased operating on 23 December, in the year to 31 December 2002 totalled £159.9m (2001: £153.0m) with operating profit of £0.1m (2001: £9.4m). Turnover of our bus operations in the year to 31 December 2002 totalled £58.0m (2001: £54.9m) with an operating profit of £2.3m (2001: £4.0m).

On 16 December we were disappointed to announce our withdrawal from our Melbourne train and tram operations. The one-off cost to the Group of writing off these operations was £125.9m, a lower figure than announced in December, including a cash payment of £49.8m to indemnify the providers of the performance bonds for these operations and to cover other exit costs. Since we ceased funding our operations on 23 December we have worked alongside the State of Victoria to achieve an orderly handover of the train and tram operations and this was achieved without any disruption to services. We took the opportunity to assess the carrying value of our Australian bus division, which has resulted in a goodwill impairment charge of £13.5m.

At National Bus Company (NBC) in Victoria, a review of routes is underway to improve the inner Melbourne network and freeway services. New services to Melbourne's newest inner city development and increased bus priority measures, such as express lanes, are being implemented. These initiatives, including the creation of Melbourne's first park and ride scheme, give us a unique marketing opportunity. Focus on preventative maintenance programmes has resulted in performance improvements. During the year, 13 new buses were added to the fleet.

In Queensland, NBC has been working in association with the Trainlink rail-bus integration service which was introduced in January. This service is promoting integrated ticketing between Birkdale and Capalaba. Additional off-peak services have also been introduced on selected routes and a new busway continues to assist with city congestion. Integrated ticketing is still planned for introduction over the next two years.

In Western Australia, Southern Coast Transit has seen strong patronage growth as the partnership with Government continues to promote local bus services as the preferred mode of transport. A Government trial on a bio-diesel project began.

In New South Wales, Westbus introduced a fleet of new articulated vehicles, increasing capacity on the popular M2 services into Sydney's Central Business District. Hillsbus services, with their distinct branding, continue to be popular. Special services such as the Beachbus, which connects the Hills district to the beach, were very popular, as were the New Year's Eve services. Glenorie Bus Company, acquired in late 2001, achieved improved profitability and expanded services in its growth markets.

Left: With large-scale car usage in Australia, promoting the use of the bus has to guarantee additional benefits over the car. Quick boarding, easy payment and congestion-free corridors are starting to encourage greater bus usage.

Right: Since the acquisition of Glenorie Bus Company in 2001, patronage has increased considerably in the Hills district of Sydney.

We continue to recognise the responsibilities that the Group and its operations have within the communities in which we operate.

This year we have produced our first corporate responsibility report, which incorporates our second environmental report. This document is available in hard copy and from www.nationalexpressgroup.com. It explains our approach to doing business, which put simply is "what we do" and "how we do it."

In 2001 the following environmental objectives were set:

- measuring performance;
- reviewing the benefits of adopting a formalised environmental management system;
- assessing and providing the necessary training;
- encouraging and empowering managers to implement the strategy;
- reviewing objectives and targets for improvements in our environmental performance;
- setting up an internal communications process for the transfer of best practice;
- communicating on these matters to key stakeholders; and
- introducing broader social aspects into the policy and report.

We are pleased that progress in all these areas has been achieved.

During the year we put an initial framework in place to help assist us report on broader corporate responsibility data. Our businesses each consist of a collection of operations which have local strengths and individual reporting procedures. This can create challenges in collecting data for corporate social reporting processes, but to help we have begun to roll-out a set of key performance indicators which can be applied initially across all our UK businesses.

Areas on which our reporting is focused:

- the environment;
- improving public transport, covering areas such as safety, punctuality and reliability of services;
- recruiting, retaining and developing our staff; and
- involvement in the community.

During the year, we continued to work with a range of charities across our operations. In North America, Durham School Services continued its support of the Special Olympics, a charity that it has supported for the past four years. Stock Transportation, which joined the Group during the year, supports a range of charities that are related to education. In the UK and Australia a wide range of charities were supported.

During this year the Group has adopted two charities for special support – National Missing Persons Helpline and the World Wildlife Trusts. Both these charities meet the Group's charity criteria and are ones with which we believe we can work in partnership.

National Missing Persons Helpline is a national charity which works with all the police forces across the country seeking news of people who may have gone missing. The hotline number provides missing people and their relatives with a way to keep in contact with each other. With promotion of the helpline number being the main objective, we will be helping the charity extend its profile across the country through promotional opportunities at travel facilities such as coach stations.

The World Wildlife Trusts will be supported by the Group as it works with us on developing a biodiversity strategy. In return the Group will be providing assistance to ensure the continued progress of the Seaquest Basking Shark Project.

We believe that a partnership approach with such organisations can be mutually beneficial as well as fun for our staff, a number of whom will be supporting these charities as the year progresses.

Left: Keen to avoid throwing away serviceable clothing, Central Trains has sent more than 1,000 unused items to Africa for use by charities.

Right: Durham Transportation has an established reputation as a primary sponsor of the Special Olympics, which are held every four years. It gives less able children sports training and competition programmes. The Special Olympics are dedicated to empowering individuals with mental disabilities to become physically fit, productive and respected members of society through sports training and competition.

Year at a glance

Group operating profit before goodwill amortisation and exceptional items was £130.9m (2001: £157.8m), on turnover of £2,572.3m (2001: £2,464.2m). Normalised diluted earnings per share, which is restated to exclude discontinued activities, decreased to 60.3p (2001: 66.0p restated). Full year dividend per share increased by 11.4% to 24.5p (2001: 22.0p).

Divisional review

Buses

Turnover in 2002 increased to £208.7m (2001: £208.3m), a 2% improvement after accounting for the sale in October 2001 of Bronckaers, our Belgian bus business, which contributed £3.4m to turnover last year. Operating profit before goodwill and exceptional items fell to £49.8m (2001: £52.8m) because of increasing insurance costs and the change to financing buses by operating leases. This financing option provides attractive funding costs which are, however, charged against operating profits. As a result, the operating margin reduced to 23.9% (2001: 25.3%) but return on net operating assets increased to 143.5% (2001: 82.8%).

Trains

Turnover increased by 6.5% to £1,553.2m and although operating profit fell to £33.9m this was a resilient performance in difficult trading conditions:

	Turnover		Operating profit/(loss)	
	2002 £m	2001 £m	2002 £m	2001 £m
London and South East	535.2	516.4	21.8	46.7
Long distance	135.9	121.7	10.4	10.5
Regional services	847.3	779.9	6.0	(19.0)
Other	34.8	40.2	(4.3)	2.4
	1,553.2	1,458.2	33.9	40.6

The reduction in operating margin in our London and South East TOCs to 4.1% (2001: 9.0%) was caused by increases in rolling stock leasing costs, particularly at c2c, and reduced subsidies. Compensation received in the prior year post Hatfield mitigated the reduction in patronage and grants in 2001.

Our long distance TOC improved turnover by 11.7% as passenger volumes recovered from the downturn caused by the post-Hatfield speed restrictions and the impact of 11 September. The operating margin fell to 7.7% (2001: 8.6%) because of increased maintenance costs for high-speed trains and reduced performance compensation.

The regional TOCs became profitable as a result of the SRA franchise amendment agreed in February 2002, through which we receive £114.7m additional subsidy from the SRA over the remaining life of the franchises to March 2004. In return we made a cash payment to the SRA of £59.0m. As a result of the deal, franchise agreement receipts for Central Trains and ScotRail increased by £44.7m in 2002. The operating margin improved to 0.7% (2001: 2.4% loss) with Central Trains affected by strike action at neighbouring TOCs and the performance of ScotRail sleeper services affected by infrastructure issues.

Other operations comprise Qjump.co.uk, our on-line ticketing service, and our train maintenance company, Maintrain. Operating losses at Qjump.co.uk increased in the year but remain in line with our start-up business plan for this operation. Profitability at Maintrain reduced marginally because of higher insurance costs and lower turnover.

Coaches

Turnover increased by 1.8% to £184.5m (2001: £181.3m) and operating profit by 15.1% to £12.2m (2001: £10.6m). Turnover benefited from a 2% growth in passenger numbers, which offset the disposal of Eurolines Nederland BV in August 2002. Operating margin improved to 6.6% (2001: 5.8%) benefiting from a reduction in staff costs and cost-saving synergies between our coach businesses.

North America

For the full year, turnover increased by £6.3m to £408.0m, despite a £16.5m adverse exchange rate movement. Operating profit fell by £6.7m to £32.6m, although £1.6m of the fall was because of foreign exchange movements.

	Turnover		Operating profit	
	2002 £m	2001 £m	2002 £m	2001 £m
Student transportation	219.6	206.2	30.9	29.1
Public transit	188.4	195.5	1.7	10.2
	408.0	401.7	32.6	39.3

Operating margin in student transportation excluding Stock improved to 14.6% (2001: 14.1%). Our emphasis on safety reduced insurance costs and we also benefited from lower fuel costs. Operating margin including Stock was impacted by the timing of the acquisition in July as Stock entered the summer vacation period with fleet utilisation at its lowest level of the year. The 2002 bid season was very price-competitive and we expect this to continue for the 2003 bid season.

The acquisition of Stock provides the Group with a critical mass in the Canadian market. More than a third of Stock's contracts are "evergreen" rolling contracts, which protect it from some of the bid season competition seen in the USA student marketplace. Total consideration of £74.9m results in goodwill on acquisition of £53.7m, which will be amortised over 20 years. Operating profit before goodwill and exceptional items post acquisition was slightly ahead of our pre-acquisition forecasts at £1.2m, and was affected by seasonality as noted previously. Operating profit for the last full year before acquisition was £4.9m.

The operating margin of our public transit business fell to 0.9% (2001: 5.2%). The margin was particularly affected by increased claims' deterioration and insurance costs, including fleet and workers' compensation which together increased by £7.5m. Going forward, we are eliminating unprofitable contracts to mitigate the effects of these cost pressures.

Australia

Australia bus turnover increased by 5.6% to £58.0m (2001: £54.9m) but operating profit fell to £2.3m (2001: £4.0m).

The reduction in operating margin to 4.0% (2001: 7.3%) reflects increases in staff and insurance costs, and the lower margins earned in 2002 on rail replacement work. We are satisfied with the performance of Glenorie Bus Company, which we acquired in December 2001.

Although the turnover from our Australian train division improved by 4.5% to £159.9m (2001: £153.0m), the fall in operating profit before goodwill and exceptional items to £0.1m (2001: £9.4m) illustrated the financial difficulties that the business was facing. The key factor in the fall was the decreasing grant profile, that we endeavoured to renegotiate with the Victorian Government, although, in addition, fare evasion remained unacceptably high.

Our withdrawal from the Australian train business resulted in a write-off of £125.9m, comprising £76.1m of net assets written off and a cash payment of £49.8m to indemnify the providers of the performance bonds and to cover other exit costs. Following the withdrawal we completed a review of the carrying value of our remaining Australian assets, which resulted in an impairment charge of £13.5m on the goodwill arising on the acquisition of the Australia bus businesses.

Associates

We hold a 33% investment in Altram LRT Limited (Altram) and a 40% investment in Inter-Capital and Regional Rail Limited (ICRRL). Altram has operated the Midland Metro since June 1999. Our share of the operating loss for 2002 was £0.5m (2001: £1.3m). The £2.6m (2001: £nil) exceptional cost for associates comprises the Group's share of an impairment charge in the accounts of Altram following a review of the carrying value of its fixed assets. ICRRL is contracted to manage the operations of Eurostar UK to 2010. Our share of the operating loss for the year was £3.5m (2001: £0.6m).

Interest

Net interest payable was reduced to £20.1m (2001: £26.7m) by a combination of lower levels of net debt in 2002 compared to 2001 and the impact of lower interest rates. Group operating profit before depreciation, amortisation and exceptional items (EBITDA) from continuing operations was £191.5m (2001: £200.0m) and EBITDA interest cover from continuing operations improved to 9.5 times (2001: 7.5 times).

Goodwill amortisation

The goodwill amortisation charge increased to £58.7m (2001: £42.2m restated) reflecting the £13.5m impairment of the goodwill arising on the acquisition of the Australia bus businesses. The balance of the increase results from the acquisition of Stock in July 2002 and the full year effect of goodwill arising last year.

Exceptional items

Exceptional items comprise £5.0m of pre-contract bid costs incurred in the UK Trains franchise retendering process. The increase in pre-contract bid costs over 2001 reflects the increased pace of refranchising activity in 2002.

Taxation

The tax charge on profit before tax, goodwill amortisation and exceptional items of £106.8m (2001: £129.2m) was £24.6m (2001: £27.8m restated), which represents an effective tax rate of 23.0% (2001: 21.5%). This tax rate principally reflects the benefit of continuing low effective tax rates on overseas earnings. A reconciliation to the standard UK corporation tax rate of 30% is included in note 8 to the accounts.

The total tax charge is £20.3m (2001: £1.2m), because of the tax relief available on certain North American goodwill amortisation and on the exceptional items.

Cash flow and balance sheet

Strong cash flow continues to be a feature of the Group and for the full year we generated £175.5m (2001: £185.5m) of cash flow from operations and operating cash flow after capital expenditure, of £91.3m (2001: £93.5m). The £44.1m improvement in working capital was before the £71.0m cash outflow relating to exceptional items, including £62.5m for the franchise amendment payment to the SRA. Net divisional cash flow after capital expenditure is stated in the table below.

In the UK, the bus and coach divisions generated £67.2m of cash and trains remained cash positive in spite of the payment to the SRA. North America bus contributed £36.2m after capital expenditure of £23.8m, assisted by improvements in receivable collections. In Australia, the bus division was cash negative with a high capex requirement in the year and the discontinued train division absorbed cash of £15.0m.

Divisional cash flow	UK buses £m	UK coaches £m	UK trains £m	North American bus £m	Australia bus £m	Australia trains £m	Total £m
Operating profit before exceptionals	49.8	12.2	33.9	32.6	2.3	0.1	130.9
Depreciation	10.6	4.5	18.6	23.4	3.6	10.8	71.5
EBITDA	60.4	16.7	52.5	56.0	5.9	10.9	202.4
Working capital movement	(9.2)	1.6	40.2	5.6	(0.8)	6.7	44.1
Exceptional items	–	–	(69.3)	(1.6)	(0.1)	–	(71.0)
Net cash inflow from operations	51.2	18.3	23.4	60.0	5.0	17.6	175.5
Net capital expenditure	(0.2)	(2.1)	(17.1)	(23.8)	(8.4)	(32.6)	(84.2)
Operating cash flow	51.0	16.2	6.3	36.2	(3.4)	(15.0)	91.3

After the acquisition of Stock for £74.9m, net debt increased by only £19.6m to £334.6m (2001: £315.0m), as a result of strong cash flow performance and a £29.0m benefit from foreign exchange movements, principally on our US dollar denominated debt. Dividends paid in the year utilised £29.9m (2001: £28.1m) of cash.

The £139.5m reduction in net assets to £262.6m at 31 December 2002 (2001: £402.1m restated) was principally a reflection of the £125.9m cost of withdrawing from the Australia trains business and the Australia bus goodwill impairment of £13.5m.

Pensions

The Group's principal defined benefit pension schemes are all in the UK. Our most recent triennial actuarial valuations were carried out at 31 March 2001 and 31 March 2002 for the two bus schemes, 5 April 2001 for coaches and 31 December 2001 for the train schemes.

The actuarial valuations showed that the bus schemes were in surplus by £58.7m but, under FRS 17 rules, at 31 December 2002, were in deficit by £18.7m (2001: £39.4m surplus). Approximately 40% of the bus division employees are members of these schemes, which have been closed to new members for some years. The actuarial valuation of the coach division scheme showed a deficit of £6.8m, which under FRS 17 rules at 31 December 2002, increased to a deficit of £9.5m (2001: deficit of £6.7m). In order to improve the funding level the Group injected £5.0m into this scheme on 11 March 2003. This scheme, which comprises one-third of the relevant employees, was closed to new members during 2002. In the bus and coach divisions new members of staff are offered membership of defined contribution pension schemes.

The actuarial valuations of the train pension schemes at 31 December 2001 showed a range of funding between 89% and 109%. As our main obligation on rail pensions is to pay contributions as agreed with the scheme actuary, we have split out the short-term TOCs from the longer-term businesses. Our objective is to provide increased transparency as, owing to a variety of contractual arrangements with the SRA, there is no direct linkage between additional pension costs and profits for many of these short-term TOCs. Under the FRS 17 rules the reported deficit for the short-term TOCs, at 31 December 2002, was £44.2m (2001: £39.1m surplus). The long-term train businesses showed an FRS 17 deficit, at 31 December 2002, of £9.6m (2001: £13.9m surplus).

Accounting Policies

FRS 19, "Deferred Tax" was adopted as at 1 January 2002 and prior year figures were restated to reflect the change in policy from partial provision to full provision. Details of the restatement are given in note 1 to the accounts. We continued to apply the transitional arrangements of FRS 17, "Retirement Benefits" and plan to move directly to the International Accounting Standard equivalent (IAS 19) in 2005 following the Accounting Standards Board's decision to defer full adoption of FRS 17.

Treasury

Financial risk management

We use financial instruments, in particular currency denominated borrowings, forward foreign currency contracts, interest rate swaps and fuel 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 manage those risks. The Treasury function does not trade speculatively in financial instruments and has been set up as a service centre 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 our current and forecast financial requirements as cost effectively as possible. As at 31 December 2002, the Group had committed credit facilities of £646m of which £219m were undrawn. Since the year end we have refinanced our main credit facility. The new facility is split between a £400m five-year facility and a £200m 364-day facility with a one-year term out option. While we centralise these facilities to minimise cost of funds, we also have access to uncommitted working capital facilities in the UK, USA and Canada to help maximise funding flexibility. Cash deposits and derivative instruments are transacted only 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 provide certainty as to the level of our interest expense in the short term and to reduce the year-on-year impact of interest rate fluctuations over the medium term. Interest on the Group's debt is based on LIBOR and, to achieve the above objectives, we have entered into a series of interest rate swaps. The net effect of these transactions was that, as at 31 December 2002, the Group was hedged against interest rate movements on £303.8m of gross debt for an average of 6.2 years. Each 1% increase in interest rates would cost the Group approximately £1.2m.

Currency rate risk

Our investments in overseas operations, which are primarily in the USA, Canada and Australia, expose us to translation risk on net assets and on earnings denominated in foreign currency. The geographic spread of operations is illustrated by the charts on page 39. It is our policy to hedge between 50% and 100% of our investment in foreign currency denominated in net assets. This is achieved in the first instance with foreign currency denominated debt, the interest on which reduces our translation exposure on net earnings in that currency, and then with forward foreign currency contracts. As at 31 December 2002, the Group had hedged 100% of its investment in US dollar denominated net assets, 83% of its investment in Australian dollar denominated net assets and 54% of its investment in Canadian dollar denominated net assets.

The average exchange rates for the year for the US dollar were US$1.51 (2001: US$1.44), for the Australian dollar were A$2.78 (2001: A$2.80) and for the Canadian dollar C$2.47. Each 1%

weakening of the US dollar exchange rate would reduce the Group's operating profit by approximately £0.3m. A 1% weakening in either the Canadian or Australian dollar exchange rates would not alter the Group's operating profit by a material amount.

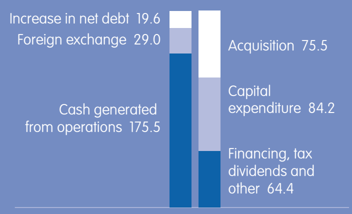
The Group also has transactional currency exposures. With the exception of fuel purchases (see below), we believe that these exposures are immaterial.

Commodity prices

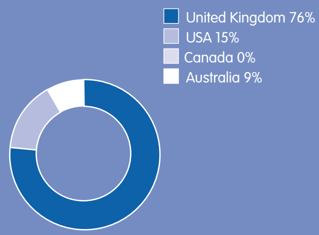
We are exposed to commodity price risk as a result of fuel usage. It is our policy to hedge this exposure in order to provide certainty as to the level of fuel costs in the short term and to reduce the year-on-year impact of price fluctuations over the medium term. This is achieved by entering into fuel swaps and purchase contracts. As at 31 December 2002, the Group had hedged approximately 100% of its 2003 expected usage and 50% of its 2004 expected usage.

Adam Walker Finance Director

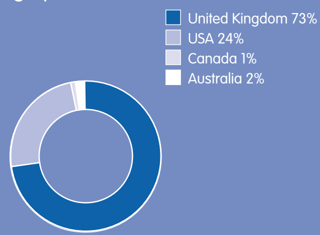
Cash flow (£m)



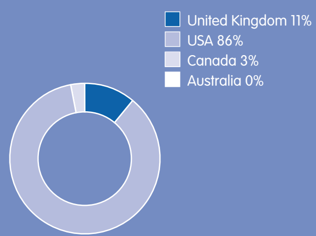
Turnover by geographic market



Operating profit before goodwill and exceptional items by geographic market



Net operating assets by geographic location



Board of Directors

Michael Davies Chairman

Michael Davies has been Chairman since 1992. During a long and successful career, Michael has been a director of a number of public companies. He has served as Chairman of Calor Group plc, Perkins Food plc and as Deputy Chairman of GPA plc. He was a non-executive director of British Airways plc until his resignation in 2002 and continues to act as Chairman of Simon Group plc. Aged 68.

Phil White CBE Chief Executive

Phil White has extensive experience of the transport business over many years. He is a chartered accountant and worked for South and West Yorkshire Passenger Transport Executive and Yorkshire Rider in various senior finance roles. In July 1994 he was appointed Group Finance Director of West Midlands Travel Limited becoming Managing Director in November 1995. He was appointed to the Board of National Express Group in January 1996 and became the Group's Chief Executive in January 1997. Aged 53.

Adam Walker Finance Director

Adam Walker joined the Board in March 2003, as Finance Director. Since joining the Group in October 2001 as Corporate Development Director he has worked closely with the Group's operational subsidiaries on developing their financial strategies. Prior to joining the Group he was Director of Corporate Finance at Arthur Andersen and an Associate Director at NatWest Markets. He is a chartered accountant. Aged 35.

Barry Gibson Non Executive Director

Barry Gibson joined the Board in November 1999. He served on the Board at BAA plc as Group Retailing Director and was also involved in the Heathrow Express rail link development team. Until October 2001 he was the Group Chief Executive of Littlewoods Organisation plc. He is also a non-executive director of William Hill PLC. Aged 51.

Sue Lyons OBE Non Executive Director

Sue Lyons joined the Board in May 2001. Her career has principally been with Rolls Royce in engineering and manufacturing. She left Rolls Royce to join Precision Castparts Corp. as Managing Director in 1986. In 1989 Sue returned to Rolls Royce and from 1998 to 2001 held the position of Managing Director, Defence (Europe). In 1999 she was awarded the European Woman of Achievement Award – Business Category. Sue is a Visiting Professor in Principles of Engineering Design at Imperial College. Aged 50.

Ray O'Toole Chief Operating Officer

Ray O'Toole joined the Board in November 1999 as Chief Operating Officer. He has 25 years' operational experience in transport. He spent the early part of his career in various engineering management positions at Greater Manchester Passenger Transport Executive. He joined National Express from FirstGroup plc, where he was responsible for its operations in Yorkshire and the North West as both Divisional Director and Group Engineering Director. Aged 47.

Larry Durham Chief Executive Officer, NEC

Larry Durham was appointed to the Board in March 2003. He has over 30 years' experience in transport and was the owner and Chief Executive Officer of Durham School Services from 1976 until its acquisition by the Group in 1999. Since that time, he has successfully led the Group's North American Division. He is active in several industry associations and is a member of the American Consultants League and the National Safety Council in the United States. Aged 59.

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 Chairman of Travis Perkins plc. Tim is also a non-executive director of the Department for Education and Skills, Partnerships UK PLC and Deputy Chair of Governors of Oxford Brookes University. He is a qualified barrister. Aged 54.

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, where he is primarily responsible for European development. He is also a director of Big Yellow Group PLC and is a member of the English Sports Council. He is a chartered accountant. Aged 37.

Tony McDonald Company Secretary

Tony McDonald was appointed Company Secretary in May 2000. Prior to joining the Group he held senior legal positions with the in-house legal teams at Guardian Royal Exchange and BP and in private practice with Slaughter and May. He is a qualified solicitor. Aged 42.

The Directors are pleased to present their Annual Report and the audited accounts for the year ended 31 December 2002.

Principal activities

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

Review of the business

A review of the Group's activities, the principal events during the year and the future development of the Group is given in the Chairman's statement, the Chief Executive's statement, the Review of operations and the Finance Director's report set out on pages 10 to 39.

Results and dividends

The loss on ordinary activities before tax for the year ended 31 December 2002 was £85.6m (2001: £115.5m profit restated) and a retained loss of £137.7m (2001: £85.8m profit restated) was transferred to reserves.

The Directors recommend a final net dividend of 16.4p per share which, together with the interim net dividend of 8.1p per share paid on 18 October 2002, gives a total net dividend for the year of 24.5p per share (2001: 22.0p). If approved by shareholders, the final dividend will be paid on 16 May 2003 to shareholders on the register at 22 April 2003.

Directors

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

Michael Davies
Phil White
Barry Gibson
Sue Lyons
Ray O'Toole
William Rollason (resigned 4 December 2002)
David Ross
Tim Stevenson

Ray O'Toole and Tim Stevenson will retire by rotation at the Annual General Meeting and, being eligible, will offer themselves for re-election. Larry Durham and Adam Walker, who were appointed Directors on 4 March 2003, will stand for election at the Annual General Meeting.

The names and brief biographies of the current Directors appear on pages 40 and 41. Details of the remuneration of the Directors, their interests in shares of the Company and service contracts are contained in the Report on Directors' remuneration on pages 46 to 49.

Employment policies

The Group strives to meet its business objectives by motivating and encouraging its employees to be responsive to the needs of its customers and continually to improve operational performance. The Group is committed to providing equality of opportunity to employees and potential employees. This applies to appropriate training, career development and promotion for all employees, regardless of physical ability, gender, sexual orientation, religion or ethnic origin.

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

Employee involvement

The Group encourages employee involvement in its affairs. Subsidiary companies produce a range of internal newsletters and circulars which keep employees abreast of developments. In addition, the Group-wide *express* magazine is aimed at keeping employees in touch with the worldwide activities of the Group. Senior management within the Group meet regularly to review developments within the Group and matters of current concern. Employees are encouraged to discuss matters of interest to them and subjects affecting day-to-day operations of the Group with management. Dialogue takes place regularly with trade unions and other employee representatives on a wide range of issues. Employees are able to share in the Group's results through a number of employee share schemes.

Environmental policy

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

Charitable and political contributions

Charitable donations made during the year totalled £214,446. It is the Group's policy not to make political contributions and accordingly none were made in the year.

Creditors' payment policy and practice

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

Trade creditor days of the Company for the year ended 31 December 2002 were 35 days (2001: 36 days), based on the ratio of Company trade creditors at the end of the year to the amounts invoiced during the year by trade creditors.

Substantial shareholdings

The Company has been notified of the following holders of 3% or more of its issued share capital for the purpose of Section 198 of the Companies Act 1985, as at 10 March 2003:

Aviva plc	8,136,492	6.05%*
Henderson Investment Funds Limited	6,938,720	5.99%*
WMT Employees Shareholding Trustees Limited	6,660,378	4.96%*
Legal & General Group Plc	4,243,898	3.15%*

* Percentage as at date of notification.

Annual General Meeting

The Annual General Meeting will be held on 14 May 2003. Shareholders will be asked to approve three items of special business, details of which are given in the Notice of Meeting accompanying this report.

Purchase of own shares

The Company was granted authority at the Annual General Meeting in 2002 to purchase its own shares up to an aggregate value of 10% of the issued nominal capital. This authority expires at this year's Annual General Meeting and a resolution will be proposed for its renewal.

Going concern

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

By order of the Board

Tony McDonald Secretary
13 March 2003

The Board supports the highest standards of corporate governance and ethical practices within its businesses and notes both the report of Derek Higgs on the role and effectiveness of non executive directors and the accompanying report by Sir Robert Smith on audit committee reform. The Company currently complies with many of the recommendations in these reports. The Board will be monitoring the outcome of the consultation process on these reports and resulting amendments to the Combined Code and will review its corporate governance practices in accordance with any timescales set down.

Statement of compliance with the Code of Best Practice

The Board has reviewed the Group's compliance with the Code of Best Practice as set out in Section 1 of the Combined Code annexed to the Listing Rules of the Financial Services Authority ("the Code"). In the opinion of the Directors the Group has complied with the Code throughout the year.

Application of principles of good governance

The Board of Directors

The Directors believe it is essential for the Group to be led and controlled by an effective board.

The Board presently consists of four Executive and five Non Executive Directors. The offices of Chairman and Chief Executive are held separately. Tim Stevenson is the Senior Independent Director. The Board considers all the Non Executive Directors, including the Chairman, Michael Davies, to be independent. Michael Davies has been Chairman since 1992, serving alongside a number of Chief Executives and Executive Directors during that time. The Board considers that the Chairman remains independent of management and free from any business or other relationship which could materially interfere with the exercise of his judgement. All the Non Executive Directors bring strong independent judgement and considerable knowledge and experience to Board deliberations. Non Executive Directors do not participate in any of the Company's share option or bonus schemes and their service is non-pensionable. Short biographies of the Directors are to be found on pages 40 and 41.

All new appointments to the Board are made by the Board on the recommendation of the Nomination Committee. On appointment Directors are offered an appropriate training course and are thereafter encouraged to keep abreast of matters affecting their duties as a Director and to attend training courses relevant to their role. In accordance with the Company's Articles of Association all Directors submit themselves for election at the Annual General Meeting following their appointment and thereafter by rotation at least once every three years.

There is a formal schedule of matters reserved for the Board's decision including the approval of Group strategy and policies, major business acquisitions or disposals, major capital projects, Group budgets and material contracts entered into other than in the normal course of business. The Company Secretary is responsible for ensuring that Board procedures are followed and applicable rules and regulations are complied with. There is a procedure in place for any Director to take independent professional advice where considered necessary. For every Board meeting, reports from the Executive Directors are circulated to all Board members, including in-depth financial information. Senior management give presentations to the Board on significant matters during the year as appropriate. The Board meets at least ten times a year and met on 13 occasions during the period under review.

The Executive Directors are responsible for the day-to-day management of the Group's businesses, implementation of its strategy, policies and budgets and its financial performance.

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

Committees of the Board

The Board has established a number of committees with defined terms of reference and receives reports of their proceedings. The principal committees are the Remuneration Committee, the Nomination Committee, the Audit Committee and the Safety Committee.

For the financial period under review the membership of these committees comprised the Non Executive Directors: Michael Davies, Barry Gibson, Sue Lyons, David Ross and Tim Stevenson. Following a review of the committee structure in the early part of 2003, the Board approved membership of the committees as follows: Remuneration Committee – Barry Gibson (Chairman), Sue Lyons, Tim Stevenson; Nomination Committee – David Ross (Chairman), Sue Lyons, Michael Davies; Audit Committee – Tim Stevenson (Chairman), David Ross, Barry Gibson; Safety Committee – Sue Lyons (Chairman), Michael Davies, Barry Gibson, David Ross, Tim Stevenson.

Remuneration Committee

The Remuneration Committee is responsible for determining the contract terms, remuneration, pensions and other benefits of the Executive Directors and the remuneration of the Chairman. It reviews the Group's policies in relation to the remuneration of other senior managers, including performance-related incentive schemes and executive share option schemes. The committee met four times for the period under review. The report on Directors' remuneration is set out on pages 46 to 49.

Nomination Committee

The Nomination Committee's responsibilities include reviewing the Board's structure, size and composition, succession planning and nominating for the approval of the Board candidates to fill Board vacancies. External advisers are appointed when recruiting Board members; they use as a basis for their search a description of the role and capabilities required for a particular appointment proposed by the Nomination Committee.

Safety Committee

The Safety Committee reviews the Group's safety practices, procedures and safety record and meets quarterly during the year.

Audit Committee

The Audit Committee is responsible for reviewing the half year and full year results, the Interim Report and the Annual Report and Accounts. It reviews the accounting policies and procedures of the Group, its internal control systems and its compliance with statutory requirements, and considers any matters raised by the external or internal auditors. The Committee is responsible for maintaining an appropriate relationship with the external auditors. The Committee met three times during the period under review.

Accountability and audit

The Company has established procedures to ensure that the Board reviews the effectiveness of the Group's systems of internal control, including financial, operational, compliance and risk management controls as required by the internal control provisions of the Combined Code.

The Board has established an ongoing process for identifying, evaluating and managing significant risks faced by the Group. This system was in place for the year under review and up to the date of approval of this Annual Report, and is reviewed regularly by the Board of Directors. Such a system is designed to manage, rather than to eliminate, the risks inherent in achieving the Group's business objectives and can therefore provide only reasonable and not absolute assurance against material misstatement or loss. The procedures in place accord with the Guidance for Directors on the Combined Code published by the Institute of Chartered Accountants in England and Wales.

The Board maintains full control and direction over appropriate strategic, financial, organisational and compliance issues and has put in place an organisational structure with formally defined lines of responsibility, delegated authorities and clear operating processes.

In particular, there are clear procedures for:

- financial reporting, within comprehensive financial planning and accounting frameworks;
- capital investment, with detailed appraisal and authorisation; and
- health and safety, to review and address issues.

The Board is responsible for, and has reviewed the effectiveness of, the Group's system of internal control in operation during the year covered by this report. The systems are designed to safeguard both shareholders' investments and the assets of the Group. This year its review comprised a number of specific internal control audits of many of the Group's operating companies by regular reports from the management of risks applicable to their areas of business.

In order to assist the Board in this process each division and business produces an Internal Control Criteria document and Key Risk Matrix which are cascaded through management levels and the Audit Committee before being presented to the Board. This process is reviewed on a six-monthly basis to ensure the validity and relevance of the key risks reported. The review covers strategic, financial, compliance and risk management controls. These procedures are mandated and designed to manage the risk in order to ensure that the operations achieve their business objectives.

All subsidiaries are required formally to identify and assess the key risks they face, reported at half-yearly intervals. Each risk is assessed based on its likely impact on shareholders' investments and the Company's assets and its probability of occurrence. The adequacy of risk mitigation activities is then assessed and rated.

Based on this and the risk analysis performed, local management provided an overall conclusion on whether appropriate controls were in place and operating effectively, and confirmed that action was taken to eliminate any weaknesses identified during the period.

This process continues to evolve along with the business to provide stakeholders with the best assurance that the Group is aware and managing the key risks highlighted in the six-monthly reports.

The internal control system is monitored and supported by an outsourced internal audit function which reports to management and the Audit Committee on the Group's financial and operational controls and reviews the extent to which its recommendations have been implemented. The Audit Committee, in addition to its other responsibilities, reviews a summary of the reports of the internal audit function on the internal controls systems of the Group. The Audit Committee provides the Board with an independent assessment of the Group's financial position, accounting affairs and control systems.

Statements of the respective responsibilities of the Directors and Auditors are set out on pages 50 and 51.

Relations with shareholders

The Company maintains a regular dialogue with its institutional shareholders and fund managers through a variety of meetings and presentations throughout the year. During the year, the Board commissioned an independent review to ascertain the views of the Company's major investors on its financial performance and management. The resulting report has been considered by the Directors and key comments taken on board. The Annual General Meeting provides an opportunity for all shareholders to question the Chairman and Directors on a variety of topics, and information is provided at the Annual General Meeting on different aspects of the Group's activities. During the year, written responses are given to correspondence received from shareholders and all shareholders receive copies of the Interim Report and the Annual Report and Accounts.

The Remuneration Committee

The members of the Remuneration Committee (the Committee) are Barry Gibson (Chairman), Sue Lyons and Tim Stevenson. The Committee is responsible for determining the remuneration and conditions of employment of the Executive Directors, the Chairman and other senior executives. The Committee met four times in the period under review.

For the period under review the Committee sought advice on executive pay from a firm of executive remuneration consultants, Monks Partnership, which was instructed by the Board to review the existing remuneration of all the Directors, making comparisons with peer companies of similar size and complexity. Monks Partnership is part of PricewaterhouseCoopers which also provides internal audit services to the Group. Independent remuneration consultants, New Bridge Street Consultants, advised on the bonus scheme for the Executive Directors for 2002 and the Executive and Savings Related Share Option Plans. During the year New Bridge Street Consultants was formally appointed by the Committee as its adviser on all aspects of executive remuneration. The Chief Executive provides guidance to the Committee on remuneration packages for senior executives employed by the Group.

The Committee's recommendations in 2002 were all accepted and implemented by the Board.

Remuneration of Non Executive Directors

The fees of the Non Executive Directors are set by the Board as a whole following an annual review. The review takes account of fees paid for similar positions in the market, together with any additional responsibilities undertaken by the Director, such as acting as Chairman to one of the Board committees. Non Executive Directors are not eligible to receive pension entitlements or bonuses and may not participate in share option schemes.

Remuneration policy for Executive Directors

The Committee's remuneration policy for 2003 is based on the following principles:

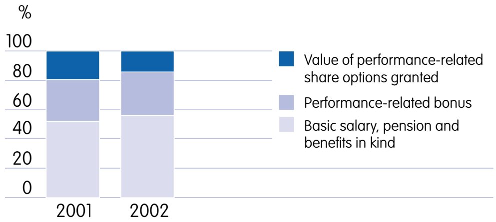
- to provide packages that are competitive in the marketplace;
- to attract and retain high-quality executives capable of achieving the Group's objectives; and
- to align the interests of Executive Directors with the interests of shareholders.

The Committee has adopted as an objective of this policy the recommendation of the Combined Code on Directors' Remuneration. That is "to provide a level of remuneration to attract and retain the directors needed to run the company successfully, but avoid paying more than is necessary for this purpose and to structure a proportion of the remuneration to link rewards to corporate and individual performance".

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

Elements of remuneration

A substantial proportion of the Executive Directors' pay is performance related. The split for 2001 and 2002 was as follows:



Based on average remuneration for Executive Directors assuming maximum achievement of performance targets and full vesting of share options granted in the year. Share options are valued using the Black Scholes model.

A detailed breakdown of Directors' remuneration appears on pages 48 and 49. In summary, the components are:

(i) Basic salary

The salary of individual Executive Directors is reviewed at 1 January each year. Account is taken of the performance of the individual concerned, together with any change in responsibilities that may have occurred and the rates for similar roles in a comparator group of companies. The comparator group for the 2002 financial year consisted of 22 other quoted groups in the transport, retailing, distribution and leisure sectors. In 2003, the same policy will be applied save that three comparator groups will be used. These comparator groups are a group of transport sector companies drawn from the FTSE 250 with a median market capitalisation of £644m, a group of companies drawn from the FTSE 250 generally with a market capitalisation range from £395m to £1,015m and a sub-sector of the transport sector containing companies more directly comparable to the Company in terms of turnover, staff numbers and/or scope of operations.

(ii) Performance-related bonus

A discretionary bonus scheme is in operation for the Executive Directors. Payments for 2002 were based on the Group's profit before tax with the extent to which budget is exceeded being the factor that determined the level of bonus awarded. For 2002, the Committee set the maximum bonus payable at 75% of basic salary. No bonus was payable unless budgeted profit level was met. Maximum bonus was payable on achieving an increase on budget of 20%. Bonus payments are deducted from the profit achieved before it is used to calculate the target level. Payments for the 2003 bonus scheme will be based on profit before tax, goodwill and exceptional items. The maximum bonus payable is 75% of basic salary for achieving 116% of budget. Between 100% of budget and 116% the amount of bonus payable will be on a straight-line basis.

(iii) Other benefits

Executive Directors receive a fully expensed car, private health insurance and long-term sickness insurance.

(iv) Pensions

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

Mr O'Toole and Mr White are members of the WM Pension Scheme. This is an approved money purchase scheme. The pension received on retirement will depend on the total contributions paid, the value of the units held in the fund and the cost of buying an annuity. The Directors are subject to the earnings cap so the Company makes a cash contribution to a funded unapproved retirement benefit plan for the part of their salary which exceeds the cap. Only basic salary is pensionable. Life assurance of four times basic annual salary is provided.

(v) Share options

(a) Executive share options. The Company operates tax approved and unapproved executive share option schemes for Executive Directors and other senior management.

Approval was given at the Annual General Meeting in 2002 to adopt a new Executive Share Option Plan (the Plan). An option granted under the Plan is normally exercisable between three and ten years following its grant, but only if the specified performance condition has been satisfied. There are a limited set of circumstances, such as leaving employment due to injury, disability or redundancy, when performance conditions will not apply to the exercise of an option. The performance conditions attached to the initial grant of options to Executive Directors under the Plan in 2002 were as follows:

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

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

Options granted to Executive Directors in 2000 and 2001 are subject to a fixed three-year performance period and become exercisable in full where compound annual growth in EPS is 10% in excess of the growth in RPI over the period. No part of the option is exercisable if the compound annual growth in EPS is 2% or less in excess of the growth in RPI. Between these two points an option is exercisable on a straight-line basis. If the performance conditions are not fulfilled the option will lapse.

The performance conditions for any options granted in 2003 will be the same as for those granted in 2002.

No option may be granted which would cause the aggregate value of options granted to exceed 200% of basic salary in any year. In exceptional circumstances, as determined by the Remuneration Committee, for example as an aid to the recruitment of a particular individual, the limit may be 400% of basic salary. Any options granted in excess of 200% of basic salary would be subject to the top tier performance conditions.

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

(b) Long Term Share Incentive Scheme (LTIS). Phil White was the only remaining Director to hold an award under the LTIS. The last award of shares made to Mr White in 1999 lapsed during the year. Performance criteria for this scheme was based on total return to shareholders measured using share price and dividends over a three-year performance period relative to the performance of a defined comparator group. No further awards to Directors are planned under this scheme.

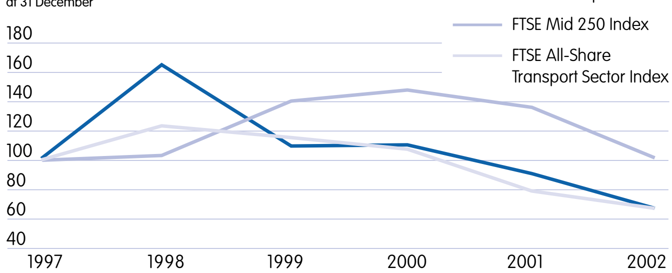
(c) Savings Related Share Option Scheme (Sharesave Scheme). The Company operates an Inland Revenue approved Sharesave Scheme which is open to all UK employees, including the Executive Directors, who have completed at least six months' service at the date of grant. The options are exercisable after three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

Performance criteria

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

The following graph shows a comparison of National Express Group PLC total cumulative shareholder performance against the median achieved by the Transport All-Share Index and the FTSE Mid 250 Index.

Total shareholder return £
at 31 December



Source: Datastream

Directors' service contracts

The service contracts of Phil White and Ray O'Toole are dated 3 February 2000 and are terminable on 12 months' notice. The Executive Directors are required to give the Company six months' notice if they wish to terminate their contracts. The service contracts contain a provision, exercisable at the option of the Company, to pay liquidated damages on early termination of employment equal, in the case of Mr O'Toole, to one year's salary and in the case of Mr White, one year's salary and benefits. The Company will use the payment in lieu of notice provisions when the speed, certainty and protection of restrictive covenants afforded by such clauses are thought to be in the best interests of the Company and the circumstances surrounding the departure of the relevant director justify its use. The service contracts of Larry Durham and Adam Walker are being negotiated following their appointment to the Board on 4 March 2003 and the company will seek to comply with Combined Code guidance in respect of their contracts. The Non Executive Directors do not have service contracts with the Company but are appointed for fixed three-year terms. The Directors are all required to stand at least once every three years for re-appointment by the shareholders.

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

Information subject to audit: Directors' remuneration

Directors' emoluments

	Salary/fees £000	Performance related bonus £000	Benefits[1] £000	Pension contributions £000	Termination of employment £000	Total 2002 £000	Total 2001 £000
Executive Directors							
Phil White	430	125	162	36	–	**753**	791
Ray O'Toole	265	125	58	19	–	**467**	447
Non Executive Directors							
Michael Davies	125	–	–	–	–	**125**	125
Barry Gibson	30	–	–	–	–	**30**	30
Sue Lyons	30	–	–	–	–	**30**	18
David Ross	30	–	–	–	–	**30**	28
Tim Stevenson	38	–	–	–	–	**38**	35
Former Executive Director[2]							
William Rollason (resigned 4 December 2002)	255	–	57	19	275	**606**	452

[1] Benefits in kind include a company car, fuel and health insurance and pension contributions payable above the earnings cap to Phil White (£134,367), Ray O'Toole (£33,560) and William Rollason (£31,568).

[2] William Rollason left the Company on 4 December 2002. He received a payment of £137,500 on 2 January 2003 and will receive a further payment of £137,500 on 2 July 2003 in respect of his termination of employment. This sum represents his contractual entitlement under his service contract.

The total emoluments of the highest-paid Director for the year ended 31 December 2002 (including salary, bonus and gains on exercise of options, but excluding pension contributions) were £716,967. In the previous year the emoluments of the highest-paid Director were £1,073,018.

Directors' interests and transactions

The beneficial interests of the Directors in office as at 31 December 2002 are shown below.

Directors' shareholdings

	At 31 December 2002	At 31 December 2001
Executive Directors		
Phil White	**115,408**	115,408
Ray O'Toole	**1,500**	1,500
Former Executive Director		
William Rollason (resigned 4 December 2002)	**3,000**	3,000
Non Executive Directors		
Michael Davies	**90,000**	90,000
Barry Gibson	**3,000**	3,000
Sue Lyons	**2,072**	–
David Ross	**574**	574
Tim Stevenson	**5,773**	5,773

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

Executive Directors

Directors' share options	Note	At 31 December 2001	During year			At 31 December 2002	Exercise price	Market price at date of exercise	Date from which exercisable	Expiry date
			Granted	Exercised	Lapsed					
Phil White	(i)	130,000	–	–	–	**130,000**	540.0p	–	27.04.03	27.04.10
	(i)	83,478	–	–	–	**83,478**	862.5p	–	19.04.04	19.04.11
	(ii)	–	5,128	–	–	**5,128**	585.0p	–	05.07.05	05.07.12
	(iii)	–	97,436	–	–	**97,436**	585.0p	–	05.07.05	05.07.12
	(iv)	17,156	–	–	17,156	**–**	–	–	15.03.02	15.03.06
Ray O'Toole	(i)	85,000	–	–	–	**85,000**	540.0p	–	27.04.03	27.04.10
	(i)	57,971	–	–		**57,971**	862.5p	–	19.04.04	19.04.11
	(ii)	–	5,128	–	–	**5,128**	585.0p	–	05.07.05	05.07.12
	(iii)	–	62,820	–	–	**62,820**	585.0p	–	05.07.05	05.07.12
	(v)	–	453	-	-	**453**	417.0p	–	01.12.05	01.06.06
Former Executive Director (as at 4 December 2002)										
William Rollason	(i)	85,000	–	–	–	**85,000**	540.0p	–	(vi)	
	(i)	57,971	–	–	–	**57,971**	862.5p	–	(vi)	
	(ii)	–	5,128	–	–	**5,128**	585.0p	–	(vi)	
	(iii)	–	65,384	–	–	**65,384**	585.0p	–	(vi)	

Notes
(i) Options granted under the 1996 National Express Group Executive Share Option Scheme.
(ii) Options granted under the 2002 National Express Group Executive Share Option Plan Part 1 Approved.
(iii) Options granted under the 2002 National Express Group Executive Share Option Plan Part 2 Unapproved.
(iv) Awards under the Long Term Share Incentive Scheme are held in the Employee Benefit Trust and may be transferred to participants in the Scheme at the discretion of the Trustees, subject to certain performance criteria being met. No exercise price is payable on shares transferred.
(v) Options granted under the National Express Group Savings Related Share Option Scheme.
(vi) Mr Rollason's options lapsed with effect from 31 December 2002.

In addition to their individual interests in shares the Executive Directors were, for Companies Act purposes, regarded as interested in the following shares:

(i) 537,299 shares held at 10 March 2003 by the National Express Group QUEST (QUEST), established for satisfying exercises under the Group's Sharesave Scheme. All employees (including Executive Directors) are potential beneficiaries under this Trust.
(ii) 1,145,546 shares held at 10 March 2003 by the National Express Group Employee Benefit Trust in respect of the Executive Share Option Plan and Sharesave Scheme.

No change occurred in any of the interests held by Directors in office between 31 December 2002 and 10 March 2003. The Register of Directors' Interests maintained by the Company contains full details of the Directors' holdings of shares and options over shares in the Company. None of the Directors exercised share options during the year.

The mid-market price of the Company's ordinary shares at 31 December 2002 was 402p (2001: 565p) and the range during the year ended 31 December 2002 was 364p to 710p.

By Order of the Board

J M B Gibson Director and Chairman of the Remuneration Committee
13 March 2003

Statement of Directors' responsibilities

The Annual Report contains the accounts and Directors' remuneration report which are required by company law. The Directors are required to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss of the Group for that period. In preparing those accounts the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts.

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

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

Report of the Auditors

Independent Auditors' report to the members of National Express Group PLC

We have audited the Group's accounts for the year ended 31 December 2002 which comprise the Group profit and loss account, Group balance sheet, Company balance sheet, Group statement of cash flows, Group statement of total recognised gains and losses, Reconciliation of movements in Group equity shareholders' funds and the related notes 1 to 32. These accounts have been prepared on the basis of the accounting policies set out therein. We have also audited the information in the Report on Directors' remuneration that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report, Report on Directors' remuneration and the accounts in accordance with applicable United Kingdom law and accounting standards are set out in the Statement of Directors' responsibilities.

Our responsibility is to audit the accounts and the part of the Report on Directors' remuneration to be audited in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the accounts give a true and fair view and whether the accounts and the part of the Report on Directors' remuneration to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the accounts, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions with the Group is not disclosed.

We review whether the Corporate governance statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited accounts. This other information comprises the Chairman's statement, Chief Executive's statement, Review of operations, Finance Director's report, Corporate governance statement, the Directors' responsibilities for the accounts, the unaudited part of the Report on Directors' remuneration and the Directors' report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts and the part of the Report on Directors' remuneration to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2002 and of the loss of the Group for the year then ended; and the accounts and the part of the Report on Directors' remuneration to be audited have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP
Registered Auditor
London
13 March 2003

Group profit and loss account

for the year ended 31 December 2002	Note	Total before goodwill and exceptional items 2002 £m	Goodwill and exceptional items 2002 £m	Total 2002 £m	Total before goodwill and exceptional items 2001* £m	Goodwill and exceptional items 2001* £m	Total 2001* £m
Turnover							
– continuing operations		**2,396.8**	**–**	**2,396.8**	2,304.4	–	2,304.4
– acquisitions		**15.6**	**–**	**15.6**	–	–	–
– discontinued operations		**159.9**	**–**	**159.9**	159.8	–	159.8
Turnover	2	**2,572.3**	**–**	**2,572.3**	2,464.2	–	2,464.2
Other operating income	3	**10.8**	**–**	**10.8**	12.4	–	12.4
Other operating costs before goodwill and exceptional items		**(2,452.2)**	**–**	**(2,452.2)**	(2,318.8)	–	(2,318.8)
Goodwill amortisation and impairment	2	**–**	**(58.7)**	**(58.7)**	–	(42.2)	(42.2)
Franchise amendment costs	2	**–**	**–**	**–**	–	(67.0)	(67.0)
Other exceptional items	2	**–**	**(5.0)**	**(5.0)**	–	(16.5)	(16.5)
Total operating costs	4	**(2,452.2)**	**(63.7)**	**(2,515.9)**	(2,318.8)	(125.7)	(2,444.5)
Group operating profit		**130.9**	**(63.7)**	**67.2**	157.8	(125.7)	32.1
– continuing operations		**129.6**	**(62.7)**	**66.9**	147.3	(125.3)	22.0
– acquisitions		**1.2**	**(1.0)**	**0.2**	–	–	–
– discontinued operations		**0.1**	**–**	**0.1**	10.5	(0.4)	10.1
Group operating profit	2	**130.9**	**(63.7)**	**67.2**	157.8	(125.7)	32.1
Share of operating losses of associates	2	**(4.0)**	**(2.6)**	**(6.6)**	(1.9)	–	(1.9)
Total operating profit		**126.9**	**(66.3)**	**60.6**	155.9	(125.7)	30.2
(Loss)/profit on closure/sale of businesses	15	**–**	**(126.1)**	**(126.1)**	–	112.0	112.0
Profit/(loss) on ordinary activities before interest		**126.9**	**(192.4)**	**(65.5)**	155.9	(13.7)	142.2
Net interest payable	7	**(20.1)**	**–**	**(20.1)**	(26.7)	–	(26.7)
Profit/(loss) on ordinary activities before taxation		**106.8**	**(192.4)**	**(85.6)**	129.2	(13.7)	115.5
Tax on profit/(loss) on ordinary activities	8	**(24.6)**	**4.3**	**(20.3)**	(27.8)	26.6	(1.2)
Profit/(loss) after taxation		**82.2**	**(188.1)**	**(105.9)**	101.4	12.9	114.3
Minority interest		**0.6**	**–**	**0.6**	0.1	–	0.1
Profit/(loss) for the financial year		**82.8**	**(188.1)**	**(105.3)**	101.5	12.9	114.4
Dividends	10	**(32.4)**	**–**	**(32.4)**	(28.6)	–	(28.6)
Retained profit/(loss)		**50.4**	**(188.1)**	**(137.7)**	72.9	12.9	85.8
Basic (loss)/earnings per share	11			**(80.0p)**			88.4p
Normalised basic earnings per share	11	**62.9p**			70.5p		
Diluted (loss)/earnings per share	11			**(80.0p)**			82.7p
Normalised diluted earnings per share	11	**60.3p**			66.0p		

* Restated for change in accounting policy for deferred tax (see note 1).

Balance sheets

at 31 December 2002	Note	Group 2002 £m	Group 2001* £m	Company 2002 £m	Company 2001* £m
Fixed assets					
Intangible assets	12	**467.7**	508.3	**–**	–
Tangible assets	13	**420.5**	512.8	**2.7**	1.4
Investments and interests in associates	14	**25.3**	26.4	**472.5**	582.0
		913.5	1,047.5	**475.2**	583.4
Current assets					
Stock	16	**19.7**	21.4	**–**	–
Debtors	17	**359.8**	376.1	**727.6**	621.4
Cash at bank and in hand	18	**93.7**	92.3	**34.1**	56.7
		473.2	489.8	**761.7**	678.1
Creditors: amounts falling due within one year	19	**(659.7)**	(610.6)	**(565.2)**	(460.5)
Net current (liabilities)/assets		**(186.5)**	(120.8)	**196.5**	217.6
Total assets less current liabilities		**727.0**	926.7	**671.7**	801.0
Creditors: amounts falling due after more than one year	20	**(360.0)**	(405.1)	**(308.0)**	(355.6)
Provisions for liabilities and charges	22	**(104.4)**	(119.5)	**(51.5)**	(6.1)
		262.6	402.1	**312.2**	439.3
Capital and reserves					
Called-up share capital	24	**6.7**	6.6	**6.7**	6.6
Share premium account	25	**44.7**	43.7	**44.7**	43.7
Share capital to be issued	25	**0.2**	0.3	**0.2**	0.3
Merger reserve	25	**15.4**	15.4	**–**	–
Capital reserve	25	**0.4**	–	**26.4**	26.4
Revaluation reserve	25	**0.8**	0.8	**–**	–
Profit and loss account	25	**189.6**	330.0	**234.2**	362.3
Equity shareholders' funds		**257.8**	396.8	**312.2**	439.3
Equity minority interest		**4.8**	5.3	**–**	–
		262.6	402.1	**312.2**	439.3

* Restated for change in accounting policy for deferred tax (see note 1).

P M White Chief Executive
A C Walker Finance Director
13 March 2003

Group statement of cash flows

for the year ended 31 December 2002	Note	2002 £m	2001 £m
Net cash inflow from operating activities	31(a)	**175.5**	185.5
Interest received		**7.0**	9.5
Interest paid		**(24.1)**	(37.7)
Interest element of finance lease rentals		**(1.9)**	(1.0)
Return on investments and servicing of finance		**(19.0)**	(29.2)
UK corporation tax paid		**(9.4)**	(5.4)
Overseas tax paid		**(2.4)**	(0.6)
Taxation		**(11.8)**	(6.0)
Payments to acquire tangible assets		**(91.6)**	(102.6)
Receipts from sale of tangible assets		**7.4**	10.6
Payments to acquire shares to satisfy employee share scheme		**(2.7)**	(0.7)
Payments to acquire other investments		**(1.2)**	(0.1)
Capital expenditure and financial investment		**(88.1)**	(92.8)
Receipts from the sale of businesses	15	**2.9**	237.6
Cash disposed in businesses closed/sold	15	**(3.3)**	(1.7)
Payments to acquire businesses	15	**(74.9)**	(8.6)
Cash acquired in businesses purchased	15	**2.2**	0.4
Deferred consideration for businesses acquired		**(2.4)**	(1.5)
Acquisitions and disposals		**(75.5)**	226.2
Equity dividends paid		**(29.9)**	(28.1)
Cash (outflow)/inflow before financing activities		**(48.8)**	255.6
Management of liquid resources			
Cash (paid in to)/withdrawn from short-term deposits		**(50.4)**	4.5
Financing			
Issue of share capital		**1.0**	3.2
Cash inflow from lease financing		**20.3**	21.2
Repayment of loan notes		**(0.9)**	–
Loans advanced		**32.0**	–
Loans repaid		**–**	(241.2)
Net cash inflow/(outflow) from financing		**52.4**	(216.8)
(Decrease)/increase in cash	31(b)	**(46.8)**	43.3

Group statement of total recognised gains and losses

for the year ended 31 December 2002	Note	2002 £m	2001* £m
(Loss)/profit for the financial year		**(105.3)**	114.4
Exchange differences on foreign currency net investments	25	**(2.7)**	(0.6)
Total recognised gains and losses relating to the period		**(108.0)**	113.8
Prior year adjustment for deferred tax (see note 1)	25	**(11.8)**	
Total recognised gains and losses		**(119.8)**	

* Restated for change in accounting policy for deferred tax (see note 1).

Note of historical cost Group profits and losses

for the year ended 31 December 2002

There is no material difference between the result as disclosed in the profit and loss account and the result on an unmodified historical cost basis for the years ended 31 December 2001 and 31 December 2002.

Reconciliation of movements in Group equity shareholders' funds

for the year ended 31 December 2002	Note	2002 £m	2001* £m
(Loss)/profit for the financial year		**(105.3)**	114.4
Dividends	10	**(32.4)**	(28.6)
Exchange differences on foreign currency net investments	25	**(2.7)**	(0.6)
New share capital issued for cash		**1.0**	3.2
Goodwill realised		**0.4**	(32.6)
Net (reduction)/addition to shareholders' funds		**(139.0)**	55.8
Equity shareholders' funds at 1 January†		**396.8**	341.0
Equity shareholders' funds at 31 December		**257.8**	396.8

* Restated for change in accounting policy for deferred tax (see note 1).

† Shareholders' funds at 1 January 2002 were originally £408.6m before deducting prior year adjustment of £11.8m.

1 Accounting policies

Basis of preparation

The accounts are prepared under the historical cost convention, modified to include the revaluation of certain land and buildings and are prepared in accordance with applicable accounting standards.

The true and fair override provisions of the Companies Act 1985 have been invoked in respect of investment properties (see page 57).

Change in accounting policy

Financial Reporting Standard (FRS) 19, "Deferred Tax", has been adopted with effect from 1 January 2002. The adjusted accounting policy is that deferred tax be recognised on a full provision basis in accordance with the accounting policy described below. Prior to 1 January 2002, deferred tax was provided using the liability method on all material timing differences to the extent that it was probable that the liability would crystallise.

The prior year comparatives have been restated to comply with FRS 19, resulting in a deferred tax provision of £16.5m at 31 December 2001. The net effect on reserves of £11.8m includes an increase in the net book value of goodwill as at 31 December 2001 of £4.7m. Due to the additional deferred tax provision on the Airport balance sheet at disposal, the profit on disposal for the year to 31 December 2001 is increased by £20.3m to £112.0m. After an additional amortisation charge for the Group of £0.3m in 2001, the net effect is to increase the Group's profit after tax by £20.0m from £94.3m to £114.3m. Basic earnings per share has been increased by 15.5p to 88.4p. There was no impact on the prior year comparatives for the Company. The Group's loss for the current year has been reduced by £6.0m and the Company's loss for the current year was increased by £0.1m as a result of the change in accounting policy.

Basis of consolidation

The Group accounts consolidate the accounts of National Express Group PLC and all its subsidiary undertakings drawn up to 31 December each year. No profit and loss account is presented for National Express Group PLC as permitted by Section 230 of the Companies Act 1985.

On acquisition of a business, the acquisition method of accounting is adopted, and the Group profit and loss account includes the results of subsidiary and business undertakings purchased during the year from the date of acquisition as set out below. Purchase consideration is allocated to assets and liabilities on the basis of fair value at the date of acquisition. On the sale of a business, the Group profit and loss account includes the results of that business to the date of disposal as set out below.

Business acquired	Date of acquisition
Stock Transportation Limited	4 July 2002

Business disposed	Date of disposal
Eurolines Nederland BV	2 August 2002
MultiSystems IT Division	15 August 2002
National Express Group Australia (Bayside Trains) Pty Limited (trading as M>Train)*	23 December 2002
National Express Group Australia (Swanston Trams) Pty Limited (trading as M>Tram)*	23 December 2002
National Express Group Australia (V/Line Passenger) Pty Limited*	23 December 2002

* These companies were put into administration and receivership on 23 December 2002.

Undertakings, other than subsidiary undertakings, in which the Group has an investment representing not less than 20% of the voting rights and over which it exerts significant influence are treated as associates. The Group accounts include the appropriate share of these associates' results and reserves based on their latest accounts.

Goodwill

In accordance with FRS 10, "Goodwill and Intangible Assets", goodwill arising on acquisitions made after 1 January 1998 is capitalised within intangible fixed assets and amortised over its useful economic life up to a presumed maximum of 20 years or the life of the rail franchise, if shorter. Goodwill in respect of acquisitions made prior to 1 January 1998 has been set off directly against reserves.

Fair value accounting adjustments are made in respect of acquisitions. Fair value adjustments based on provisional estimates are amended in the following year's accounts where necessary, with a corresponding adjustment to goodwill in order to refine adjustments to reflect further evidence gained post-acquisition.

1 Accounting policies continued

If a subsidiary, associate or business is subsequently sold or closed, any goodwill arising on acquisition that was written off directly to reserves or that has not been amortised through the profit and loss account is taken into account in determining the profit or loss on sale or closure.

Leased assets

Assets held under hire purchase contracts and finance leases, which are those leases where substantially all the risks and rewards of ownership of the asset have passed to the Group, are capitalised in the balance sheet as tangible fixed assets and are depreciated over their useful economic lives. The capital element of future obligations under hire purchase contracts and finance leases is included as a liability in the balance sheet. The interest element of rental obligations is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

Rentals paid under operating leases are charged to the profit and loss account on a straight-line basis over the term of the lease.

Stock

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

Investment properties

Certain of the Group's properties are held for long-term investment. Investment properties are accounted for in accordance with Statement of Standard Accounting Practice (SSAP) 19, "Accounting for Investment Properties", whereby investment properties are revalued annually and the aggregate surplus or deficit is transferred to a revaluation reserve unless a deficit, or its reversal, on an individual investment property is expected to be permanent, in which case it is recognised in the profit and loss account for the year; and no depreciation or amortisation is provided in respect of investment properties.

Although the Companies Act 1985 would normally require the systematic annual depreciation of fixed assets, the Directors believe that this policy of not providing depreciation or amortisation is necessary in order for the accounts to give a true and fair view, since the current value of investment properties, and changes in that current value, are of prime importance rather than a calculation of systematic annual depreciation. Depreciation or amortisation is only one of the many factors reflected in the annual valuation, and the amount which might otherwise have been shown cannot be separately identified or quantified.

Tangible fixed assets

Investment properties and freehold land are not depreciated. Other tangible assets are depreciated on a straight-line basis over their estimated useful lives as follows:

Short leasehold properties	–	over the period of the lease
Long leasehold properties	–	15 to 40 years
Freehold buildings	–	30 to 50 years
Airport buildings, runways, etc	–	50 years
Infrastructure assets	–	10 to 14 years
Public service vehicles	–	2 to 15 years
Plant and equipment	–	3 to 10 years

The Group has followed the transitional provisions in FRS 15, "Tangible Fixed Assets", and will not revalue properties in the future, although as permitted by the standard, properties that have been revalued in the past have been retained at their existing book value. The last valuation was at 31 December 1995.

Pension costs

Pension costs are recognised on a systematic basis so that the costs of providing retirement benefits to employees are evenly matched, so far as is possible, to the service lives of the employees concerned. Any excess or deficiency of the actuarial value of assets over the actuarial value of liabilities of the pension scheme is allocated over the average remaining service lives of current employees. Differences between the amount charged in the profit and loss account and payments made to schemes are treated as assets or liabilities in the balance sheet.

1 Accounting policies continued

Deferred tax
Deferred tax is recognised in respect of all material timing differences that have originated, but not reversed, by the balance sheet date. Deferred tax is measured on a non-discounted basis at tax rates that are expected to apply in the periods in which the timing differences reverse. Deferred tax assets are recognised where their recovery is considered more likely than not in that there will be suitable taxable profits from which the future reversal of underlying timing differences can be deducted.

Pre-contract costs
Pre-contract costs associated with securing new rail franchises are expensed as incurred, except where it is virtually certain that a franchise will be awarded, in which case they are recognised as an asset and are expensed to the profit and loss account over the life of the franchise. Costs associated with the commencement of new contracts are expensed as incurred.

Insurance
The Group's policy is to self-insure high frequency, low value claims within the businesses. To provide protection above these types of losses, the Group purchases insurance cover from a selection of proven and financially strong insurers. These insurance policies provide individual claim cover subject to excess limits and aggregate stop losses for total claims within the excess limits. A provision is made for the estimated cost to the Group to settle claims for incidents occurring prior to the balance sheet date, subject to the overall stop loss.

Foreign currencies

Group
The trading results of overseas subsidiary undertakings are translated into sterling using average rates of exchange for the year.

The balance sheets of overseas subsidiary undertakings are translated into sterling at the rates of exchange ruling at the year end and exchange differences arising are taken directly to reserves. All other translation differences are taken to the profit and loss account, with the exception of differences on foreign currency borrowings and forward foreign currency contracts which are used to finance or provide a hedge against Group equity investments in foreign enterprises. These are taken directly to reserves.

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

	2002 Closing rate	2002 Average rate	2001 Closing rate	2001 Average rate
US dollar	**1.61**	**1.51**	1.46	1.44
Australian dollar	**2.86**	**2.78**	2.84	2.80
Canadian dollar	**2.54**	**2.47**	–	–

Company
Foreign currency assets and liabilities are translated into sterling at the rates of exchange ruling at the year end except where forward cover has been arranged, in which case the forward rate is used. Foreign currency transactions arising during the year are translated into sterling at the rate of exchange ruling on the date of the transaction. Any exchange differences so arising are dealt with through the profit and loss account, with the exception of differences arising on the translation of foreign currency equity investments, and on foreign currency borrowings and forward foreign currency contracts which are used to finance or provide a hedge against these investments. These are taken directly to reserves.

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

2 Turnover and segmental analysis

The turnover of the Group comprises revenue from road passenger transport, train passenger services, airport operations and related activities in the UK, North America and Australia. Where appropriate, amounts are shown net of rebates and sales tax. Due to the nature of the Group's businesses, the origin and destination of turnover is the same. Within the Trains division, franchise agreement receipts from the Strategic Rail Authority (SRA) and local Passenger Transport Executives within the West Midlands region and Scotland are treated as turnover. During the year, annual franchise agreement receipts amounted to £634.9m (2001: £554.8m) in the UK and £62.5m (2001: £56.0m) from the Victoria Department of Public Transport in Australia.

Analysis by class of business		Turnover 2002 £m	Turnover 2001 £m	Operating profit before goodwill and exceptional items 2002 £m	Operating profit before goodwill and exceptional items 2001* £m	Net assets 2002 £m	Net assets 2001* £m
Buses		**208.7**	208.3	**49.8**	52.8	**34.7**	63.8
Trains		**1,553.2**	1,458.2	**33.9**	40.6	**3.3**	9.8
Coaches		**184.5**	181.3	**12.2**	10.6	**28.1**	35.8
UK operations		**1,946.4**	1,847.8	**95.9**	104.0	**66.1**	109.4
North America bus	– continuing	**392.4**	401.7	**31.4**	39.3	**451.2**	505.6
	– acquisitions	**15.6**	–	**1.2**	–	**70.3**	–
		408.0	401.7	**32.6**	39.3	**521.5**	505.6
Australia bus		**58.0**	54.9	**2.3**	4.0	**48.9**	49.4
Continuing operations		**2,412.4**	2,304.4	**130.8**	147.3	**636.5**	664.4
Discontinued operations	– Australia trains	**159.9**	153.0	**0.1**	9.4	**(49.8)**	52.2
	– Airports	**–**	6.8	**–**	1.1	**–**	–
		159.9	159.8	**0.1**	10.5	**(49.8)**	52.2
		2,572.3	2,464.2	**130.9**	157.8	**586.7**	716.6
Annual goodwill amortisation				**(45.2)**	(42.2)		
Goodwill impairment				**(13.5)**	–		
Exceptional items (see table on page 60)				**(5.0)**	(83.5)		
Group operating profit				**67.2**	32.1		
Share of operating losses of associates				**(6.6)**	(1.9)		
Total operating profit				**60.6**	30.2		
(Loss)/profit on closure/sale of businesses				**(126.1)**	112.0		
(Loss)/profit on ordinary activities before interest				**(65.5)**	142.2		
Unallocated net liabilities						**(328.9)**	(319.8)
						257.8	396.8
Equity minority interest						**4.8**	5.3
Total net assets						**262.6**	402.1

* Restated for change in accounting policy for deferred tax (see note 1).

Annual goodwill amortisation of £45.2m (2001: £42.2m) is analysed as Trains £23.2m (2001: £21.6m), Coaches £0.8m (2001: £0.4m), North America bus £19.4m (2001: £18.8m) and Australia bus £1.8m (2001: £1.4m). The goodwill impairment charge for 2002 relates to Australia bus.

2 Turnover and segmental analysis continued

Exceptional items can be analysed as follows:

	Buses £m	Trains £m	Coaches £m	North America bus £m	Australia £m	Total £m
2002						
Pre-contract bid costs	**–**	**5.0**	**–**	**–**	**–**	**5.0**
2001						
Franchise amendment costs	–	67.0	–	–	–	67.0
New trains	–	3.0	–	–	–	3.0
Reorganisation	–	4.8	3.1	3.6	0.6	12.1
Pre-contract bid costs	0.2	1.0	–	–	0.2	1.4
	0.2	75.8	3.1	3.6	0.8	83.5

The exceptional franchise amendment costs in 2001 include the cost to the Group of its renegotiations with the SRA of the Central Trains and ScotRail rail franchises.

The exceptional expenditure on new trains in 2001 is the cost associated with bringing the new trains into service. Reorganisation costs in 2001 include £1.7m relating to the impairment of goodwill previously written off to reserves in respect of a coach business.

Included in the share of operating losses of associates of £6.6m (2001: £1.9m) is a £2.6m exceptional loss (2001: £nil) which comprises the Group's share of an impairment charge in the accounts for Altram LRT Limited following a review of the carrying value of its fixed assets. There is no tax effect in the profit and loss account relating to the exceptional items recognised below Group operating profit (2001: £nil).

Unallocated net liabilities comprise other investments, cash at bank and in hand, borrowings (other than finance leases), deferred consideration payable, dividends payable and taxation. The net assets in respect of the Group's investment in associates have been analysed according to the activities of the associate.

3 Other operating income

	2002 £m	2001 £m
Rent receivable	**10.8**	12.4

Included in rents receivable is £0.2m (2001: £1.4m) of income from discontinued operations.

4 Operating costs

	2002 £m	2001* £m
Materials and consumables	**102.2**	104.5
Staff costs	**853.5**	803.0
Depreciation – owned assets	**63.6**	58.3
– leased assets	**7.9**	2.3
Operating lease charges – plant and equipment	**258.5**	229.1
– land and buildings	**505.6**	489.7
External charges	**665.9**	715.4
Operating costs before goodwill amortisation	**2,457.2**	2,402.3
Annual goodwill amortisation	**45.2**	42.2
Goodwill impairment	**13.5**	–
Total operating costs	**2,515.9**	2,444.5

* Restated for change in accounting policy for deferred tax (see note 1).

Operating costs relating to acquired operations amount to £14.5m, including materials and consumables £0.2m, staff costs £8.0m, depreciation £1.8m and external charges £4.5m. Operating costs relating to discontinued operations amount to £159.8m (2001: £149.3m), including materials and consumables £1.1m (2001: £1.4m), staff costs £60.7m (2001: £58.2m), depreciation £10.8m (2001: £7.9m), operating lease charges £13.8m (2001: £13.8m) and external charges £73.4m (2001: £68.0m).

Operating costs include £14.8m (2001: £17.4m) of annual franchise agreement payments to the SRA.

Operating costs include exceptional costs of £5.0m (2001: £83.5m) being materials and consumables £nil (2001: £0.2m), staff costs £2.4m (2001: £4.9m) and external charges £2.6m (2001: £78.4m).

Included within external charges are fees paid to our auditors in respect of audit services of £0.7m (2001: £0.7m). In addition, external charges include fees paid to our auditors in respect of non-audit services of £0.8m (2001: £1.3m) in the UK and £0.5m (2001: £0.4m) overseas; £1.0m (2001: £1.1m) of these non-audit fees were in respect of tax services. A further £0.4m (2001: £0.1m) was capitalised with respect to acquisitions.

5 Staff costs

	2002 £m	2001 £m
Wages and salaries	**780.0**	735.3
Social security costs	**57.4**	55.6
Pension costs (see note 28)	**16.1**	12.1
	853.5	803.0

The average number of employees (including Executive Directors) during the year was as follows:

	2002 Number	2001 Number
Managerial and administrative	**4,103**	4,503
Operational	**41,871**	40,005
	45,974	44,508

6 Directors' emoluments

	2002 £m	2001 £m
Fees	**0.3**	0.3
Basic salaries	**0.9**	1.1
Benefits	**0.3**	0.3
Performance related bonuses	**0.2**	0.6
Pension contributions	**0.1**	0.2
Termination of employment	**0.3**	0.2
	2.1	2.7

More detailed information concerning Directors' emoluments, shareholding and options is shown in the Report on Directors' remuneration on pages 46 to 49.

7 Net interest payable

	2002 £m	2001 £m
Interest payable and similar charges:		
Bank loans and overdrafts	**(20.1)**	(35.1)
Other loans	**(3.1)**	(0.1)
Finance lease charges	**(3.9)**	(1.0)
	(27.1)	(36.2)
Interest receivable	**7.0**	9.5
Net interest payable	**(20.1)**	(26.7)

8 Taxation

(a) Analysis of taxation charge in the year

	Total 2002 £m	Total 2001* £m
Current taxation:		
UK corporation tax	**27.5**	27.4
Prior years – UK	**–**	(1.8)
	27.5	25.6
Double tax relief	**–**	(2.9)
	27.5	22.7
Overseas taxation	**3.4**	5.1
	30.9	27.8
Tax relief on goodwill and exceptional items:		
UK corporation tax	**(1.4)**	(21.5)
Overseas	**(2.9)**	(5.1)
Total current taxation	**26.6**	1.2
Deferred taxation (note 23):		
Origination and reversal of timing differences	**(6.3)**	–
Tax on profit on ordinary activities	**20.3**	1.2

* Restated for change in accounting policy for deferred tax (see note 1).

8 Taxation continued

(b) Factors affecting the current tax charge for the year

	Total 2002 £m	Total 2001* £m
(Loss)/profit on ordinary activities before taxation	**(85.6)**	115.5
Notional (credit)/charge at UK corporation tax rate of 30%	**(25.7)**	34.7
Non deductible exceptional expenditure	**37.9**	0.9
Non deductible goodwill amortisation	**15.1**	11.1
Utilisation of unrecognised tax losses	**(0.3)**	(3.6)
Effect of overseas tax rates	**(2.1)**	(0.1)
Non taxable gains on disposals	**–**	(35.7)
Prior year adjustments	**–**	(1.8)
Capital allowances in excess of depreciation	**(2.6)**	(7.3)
Effect of short-term timing differences	**4.0**	2.9
Permanent disallowables	**0.3**	0.1
Current tax charge for the year	**26.6**	1.2

* Restated for change in accounting policy for deferred tax (see note 1).

(c) Factors that may affect future tax charges

No deferred tax is recognised on the unremitted earnings of overseas subsidiaries and associates. The earnings are unremitted as they are continually reinvested by the Group, and therefore no tax is expected to be payable on them in the foreseeable future.

No provision has been made for deferred tax on gains recognised on revaluing property or intangible assets or on the sale of property or intangible assets where potentially taxable gains have been rolled over into replacement assets. The total amount unprovided is £5.4m (2001: £5.4m). Such tax would become payable only if the property or intangible was sold without it being possible to claim further rollover relief and this is not expected to occur in the foreseeable future.

In the overseas subsidiaries, the potential deferred tax assets exceed the deferred tax liabilities. There is no recognition of the deferred tax assets in relation to the excess on the grounds that there is insufficient evidence to determine that it is recoverable. The total amount of deferred tax assets that the Group has not recognised in the accounts amount to £23.6m (2001: £8.0m).

9 Loss attributable to shareholders of the parent company

The loss attributable to shareholders of the parent company was £89.8m (2001: £227.3m loss).

10 Dividends

	2002 £m	2001 £m
Ordinary interim paid of 8.1p per share (2001: 7.3p)	**10.7**	9.4
Ordinary final proposed of 16.4p per share (2001: 14.7p)	**21.7**	19.2
	32.4	28.6

11 Earnings per share

	2002	2001*
Basic (loss)/earnings per share	**(80.0p)**	88.4p
Normalised basic earnings per share	**62.9p**	70.5p
Diluted (loss)/earnings per share	**(80.0p)**	82.7p
Normalised diluted earnings per share	**60.3p**	66.0p

* Restated for change in accounting policy for deferred tax (see note 1).

Basic (loss)/earnings per share is calculated by dividing the loss for the financial period of £105.3m (2001: £114.4m profit restated) by the weighted average number of ordinary shares in issue in the period, excluding those held by employees' share ownership trusts which are treated as cancelled.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. These represent share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year. For 2002, the weighted average number of ordinary shares for the purpose of calculating the diluted loss per share is identical to that used for the basic loss per share. This is because the adjustment for dilutive potential ordinary shares would have the effect of reducing the loss per ordinary share and is therefore not dilutive under the terms of FRS 14 "Earnings per Share".

The reconciliation of weighted average number of ordinary shares is detailed as follows:

	Number of shares 2002	Number of shares 2001
Basic weighted average shares	**131,602,152**	129,457,561
Adjustment for dilutive potential ordinary shares	**5,622,274**	8,852,402
Diluted weighted average shares	**137,224,426**	138,309,963

The normalised diluted earnings per share has been calculated in addition to the basic and diluted earnings per shares required by FRS 14 since, in the opinion of the Directors, it reflects the financial performance of the core business more appropriately.

The normalised diluted earnings per share for the years ended 31 December 2002 and 31 December 2001 exclude the earnings from discontinued operations, with 2001 earnings restated to exclude earnings from operations discontinued in 2002. They have not been adjusted to reflect the interest earned on the cash proceeds from the disposal of the discontinued operations.

11 Earnings per share continued

Normalised profits for the financial year are:

	2002 £m	2001* £m
(Loss)/profit for the financial year	**(105.3)**	114.4
Earnings from discontinued operations	**(0.1)**	(10.2)
Goodwill amortisation (including impairment of £13.5m)	**58.7**	42.2
Exceptional operating costs	**5.0**	83.5
Exceptional loss of associate	**2.6**	–
Loss/(profit) on closure/sale of businesses	**126.1**	(112.0)
Tax relief on goodwill and exceptional items	**(4.3)**	(26.6)
Normalised profits for the financial period	**82.7**	91.3

* Restated for change in accounting policy for deferred tax (see note 1).

12 Intangible assets

Goodwill arising on all acquisitions, except Prism, is amortised evenly over the Directors' estimate of their useful economic life of 20 years. The goodwill arising on the acquisition of Prism in the year ended 31 December 2000 is amortised evenly over the weighted average life of the franchise (nine years).

Group	Goodwill* £m
Cost:	
At 31 December 2001 as previously reported	571.9
Prior year adjustment (note 1)	5.3
	577.2
Additions	53.5
Exchange adjustment	(37.4)
At 31 December 2002	**593.3**
Amortisation:	
At 31 December 2001 as previously reported	68.3
Prior year adjustment (note 1)	0.6
	68.9
Charge for the year (including impairment of £13.5m)	58.7
Exchange adjustments	(2.0)
At 31 December 2002	**125.6**
Net book value:	
At 31 December 2002	**467.7**
At 31 December 2001	508.3

* Restated for change in accounting policy for deferred tax (see note 1).

The carrying value of goodwill arising on the acquisition of the Australia bus businesses has been reviewed at 31 December 2002 by reference to its value in use to the Group. The value in use was calculated using future expected cash flow projections, discounted at 9% on a pre-tax basis, and is not intended to reflect a realisable value on disposal. The review has resulted in an impairment of £13.5m (2001: £nil) to goodwill.

13 Tangible assets

Group	Freehold land and buildings £m	Long leasehold property £m	Short leasehold property £m	Infra-structure £m	Public service vehicles £m	Plant and equipment £m	Total £m
Cost or valuation:							
At 1 January 2002	49.1	46.9	30.8	42.1	350.9	92.8	612.6
Additions	4.9	4.0	18.1	17.6	46.5	24.0	115.1
Acquisitions of businesses	–	0.5	–	–	20.9	0.2	21.6
Disposals	(0.2)	–	(2.1)	(0.1)	(30.2)	(6.4)	(39.0)
Disposal of businesses	(8.7)	–	(15.0)	(57.9)	(48.2)	(13.3)	(143.1)
Exchange adjustments	(0.7)	(2.9)	(0.8)	–	(21.5)	(3.1)	(29.0)
At 31 December 2002	**44.4**	**48.5**	**31.0**	**1.7**	**318.4**	**94.2**	**538.2**
Depreciation:							
At 1 January 2002	3.7	2.1	6.7	0.7	61.0	25.6	99.8
Charge for the year	0.9	1.2	5.3	3.2	38.7	22.2	71.5
Disposals	(0.1)	–	(0.3)	(0.1)	(23.6)	(5.4)	(29.5)
Disposal of businesses	(0.2)	–	(1.3)	(3.6)	(11.1)	(1.5)	(17.7)
Exchange adjustments	–	(0.4)	(0.1)	–	(3.0)	(2.9)	(6.4)
At 31 December 2002	**4.3**	**2.9**	**10.3**	**0.2**	**62.0**	**38.0**	**117.7**
Net book value:							
At 31 December 2002	**40.1**	**45.6**	**20.7**	**1.5**	**256.4**	**56.2**	**420.5**
At 31 December 2001	45.4	44.8	24.1	41.4	289.9	67.2	512.8

The net book value of freehold land and buildings and long leasehold property includes £9.1m (2001: £9.1m) in respect of investment properties and £6.3m (2001: £6.3m) in respect of land which is not depreciated.

The Directors have reviewed the valuation of the Group's investment properties at 31 December 2002 and are of the opinion that the open market value of these properties at 31 December 2002 is fairly stated in these accounts.

Particulars relating to revalued assets are as follows:

	2002 £m	2001 £m
Land and buildings valuation at end of year	**21.3**	21.3
Historical cost of revalued assets	**23.2**	23.2
Aggregate depreciation based thereon	**(2.7)**	(2.7)
Historical cost net book value	**20.5**	20.5

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

	2002 £m	2001 £m
Public service vehicles	**54.0**	42.2
Plant and equipment	**1.4**	1.6
Net book value	**55.4**	43.8

13 Tangible assets continued

Company	Short leasehold property £m	Plant and equipment £m	Total £m
Cost:			
At 1 January 2002	0.8	1.5	2.3
Additions	–	1.8	1.8
Disposals	–	(0.2)	(0.2)
At 31 December 2002	**0.8**	**3.1**	**3.9**
Depreciation:			
At 1 January 2002	0.2	0.7	0.9
Charge for the year	–	0.5	0.5
Disposals	–	(0.2)	(0.2)
At 31 December 2002	**0.2**	**1.0**	**1.2**
Net book value:			
At 31 December 2002	**0.6**	**2.1**	**2.7**
At 31 December 2001	0.6	0.8	1.4

14 Investments and interests in associates

Group	Loan to associates £m	Interests in associates £m	Other investments £m	Own shares £m	Total £m
Cost or valuation:					
At 1 January 2002	4.5	1.4	22.8	7.3	36.0
Additions	–	–	1.2	3.2	4.4
Disposals	–	–	(3.1)	(3.3)	(6.4)
At 31 December 2002	**4.5**	**1.4**	**20.9**	**7.2**	**34.0**
Share of post-acquisition reserves:					
At 1 January 2002	–	(1.4)	–	–	(1.4)
At 31 December 2002	**–**	**(1.4)**	**–**	**–**	**(1.4)**
Provisions:					
At 1 January 2002	–	–	(6.0)	(2.2)	(8.2)
Provisions for impairment	–	–	–	(0.7)	(0.7)
Disposals	–	–	0.2	1.4	1.6
At 31 December 2002	**–**	**–**	**(5.8)**	**(1.5)**	**(7.3)**
Net book value:					
At 31 December 2002	**4.5**	**–**	**15.1**	**5.7**	**25.3**
At 31 December 2001	4.5	–	16.8	5.1	26.4

(a) Interests in associates are as follows:

Name	Country of registration	Total issued share capital £000	Proportion held %
Altram LRT Limited	England and Wales	4,000	33
Inter-Capital and Regional Rail Limited	England and Wales	1	40

Altram LRT Limited is a provider of light rapid transport systems. The investment is held by a Group subsidiary undertaking. Inter-Capital and Regional Rail Limited is contracted to manage the operations of Eurostar UK to 2010. The investment is held by the Company.

14 Investments and interests in associates continued

(b) The principal other investments are as follows:

Name	Country of registration	Class of share	Proportion held %
London & Continental Railways (LCR)	England and Wales	Ordinary shares	21
Prepayment Cards Limited (PCL)	England and Wales	Ordinary shares	23.5

LCR and PCL have been accounted for as trade investments. In the opinion of the Directors, the Group does not exercise significant influence over LCR nor PCL as required under the definitions in FRS 9.

(c) Own shares are as follows:

Ordinary shares in the Company have been purchased by the Trustees of the National Express Employee Benefit Trust using interest free loans advanced by the Company. The shares are held to satisfy potential awards or options granted under a number of the Company's share schemes.

In accordance with UITF Abstract 13, "Accounting for ESOP Trusts", the value of the shares within the Qualifying Employee Share Ownership Trust (QUEST) has been recognised as an investment in own shares. The QUEST did not purchase shares in either 2002 or 2001. The shares are written down to their residual value over a period ending on the first date the option can be exercised.

Details of own shares held are given in note 24.

Company	Loan to a subsidiary undertaking £m	Investments in subsidiary undertakings £m	Other investments £m	Own shares £m	Total £m
Cost or valuation:					
At 1 January 2002	271.8	504.5	20.0	7.3	803.6
Additions	18.2	–	1.2	3.2	22.6
Disposals	–	–	(0.3)	(3.3)	(3.6)
Reclassifications	(290.0)	290.0	–	–	–
Exchange adjustments	–	(12.5)	–	–	(12.5)
At 31 December 2002	**–**	**782.0**	**20.9**	**7.2**	**810.1**
Provisions:					
At 1 January 2002	–	(213.4)	(6.0)	(2.2)	(221.6)
Provisions for impairment	–	(116.9)	0.2	(0.7)	(117.4)
Disposals	–	–	–	1.4	1.4
At 31 December 2002	**–**	**(330.3)**	**(5.8)**	**(1.5)**	**(337.6)**
Net book value:					
At 31 December 2002	**–**	**451.7**	**15.1**	**5.7**	**472.5**
At 31 December 2001	271.8	291.1	14.0	5.1	582.0

The loan represented an investment in a convertible bond of a subsidiary undertaking which was converted to preference share capital on 11 October 2002.

The carrying value of the investments in subsidiary undertakings has been reviewed at 31 December 2002 by reference to their value in use to the Company. The value in use was calculated using future expected cash flow projections, discounted at 9% on a pre-tax basis, and is not intended to reflect a realisable value on disposal. The review has resulted in an impairment of £116.9m (2001: £209.0m) to investments in subsidiary undertakings held by the Company.

14 Investments and interests in associates continued

Incorporated in England and Wales

Airlinks The Airport Coach Company Limited	Operation of coach services within and to airports
Cambridge Coach Services Limited	Operation of coach services
Eurolines (UK) Limited	Administration and marketing of express coach services to Europe
National Express Limited	Administration and marketing of express coach services in Great Britain
West Midlands Travel Limited	Operation of bus services
c2c Rail Limited	Operation of train passenger services
Cardiff Railway Company Limited (trading as Wales & Borders)	Operation of train passenger services
Central Trains Limited	Operation of train passenger services
Gatwick Express Limited	Operation of train passenger services
Maintrain Limited	Provision of train maintenance services
Midland Mainline Limited	Operation of train passenger services
National Express Trains Limited*	Holding company for train operating companies
ScotRail Railways Limited	Operation of train passenger services
Silverlink Train Services Limited	Operation of train passenger services
Wales & West Passenger Trains Limited (trading as Wessex Trains)	Operation of train passenger services
West Anglia Great Northern Railway Limited	Operation of train passenger services

Incorporated in Scotland

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

Incorporated in the USA

Durham School Services LP	Operation of school bus services
Trading as ATC:	
– Comsis Mobility Services Inc	Operation of bus services
– Forsythe & Associates Inc	Operation of bus services
– Van Der Aa Holdings Inc	Operation of bus services
MultiSystems Inc	Operation of bus services
SWF Airport Acquisition Inc	Provision and management of airport facilities

Incorporated in Canada

Stock Transportation Limited	Operation of school bus services

Incorporated in Australia

Glenorie Bus Company Pty Limited	Operation of bus services
National Bus Company Pty Limited	Operation of bus services
Transport Management Group Pty Limited	Operation of bus services
Westbus Pty Limited	Operation of bus services

* Shares held by the Company. All other shares held by subsidiary undertakings.

National Express Group PLC is the beneficial owner of all the equity share capital, either itself or through subsidiary undertakings, of the above, with the exception of Glenorie Bus Company Pty Limited and Westbus Pty Limited in which it has a 57% (2001: 57%) shareholding.

The principal country of operation in respect of all the above companies is the country in which they are incorporated.

The companies listed above include all those which principally affect the amount of profit and assets of the Group. A full list of subsidiary undertakings and associates will be annexed to the next Annual Return to Companies House.

15 Disposals and acquisitions during the year

(a) Disposals

The Group withdrew from the Australia trains division, resulting in a loss on closure of £125.9m comprising £76.1m of net assets written off and a cash payment of £49.8m to indemnify the providers of the performance bonds and to cover other exit costs. The companies within the division were put into administration and receivership on 23 December 2002. Eurolines Nederland BV, a small express coach service operating in Europe, was sold on 2 August 2002 for gross proceeds of £3.0m, and MultiSystems IT Division was sold on 15 August 2002 for gross proceeds of £0.4m.

Net assets disposed of:	Australia trains £m	Other £m	Total £m
Tangible fixed assets	124.9	0.5	**125.4**
Stock	1.6	0.8	**2.4**
Debtors	23.0	3.4	**26.4**
Cash at bank and in hand	3.2	0.1	**3.3**
Creditors: amounts falling due within one year	(72.9)	(1.8)	**(74.7)**
Provisions	(3.7)	–	**(3.7)**
	76.1	3.0	**79.1**
Goodwill realised	–	0.4	**0.4**
Loss on closure/sale of business	(125.9)	(0.2)	**(126.1)**
Total (payments)/consideration	(49.8)	3.2	**(46.6)**
Total (payments)/consideration	(49.8)	3.2	**(46.6)**
Add back performance bonds and exit costs	49.8	–	**49.8**
Less deferred consideration	–	(0.3)	**(0.3)**
Less net cash disposed	(3.2)	(0.1)	**(3.3)**
Net cash (outflow)/inflow	(3.2)	2.8	**(0.4)**

The Australia trains division contributed £17.6m inflow (2001: £14.7m inflow) to the Group's net operating cash flow and paid out £nil (2001: £0.7m) in respect of taxation and £32.6m (2001: £33.8m) in respect of capital expenditure. The turnover, operating result and cash flow of the Eurolines and MultiSystems businesses sold are not disclosed, as the amounts involved are not material.

During the year ended 31 December 2001 the airports division was sold for net proceeds of £233.9m, resulting in a profit on disposal of £115.5m (restated for change in accounting policy for deferred tax (see note 1)). Autobusbedrifj Bronckaers NV (a small bus operation in Belgium) was sold for £3.7m, resulting in a loss on disposal of £3.5m.

(b) Acquisitions

The Group acquired the entire share capital of 1388194 Ontario Limited, 1388195 Ontario Limited and Stock Holdings Limited, the holding companies of Stock Transportation Limited, a school bus operator in North America, on 4 July 2002.

Net assets at date of acquisition:	Book value £m	Fair value adjustments £m	Total £m
Intangible fixed assets	1.2	(1.2)	**–**
Tangible fixed assets	24.5	(2.9)	**21.6**
Stock	0.4	–	**0.4**
Debtors	3.9	(1.4)	**2.5**
Cash at bank and in hand	2.2	–	**2.2**
Creditors: amounts falling due within one year	(3.0)	(1.7)	**(4.7)**
Provisions	(2.9)	2.1	**(0.8)**
Net assets acquired	26.3	(5.1)	**21.2**
Goodwill on acquisition			**53.7**
Total consideration			**74.9**
Total consideration			**74.9**
Less net cash acquired			**(2.2)**
Net cash outflow			**72.7**

15 Disposals and acquisitions during the year continued

The acquisition balance sheet has been adjusted to reflect provisional fair value adjustments comprising the elimination of £1.2m goodwill in Stock's balance sheet, a downward revaluation of tangible fixed assets of £2.9m, and other adjustments which reduced net assets by £1.0m.

The Stock Transportation Limited year end prior to acquisition was 31 August 2001. The profit after tax and minority interest for the year then ended was £2.7m and for the period from 1 September 2001 to acquisition was £5.4m.

Fair value adjustments made in the year ended 31 December 2001 have been revised resulting in a decrease in goodwill of £0.2m relating to Glenorie Bus Company Pty Limited, acquired 19 December 2001. The adjustment was in respect of tangible fixed assets.

16 Stock

Group	2002 £m	2001 £m
Raw materials and consumables	**19.7**	21.4

17 Debtors

	Group		Company	
	2002 £m	2001 £m	2002 £m	2001 £m
Trade debtors	**192.8**	158.6	**0.1**	9.2
Amounts due from subsidiary undertakings	**–**	–	**711.5**	594.3
Amounts due from associates	**4.7**	3.0	**1.0**	1.0
Corporation tax recoverable	**–**	–	**–**	11.5
Other debtors	**78.1**	120.7	**14.7**	5.0
Prepayments and accrued income	**84.2**	93.8	**0.3**	0.4
	359.8	376.1	**727.6**	621.4

Included within other debtors of the Group is £4.7m (2001: £6.8m) and within other debtors of the Company is £2.5m (2001: £3.3m) which is recoverable after more than one year. Included within prepayments of the Group is £1.7m (2001: £1.7m) and within prepayments of the Company is £nil (2001: £nil) which is recoverable after more than one year.

18 Cash at bank and in hand

	Group		Company	
	2002 £m	2001 £m	2002 £m	2001 £m
Cash	**16.8**	29.7	**–**	–
Overnight deposits	**19.5**	54.5	**–**	54.2
Other short-term deposits	**57.4**	8.1	**34.1**	2.5
	93.7	92.3	**34.1**	56.7

19 Creditors: amounts falling due within one year

	Group 2002 £m	Group 2001 £m	Company 2002 £m	Company 2001 £m
Loan notes	**9.1**	10.0	**1.3**	1.5
Bank loans	**53.2**	3.6	**53.2**	3.6
Other loans	**–**	0.1	**–**	–
Bank overdrafts	**–**	0.5	**158.5**	177.5
Trade creditors	**201.6**	169.2	**2.2**	3.3
Amounts owed to associates	**0.1**	0.2	**–**	–
Amounts owed to subsidiary undertakings	**–**	–	**314.5**	240.4
Finance lease obligations	**10.0**	6.3	**–**	–
Corporation tax	**25.3**	15.1	**–**	–
Social security and other taxation	**21.7**	22.2	**–**	–
Accruals and deferred income	**317.0**	364.2	**13.8**	15.0
Proposed dividend	**21.7**	19.2	**21.7**	19.2
	659.7	610.6	**565.2**	460.5

20 Creditors: amounts falling due after more than one year

	Group 2002 £m	Group 2001 £m	Company 2002 £m	Company 2001 £m
Bank loans	**308.0**	356.0	**308.0**	355.6
Finance lease obligations	**48.0**	30.8	**–**	–
Accruals and deferred income	**4.0**	18.3	**–**	–
	360.0	405.1	**308.0**	355.6

21 Net borrowings

	Group 2002 £m	Group 2001 £m	Company 2002 £m	Company 2001 £m
Due within one year				
Loan notes	**9.1**	10.0	**1.3**	1.5
Bank loans	**53.2**	3.6	**53.2**	3.6
Other loans	**–**	0.1	**–**	–
Bank overdrafts	**–**	0.5	**158.5**	177.5
Finance lease obligations	**10.0**	6.3	**–**	–
	72.3	20.5	**213.0**	182.6
Due within one to two years				
Bank loans	**308.0**	70.8	**308.0**	70.4
Finance lease obligations	**11.5**	6.8	**–**	–
	319.5	77.6	**308.0**	70.4
Due within two to five years				
Bank loans	**–**	285.2	**–**	285.2
Finance lease obligations	**31.3**	18.9	**–**	–
	31.3	304.1	**–**	285.2
Due by instalments after five years				
Finance lease obligations	**5.2**	5.1	**–**	–
Total borrowings	**428.3**	407.3	**521.0**	538.2
Cash at bank and in hand (see note 18)	**(93.7)**	(92.3)	**(34.1)**	(56.7)
Net borrowings	**334.6**	315.0	**486.9**	481.5

Secured borrowings within the Group (representing finance leases) total £58.0m (2001: £37.1m).

22 Provisions for liabilities and charges

Group	Unfunded pension provision (a) £m	Insurance claims (b) £m	Deferred tax (c) £m	Associates (d) £m	Other (e) £m	Total £m
At 31 December 2001 as previously reported	0.6	34.3	–	–	68.1	103.0
Prior year adjustment (note 1)	–	–	16.5	–	–	16.5
	0.6	34.3	16.5	–	68.1	119.5
Provided in the year	0.2	30.0	–	6.6	52.3	89.1
Reclassification	–	–	–	1.9	(1.9)	–
Utilised in the year	–	(27.0)	–	–	(65.3)	(92.3)
Released in the year	–	–	(6.3)	–	(0.4)	(6.7)
Acquisition of subsidiary undertakings	–	–	0.5	–	0.3	0.8
Disposal of subsidiary undertakings	–	–	–	–	(3.7)	(3.7)
Exchange difference	(0.1)	(2.2)	–	–	–	(2.3)
At 31 December 2002	**0.7**	**35.1**	**10.7**	**8.5**	**49.4**	**104.4**

Company	Insurance claims (b) £m	Deferred tax (c) £m	Other (e) £m	Total £m
At 1 January 2002	6.1	–	–	6.1
Provided in the year	0.1	0.1	48.0	48.2
Utilised in the year	(2.8)	–	–	(2.8)
At 31 December 2002	**3.4**	**0.1**	**48.0**	**51.5**

(a) The unfunded pension provision relates to commuted pensions not provided within the pension schemes, which will be paid out over 15 to 20 years.

(b) The insurance claims provision arises from estimated exposures at the year end, the majority of which will be utilised in the next six years, and principally comprises:

(i) the existing claims under the insurance programme for UK operations relating to 2002 and prior years, with the exception of 1997;

(ii) the existing claims of the National Express Group insurance programme held within National Express Guernsey Limited, the Group's captive insurance company, and relating to 1997; and

(iii) the existing claims arising in the USA.

(c) See note 23 for further details on deferred tax.

(d) The interests in net liabilities of associates comprises £4.4m for Altram LRT Limited and £4.1m for Inter-Capital and Regional Rail Limited.

(e) Other provisions at 31 December 2002 included £48.0m relating to the exit of the Australia trains business payable to the Victorian Government in 2003. Other provisions at 31 December 2001 included £62.5m paid to the SRA in March 2002 in respect of UK train franchise amendments.

23 Deferred taxation

The major components of the provision for deferred taxation are as follows:

	Group 2002 £m	Group 2001 £m	Company 2002 £m	Company 2001 £m
Accelerated capital allowances	**36.7**	54.6	**0.1**	–
Other timing differences	**(15.5)**	(15.0)	**–**	–
Tax effect of losses carried forward	**(10.5)**	(23.1)	**–**	–
Net liability	**10.7**	16.5	**0.1**	–

24 Called-up share capital

	2002 £m	2001 £m
At 31 December		
Authorised:		
146,650,000 (2001: 146,650,000) ordinary shares of 5p each	**7.3**	7.3
Issued called-up and fully paid:		
134,435,351 (2001: 131,965,352) ordinary shares of 5p each	**6.7**	6.6

Movement in ordinary shares during the year	£m	Number of shares
At 1 January 2002	6.6	131,965,352
Exercise of share options	–	196,219
West Midlands Travel Limited (WMT) appropriation	0.1	2,273,780
At 31 December 2002	**6.7**	**134,435,351**

(a) Option schemes

At 31 December 2002 options to purchase ordinary shares had been granted to and not exercised by participants of National Express Group PLC (NEX) share option schemes as follows:

	Number of shares 2002	Number of shares 2001
Executive Share Option Scheme	**4,423,519**	3,710,090
Savings Related Share Option Scheme	**3,905,839**	2,141,166
WMT Share Option Scheme 1991		
(holders of WMT options who accepted the NEX Replacement Option Offer)	**3,240**	3,240
WMT Long Service Option Scheme (available to WMT employees who served 25 years)	**564,390**	622,580

(b) Employee Benefit Trust (the Trust)

During the year the Trust purchased 989,676 shares on behalf of NEX share schemes. The Trust holds 1,776,911 shares (2001: 805,150 shares) on behalf of three NEX share schemes. The dividends payable on these shares have been waived. At 31 December 2002, the shares held under these schemes were as follows:

	Number of shares 2002	Number of shares 2001
WMT Long Service Option Scheme	**630,807**	648,607
Long Term Share Incentive Scheme	**–**	6,543
Executive Share Option Scheme	**–**	150,000
Savings Related Share Option Scheme	**1,146,104**	–

Details of the exercise prices and conditions of exercise of NEX option schemes are contained in the Report on Directors' remuneration on pages 46 to 49.

(c) WMT: Approved Profit Sharing Schemes (APSS)

The APSS exists for the benefit of WMT employees. The Trustee of the APSS has the right to acquire WMT shares and to convert them into NEX shares for appropriation to individual beneficiaries over the remaining life of the scheme. These rights have been accounted for as part of the consideration paid for WMT in 1995 and are dealt with in the share capital to be issued reserve. At the end of the year there were 4,329,953 (2001: 6,603,733) NEX shares held for the benefit of the Trustee which remained unissued.

Details of the various WMT schemes were set out in the Listing Particulars issued on 28 March 1995, copies of which are available from the Company Secretary's office.

24 Called-up share capital continued

(d) Qualifying Employee Share Ownership Trust (QUEST)

At the year end the QUEST held 551,543 shares (2001: 951,196 shares) on behalf of NEX share schemes. The market value of these shares at that date was £2.2m (2001: £5.4m). During the year, options over 399,653 (2001: 157,460) shares were exercised by employees. All rights to dividends on these shares held by the QUEST have been waived. The trustee of the QUEST is National Express QUEST Trustees Limited, which is a wholly-owned subsidiary of the Group.

(e) Prism Rail PLC Profit Sharing Scheme (the Prism Scheme)

The Prism Scheme exists for the benefit of the employees of the four train operating companies formerly owned by Prism. One appropriation made in 2000 remains to vest to employees under the scheme. There are a total of 30,630 (2001: 59,270) NEX shares held in trust for this appropriation. No further awards will be made under the Prism Scheme.

25 Reserves

Group	Share premium £m	Share capital to be issued £m	Merger reserve £m	Capital reserve £m	Revaluation reserve £m	Profit and loss account* £m	Total* £m
At 31 December 2001 as previously reported	43.7	0.3	15.4	–	0.8	341.8	402.0
Prior year adjustment (note 1)	–	–	–	–	–	(11.8)	(11.8)
	43.7	0.3	15.4	–	0.8	330.0	390.2
Shares issued during the year	1.0	(0.1)	–	–	–	–	0.9
Goodwill realised	–	–	–	0.4	–	–	0.4
Exchange differences	–	–	–	–	–	(2.7)	(2.7)
Retained loss for the year	–	–	–	–	–	(137.7)	(137.7)
At 31 December 2002	**44.7**	**0.2**	**15.4**	**0.4**	**0.8**	**189.6**	**251.1**

* Restated for change in accounting policy for deferred tax (see note 1).

As at 31 December 2002 and 31 December 2001, all of the revaluation reserve related to non-investment properties.

As at 31 December 2002, the cumulative amount of goodwill on acquisition made prior to 1 January 1998 which has been set off against the capital reserve and the profit and loss reserve is £281.4m (2001: £281.8m).

Company	Share premium £m	Share capital to be issued £m	Capital reserve £m	Profit and loss account £m	Total £m
At 1 January 2002	43.7	0.3	26.4	362.3	432.7
Shares issued during the year	1.0	(0.1)	–	–	0.9
Exchange differences	–	–	–	(5.9)	(5.9)
Retained loss for the year	–	–	–	(122.2)	(122.2)
At 31 December 2002	**44.7**	**0.2**	**26.4**	**234.2**	**305.5**

The profit and loss reserve for the Company includes £44.5m (2001: £109.5m) that is non-distributable.

26 Capital commitments

Group	2002 £m	2001 £m
Contracted	**7.2**	34.5
Authorised but not contracted	**0.5**	–

27 Other financial commitments

The Trains division has contracts with Network Rail Infrastructure Limited (formerly known as Railtrack plc) for access to the railway infrastructure (tracks, stations and depots). It also has contracts under which rolling stock is leased. Commitments for payments in the next year under these contracts are shown below:

Trains division commitments	Land and buildings 2002 £m	Land and buildings 2001 £m	Other 2002 £m	Other 2001 £m
Commitments which expire:				
Within one year	**5.3**	1.6	**0.3**	0.8
Between two and five years	**488.4**	469.8	**215.7**	199.2
Over five years	**25.8**	0.7	**46.1**	23.0
	519.5	472.1	**262.1**	223.0

Commitments for payments over the next year for the other divisions are shown below:

Other divisions' commitments	Land and buildings 2002 £m	Land and buildings 2001 £m	Other 2002 £m	Other 2001 £m
Operating leases which expire:				
Within one year	**3.3**	1.6	**0.4**	1.1
Between two and five years	**3.9**	5.2	**1.7**	1.8
Over five years	**1.2**	18.2	**5.1**	5.5
	8.4	25.0	**7.2**	8.4

Company	Land and buildings 2002 £m	Land and buildings 2001 £m
Operating leases which expire:		
Between two and five years	–	0.2
Over five years	0.5	0.5
	0.5	0.7

28 Retirement benefits

Under the transitional arrangements for the implementation of FRS 17, "Retirement Benefits", the Group continues to account for pensions in accordance with SSAP 24, although the additional disclosures required by FRS 17 are provided below. The pension charge for the year amounted to £16.1m (2001: £12.1m) of which £8.1m (2001: £7.1m) related to overseas schemes. Outstanding contributions at the year end amounted to £3.1m (2001: £0.9m). Prepaid amounts at the year end amounted to £2.6m (2001: £2.2m).

(a) Bus, Coach and Train divisions

The Bus and Coach divisions operate both funded defined benefit schemes and a defined contribution scheme. The majority of employees of the ten 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.

A summary of the latest full actuarial valuations, and assumptions made, is as follows:

Date of actuarial valuation	Buses – Tayside 31 March 2002	Buses – Travel West Midlands 31 March 2001	Coaches 5 April 2001	Trains (long-term) 31 December 2001	Trains (short-term) 31 December 2001
Actuarial method used	Attained age	Attained age	Projected unit	Projected unit	Projected unit
Rate of investment returns per annum	5.4%	5.6%–6.5%	5.5%–6.5%	5.5%–6.3%	5.5%–6.3%
Increase in earnings per annum	4.1%	4.0%	4.3%	4.0%	4.0%
Scheme assets taken at market value	£36.2m	£352.1m	£13.8m	£128.7m	£555.8m
Funding level	107%	119%	67%	89%–108%	94%–109%

A lump sum of £5.0m was paid into the coaches scheme on 11 March 2003 in order to improve the funding position. Future contributions will be adjusted accordingly to eliminate any actuarially calculated funding shortfalls. The range of funding levels for Trains reflects the range of funding levels in the various sections of the RPS.

(b) North America bus and Australia divisions

Subsidiaries in North America contribute to a number of defined contribution plans.

The Australia subsidiaries contribute to a number of pension schemes providing benefits both on a defined benefit and defined contribution basis. The principal defined benefit schemes were within the Australia trains division for 2001 and 2002. They are State run and comprise a large number of participating companies which are not controlled by the Group. In accordance with the franchise agreements, the Group is not responsible for any shortfall in funding prior to the date when the franchises were awarded. Since the exit of the Group from the Australia trains division on 23 December 2002, no further liability exists in respect of these schemes.

(c) FRS 17, "Retirement Benefits"

The Accounting Standards Board (ASB) has deferred the full mandatory adoption of FRS 17 following an announcement by the International Accounting Standards Board that it is to review IAS 19, the current international accounting standard for retirement benefits. Currently, FRS 17 has to be applied to disclosures only. This is the second year that disclosures have been made for the Group under FRS 17, and this year extends to performance information for the first time.

The additional disclosures required by FRS 17 during the transitional period for the Bus, Coach and Train divisions' defined benefit schemes are set out below. They are based on the most recent actuarial valuations disclosed above, which have been updated by independent professionally qualified actuaries to take account of the requirements of FRS 17. In respect of the Australia State-run multi-employer schemes for the train companies, the Group has been unable to identify its share of underlying assets and liabilities in these schemes on a consistent and reasonable basis, and therefore has treated them as if they were defined contribution schemes.

The six UK train franchises (ScotRail Railways Limited, Central Trains Limited, Silverlink Train Services Limited, Wales and West Passenger Trains Limited, Cardiff Railway Company Limited and West Anglia Great Northern Railway Limited) which expire in 2004 are shown separately as short term in the disclosures below.

28 Retirement benefits continued

	Buses 2002	Coaches 2002	Trains (long and short-term) 2002	Buses 2001	Coaches 2001	Trains (long and short-term) 2001
Rate of increase in salaries	**3.3%**	**3.3%**	**3.8%**	4.0%	4.0%	4.0%
Rate of increase of pensions	**2.3%**	**2.7%**	**2.3%**	2.5%	2.5%	2.5%
Discount rate	**5.8%**	**5.8%**	**5.8%**	6.0%	6.0%	6.0%
Inflation assumption	**2.3%**	**2.3%**	**2.3%**	2.5%	2.5%	2.5%

Had the Group adopted FRS 17 early, the amounts that would have been charged to the Group profit and loss account and Group statement of total recognised gains and losses for the year ended 31 December 2002 are set out below:

Group profit and loss account	Buses 2002 £m	Coaches 2002 £m	Trains (long-term) 2002 £m	Trains (short-term) 2002 £m	Other 2002* £m	Total 2002 £m
Amounts charged to operating profit:						
Current service cost	**(6.1)**	**(1.3)**	**(5.7)**	**(22.8)**	**(9.3)**	**(45.2)**
Past service cost	**(0.2)**	**–**	**–**	**–**	**–**	**(0.2)**
Charge to operating profit	**(6.3)**	**(1.3)**	**(5.7)**	**(22.8)**	**(9.3)**	**(45.4)**
Amounts (charged)/credited to finance income:						
Expected return on pension scheme assets	**25.9**	**1.1**	**6.0**	**25.7**	**–**	**58.7**
Interest on pension liabilities	**(18.5)**	**(1.3)**	**(4.4)**	**(18.6)**	**–**	**(42.8)**
Net credit/(charge) to finance income	**7.4**	**(0.2)**	**1.6**	**7.1**	**–**	**15.9**
Total credit/(charge) to profit and loss account	**1.1**	**(1.5)**	**(4.1)**	**(15.7)**	**(9.3)**	**(29.5)**

* Included in “Other” in the table above are the Australia train schemes, and other UK, North America bus and Australia bus defined contribution schemes.

Group statement of total recognised gains and losses	% scheme assets/(liabilities) Buses 2002	Coaches 2002	Trains (long-term) 2002	Trains (short-term) 2002	Buses 2002 £m	Coaches 2002 £m	Trains (long-term) 2002 £m	Trains (short-term) 2002 £m	Total 2002 £m
Actual return less expected return on pension scheme assets	**24%**	**29%**	**19%**	**12%**	**(70.7)**	**(3.8)**	**(20.6)**	**(54.2)**	**(149.3)**
Experience gains/(losses) arising on the pension scheme liabilities	**1%**	**1%**	**–**	**3%**	**4.4**	**0.2**	**(0.5)**	**(15.2)**	**(11.1)**
Changes in assumptions relating to the present value of the scheme liabilities	**2%**	**2%**	**–**	**–**	**7.0**	**0.4**	**–**	**–**	**7.4**
Actuarial loss	**19%**	**14%**	**18%**	**14%**	**(59.3)**	**(3.2)**	**(21.1)**	**(69.4)**	**(153.0)**

Had the Group adopted FRS 17 in full for 2002, the additional pension charge in the Group profit and loss account would be as follows:

Comparison between SSAP 24 and FRS 17	£m
FRS 17 profit and loss charge – including unfunded pension and post-retirement health plans	29.5
SSAP 24 profit and loss charge – including unfunded pension and post-retirement health plans	16.1
Difference	13.4

28 Retirement benefits continued

Movement in the surplus in the year

	Buses £m	Coaches £m	Trains (long-term) £m	Trains (short-term) £m	Total £m
Surplus/(deficit) in schemes at 1 January 2002	39.4	(6.7)	13.9	39.1	85.7
Current service cost	(6.1)	(1.3)	(5.7)	(22.8)	(35.9)
Past service cost	(0.2)	–	–	–	(0.2)
Cash contributions	0.1	1.9	1.7	1.8	5.5
Finance income/(charge)	7.4	(0.2)	1.6	7.1	15.9
Actuarial loss recognised in statement of total recognised gains and losses	(59.3)	(3.2)	(21.1)	(69.4)	(153.0)
Deficit in schemes at 31 December 2002	**(18.7)**	**(9.5)**	**(9.6)**	**(44.2)**	**(82.0)**

The assets in the schemes and the expected long-term rate of return were:

	Rate of return 2002	Buses 2002 £m	Coaches 2002 £m	Trains (long-term) 2002 £m	Trains (short-term) 2002 £m	Total 2002 £m
Equities	**8.5%**	**189.3**	**8.4**	**88.8**	**370.1**	**656.6**
Bonds	**4.7%**	**96.3**	**4.7**	**9.8**	**48.7**	**159.5**
Property	**7.0%**	**–**	**–**	**7.5**	**33.8**	**41.3**
Other	**4.0%**	**10.5**	**–**	**0.1**	**0.9**	**11.5**
Total market value of assets		**296.1**	**13.1**	**106.2**	**453.5**	**868.9**

	Rate of return 2001	Buses 2001 £m	Coaches 2001 £m	Trains (long-term) 2001 £m	Trains (short-term) 2001 £m	Total 2001 £m
Equities	8.0%	258.4	11.2	109.0	468.9	847.5
Bonds	5.4%	91.6	2.0	10.9	54.6	159.1
Property	6.7%	–	0.7	7.2	31.9	39.8
Other	5.0%	6.8	–	1.6	0.4	8.8
Total market value of assets		356.8	13.9	128.7	555.8	1,055.2

The 2001 disclosures for the market value of assets and liabilities in the Train RPS sections have been updated for the final 31 December 2001 actuarial valuation, published 31 December 2002.

The following amounts at 31 December 2002 and 31 December 2001 were measured in accordance with the requirement of FRS 17.

	Buses 2002 £m	Coaches 2002 £m	Trains (long-term) 2002 £m	Trains (short-term) 2002 £m	Total 2002 £m
Total market value of assets	**296.1**	**13.1**	**106.2**	**453.5**	**868.9**
Present value of scheme liabilities	**(314.8)**	**(22.6)**	**(115.8)**	**(497.7)**	**(950.9)**
Deficit in the schemes	**(18.7)**	**(9.5)**	**(9.6)**	**(44.2)**	**(82.0)**
Irrecoverable surplus	**–**	**–**	**–**	**–**	**–**
Pension liability	**(18.7)**	**(9.5)**	**(9.6)**	**(44.2)**	**(82.0)**
Related deferred tax asset	**5.6**	**2.9**	**2.9**	**13.2**	**24.6**
Net pension liability	**(13.1)**	**(6.6)**	**(6.7)**	**(31.0)**	**(57.4)**

28 Retirement benefits continued

	Buses 2001 £m	Coaches 2001 £m	Trains (long-term) 2001 £m	Trains (short-term) 2001 £m	Total 2001 £m
Total market value of assets	356.8	13.9	128.7	555.8	1,055.2
Present value of scheme liabilities	(317.4)	(20.6)	(114.8)	(486.3)	(939.1)
Surplus/(deficit) in the schemes	39.4	(6.7)	13.9	69.5	116.1
Irrecoverable surplus	–	–	–	(30.4)	(30.4)
Pension asset/(liability)	39.4	(6.7)	13.9	39.1	85.7
Related deferred tax (liability)/asset	(11.8)	2.0	(4.2)	(11.7)	(25.7)
Net pension asset/(liability)	27.6	(4.7)	9.7	27.4	60.0

If FRS 17 had been adopted in these accounts, the Group's net assets and profit and loss reserve at 31 December would have been as follows:

	2002 £m	2001 £m*
Net assets per Group balance sheet	**262.6**	402.1
Remove SSAP 24 liabilities/(assets)	**0.5**	(1.3)
Pension (liability)/asset under FRS 17 (net of deferred tax)	**(57.4)**	60.0
Net assets including pension (liability)/asset under FRS 17	**205.7**	460.8
Profit and loss reserve per Group balance sheet	**189.6**	330.0
Remove SSAP 24 liabilities/(assets)	**0.5**	(1.3)
Pension reserve under FRS 17 (net of deferred tax)	**(57.4)**	60.0
Profit and loss reserve including pension reserve under FRS 17	**132.7**	388.7

* Restated for change in accounting policy for deferred tax (see note 1).

29 Related party transactions

In respect of services provided, the Group received £6.4m (2001: £6.1m) from Altram LRT Limited (Altram), an associate. Included in debtors due from associates is £3.7m (2001: £2.0m) due from Altram and a loan of £1.0m (2001: £1.0m) due from Inter-Capital and Regional Rail Limited. Creditors due to associates are £0.1m (2001: £0.2m) due to Altram. Included in investments is a loan of £4.5m (2001: £4.5m) due to Altram.

30 Contingent liabilities

(a) Uncalled share capital and guarantees

The Company has amounts of uncalled share capital relating to three (2001: three) of its subsidiary undertakings. The amounts uncalled total £12.8m (2001: £12.8m) and are unlikely to be called in the near future. The Company has also guaranteed credit facilities totalling £85.9m (2001: £52.9m) of certain subsidiary undertakings, and issued a letter of credit for £9.9m.

(b) Bonds and letters of credit

In the ordinary course of business, the Group is required to issue counter-indemnities in support of its operations. As at 31 December 2002, these were UK train performance bonds £51.0m (2001: £51.0m), UK train season ticket bonds £51.1m (2001: £54.8m), other performance bonds £56.5m (2001: £75.0m) and letters of credit £41.5m (2001: £44.7m).

31 Cash flow statement

(a) Reconciliation of operating profit to net cash inflow from operating activities

	Continuing operations 2002 £m	Discontinued operations 2002 £m	Total 2002 £m	Continuing operations 2001* £m	Discontinued operations 2001* £m	Total 2001* £m
Group operating profit	**67.1**	**0.1**	**67.2**	22.0	10.1	32.1
Depreciation of tangible assets	**60.7**	**10.8**	**71.5**	52.7	7.9	60.6
Annual goodwill amortisation	**45.2**	**–**	**45.2**	42.2	–	42.2
Goodwill impairment	**13.5**	**–**	**13.5**	–	–	–
Increase in stocks	**(0.5)**	**(0.3)**	**(0.8)**	(1.1)	(0.3)	(1.4)
(Increase)/decrease in debtors	**(10.5)**	**5.7**	**(4.8)**	(53.9)	(1.0)	(54.9)
Increase/(decrease) in creditors	**44.8**	**(2.9)**	**41.9**	38.4	(7.0)	31.4
(Decrease)/increase in provisions	**(62.8)**	**5.2**	**(57.6)**	80.4	–	80.4
Other movements	**0.4**	**(1.0)**	**(0.6)**	(4.9)	–	(4.9)
Net cash inflow from operating activities	**157.9**	**17.6**	**175.5**	175.8	9.7	185.5

* Restated for change in accounting policy for deferred tax (see note 1).

The net cash flow from operating activities includes outflows of £71.0m (2001: £15.6m) from continuing operations which related to exceptional costs, and £nil (2001: £0.4m) from discontinued operations.

(b) Reconciliation of net cash flow to movement in net debt (note 31(c))

	2002 £m	2001 £m
(Decrease)/increase in cash in the year	**(46.8)**	43.3
Cash (inflow)/outflow from movement in debt and lease financing	**(51.4)**	220.0
Cash outflow/(inflow) from movement in liquid resources	**50.4**	(4.5)
Change in net debt resulting from cash flows	**(47.8)**	258.8
Loans and finance leases of subsidiaries acquired in year	**–**	(1.4)
Other non cash movements in net debt	**28.2**	(15.8)
Change in net debt resulting from non cash flows	**28.2**	(17.2)
Movement in net debt in the year	**(19.6)**	241.6
Net debt at 1 January	**(315.0)**	(556.6)
Net debt at 31 December	**(334.6)**	(315.0)

Other non cash movements in net debt primarily represent exchange movements.

31 Cash flow statement continued

(c) Analysis of changes in net debt

	At 1 January 2002 £m	Cash flow £m	Other movements £m	At 31 December 2002 £m
Cash	29.7	(12.3)	(0.6)	**16.8**
Overnight deposits	54.5	(35.0)	–	**19.5**
Liquid resources – other short-term deposits	8.1	50.4	(1.1)	**57.4**
Cash at bank and in hand	92.3	3.1	(1.7)	**93.7**
Bank overdrafts	(0.5)	0.5	–	**–**
Debt due within one year:				
Loan notes	(10.0)	0.9	–	**(9.1)**
Bank and other loans	(3.7)	3.7	(53.2)	**(53.2)**
	(13.7)	4.6	(53.2)	**(62.3)**
Debt due after one year:				
Bank and other loans	(356.0)	(35.7)	83.7	**(308.0)**
	(356.0)	(35.7)	83.7	**(308.0)**
Finance lease obligations	(37.1)	(20.3)	(0.6)	**(58.0)**
Net debt	(315.0)	(47.8)	28.2	**(334.6)**

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

32 Derivatives and other financial instruments

Treasury policy and the use of financial instruments are discussed in the Finance Director's report on pages 36 to 39.

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

(a) Interest rate risk and currency profile of financial liabilities

After taking into account interest rate swaps, the interest rate and currency profile of the Group's financial liabilities at 31 December 2002 was as follows:

	Borrowings at floating rates 2002 £m	Borrowings at fixed rates 2002 £m	Total borrowings 2002 £m	Non interest bearing liabilities 2002 £m	Total 2002 £m	Weighted average fixed interest rate 2002 %	Weighted average period for which rate is fixed 2002 Years	Weighted average period until maturity for non interest bearing liabilities 2002 Years
Sterling	**53.8**	**1.4**	**55.2**	**19.0**	**74.2**	**8.6**	**1.2**	**2.5**
US dollars	**26.3**	**251.9**	**278.2**	**16.0**	**294.2**	**6.4**	**6.9**	**2.2**
Australian dollars	**13.0**	**50.5**	**63.5**	**–**	**63.5**	**6.7**	**2.7**	**–**
Canadian dollars	**31.4**	**–**	**31.4**	**–**	**31.4**	**–**	**–**	**–**
	124.5	**303.8**	**428.3**	**35.0**	**463.3**	**6.5**	**6.2**	**2.4**

32 Derivatives and other financial instruments continued

	Borrowings at floating rates 2001 £m	Borrowings at fixed rates 2001 £m	Total borrowings 2001 £m	Non interest bearing liabilities 2001 £m	Total 2001 £m	Weighted average fixed interest rate 2001 %	Weighted average period for which rate is fixed 2001 Years	Weighted average period until maturity for non interest bearing liabilities 2001 Years
Sterling	10.5	26.0	36.5	10.2	46.7	5.1	1.0	2.6
US dollars	29.2	274.8	304.0	17.6	321.6	6.0	3.9	2.6
Australian dollars	13.6	53.2	66.8	4.6	71.4	6.8	3.7	2.1
	53.3	354.0	407.3	32.4	439.7	6.1	3.7	2.5

Included within the US dollar fixed rate financial liabilities is an interest rate swap for £124.2m (US$200m), currently fixed at 6.25% until 8 January 2009, which will revert to a floating rate should the US dollar six-month London Interbank Offered Rate (LIBOR) exceed 7%. The benchmark for floating rate financial liabilities is the LIBOR of the relevant currency.

Financial liabilities on which no interest is paid comprise accruals and deferred income of £4.0m (2001: £8.1m) falling due after more than one year and provisions of £31.0m (2001: £24.3m).

(b) Analysis of financial liabilities by type and currency

Financial liabilities on which interest is paid comprise:

	Loan notes 2002 £m	Bank loans 2002 £m	Bank overdrafts 2002 £m	Finance leases 2002 £m	Total 2002 £m	Loan notes 2001 £m	Bank loans 2001 £m	Bank overdrafts 2001 £m	Finance leases 2001 £m	Total 2001 £m
Sterling	**9.1**	**–**	**–**	**46.1**	**55.2**	10.0	–	0.5	26.0	36.5
US dollars	**–**	**274.8**	**–**	**3.4**	**278.2**	–	303.9	0.1	–	304.0
Australian dollars	**–**	**55.0**	**–**	**8.5**	**63.5**	–	55.7	–	11.1	66.8
Canadian dollars	**–**	**31.4**	**–**	**–**	**31.4**	–	–	–	–	–
	9.1	**361.2**	**–**	**58.0**	**428.3**	10.0	359.6	0.6	37.1	407.3

(c) Maturity of financial liabilities

The maturity profile of the Group's financial liabilities at 31 December 2002 was as follows:

	2002 £m	2001 £m
Expiring within one year	**72.3**	20.5
Expiring within one to two years	**336.4**	92.2
Expiring within two to five years	**44.9**	321.9
Expiring in more than five years	**9.7**	5.1
	463.3	439.7

On 28 February 2003 the Group facilities were replaced with a new £600m revolving credit facility comprising a £400m five-year facility and a £200m 364-day facility with a one-year term out option.

32 Derivatives and other financial instruments continued

(d) Financial assets by currency

The Group's financial assets on which interest is receivable comprise cash at bank and in hand, including deposits, amounting to £93.7m (2001: £92.3m), which earn interest at floating rates. Cash deposits are placed on the money markets at commercial rates linked to the LIBOR of the relevant currency. The currency profile as at 31 December 2002 is as follows:

	At floating rates 2002 £m	Financial assets on which no interest is received 2002 £m	Total 2002 £m	Weighted average period until maturity for non interest bearing financial assets 2002 Years	At floating rates 2001 £m	Financial assets on which no interest is received 2001 £m	Total 2001 £m	Weighted average period until maturity for non interest bearing financial assets 2001 Years
Sterling	**64.6**	**19.3**	**65.4**	**2.7**	75.7	25.6	101.3	1.9
US dollars	**23.1**	**0.8**	**42.4**	**2.3**	5.7	0.5	6.2	1.5
Australian dollars	**4.0**	**–**	**4.0**	**–**	10.9	2.0	12.9	1.5
Canadian dollars	**2.0**	**–**	**2.0**	**–**	–	–	–	–
	93.7	**20.1**	**113.8**	**2.6**	92.3	28.1	120.4	1.8

Financial assets on which no interest is receivable total £20.1m (2001: £28.1m) and comprise other investments of £15.1m (2001: £16.8m), other debtors and prepayments greater than one year of £4.9m (2001: £6.8m) and loans to associates of £4.5m (2001: £4.5m) offset by interest in provisions of associates of £4.4m (2001: £nil).

(e) Currency exposures

As at 31 December 2001 and 31 December 2002 the Group did not have any material net currency transactional exposures.

(f) Undrawn committed borrowing facilities

At 31 December 2002 the Group had undrawn and unused committed borrowings as follows:

	2002 £m	2001 £m
Expiring within one to two years	**218.5**	–
Expiring in more than two years	**–**	250.0

(g) Fair values

The book values and fair values of all the Group's financial instruments at 31 December 2002 are set out below:

	Book value 2002 £m	Fair value 2002 £m	Book value 2001 £m	Fair value 2001 £m
Cash at bank and in hand	**93.7**	**93.7**	92.3	92.3
Other financial assets	**20.1**	**20.1**	28.1	28.1
Loans and overdrafts	**(370.3)**	**(370.3)**	(370.2)	(370.2)
Finance lease obligations	**(58.0)**	**(58.0)**	(37.1)	(37.1)
Forward foreign currency contracts	**–**	**–**	–	(0.3)
Interest rate swaps	**–**	**(48.8)**	–	(26.2)
Fuel price swaps	**–**	**(0.2)**	–	(6.7)
Other financial liabilities	**(35.0)**	**(35.0)**	(32.4)	(32.4)

The finance leases have been valued by a comparison of the portfolio interest rate against the expected rates at which the Group could borrow money at the year end over the same period. There was no significant difference in value.

The interest rate swaps have been valued externally by the banks by comparison with the market interest rates at the year end. The fuel price swaps have been valued externally by the banks by comparison with the market fuel prices at the year end.

32 Derivatives and other financial instruments continued

(h) Hedge accounting

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

	Net unrecognised losses 2002 £m	Net unrecognised losses 2001 £m
Unrecognised losses on hedges at the start of the year	**33.2**	22.2
Losses arising in previous years that were recognised in year	**(4.2)**	(11.1)
Losses not recognised in the year arising before the start of the year	**29.0**	11.1
Losses arising in the year that were not recognised in the year	**20.0**	22.1
Unrecognised losses on hedges at the end of the year	**49.0**	33.2
Of which:		
Losses expected to be recognised within one year	**8.5**	8.6
Losses expected to be recognised after one year	**40.5**	24.6
	49.0	33.2

(i) Market price risk – commodities

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

Ten-year summary

Year ended 31 December	2002† £m	2001† £m	2000 £m	1999 £m	1998 £m	1997 £m	1996 £m	1995 £m	1994 £m	1993 £m
Turnover	**2,572.3**	2,464.2	2,002.6	1,476.7	1,322.4	1,133.5	482.5	317.7	170.0	138.7
Operating profit before goodwill and exceptional items	**130.9**	157.8	155.1	113.2	95.8	83.6	66.1	46.9	16.3	9.3
Operating profit	**67.2**	32.1	101.8	95.2	84.9	66.1	62.3	44.0	16.3	9.3
Share of operating losses of associated undertakings	**(6.6)**	(1.9)	(1.8)	–	(0.2)	–	–	–	–	–
Profit on sale of investments	**–**	–	–	0.2	5.4	–	–	–	–	–
Release/(creation) of provision against fixed asset investment	**–**	–	–	–	4.8	(10.8)	–	–	–	–
(Loss)/profit on closure/sale of businesses	**(126.1)**	112.0	(1.0)	–	–	–	–	–	–	0.2
Net interest (payable)/receivable	**(20.1)**	(26.7)	(34.0)	(5.8)	2.1	(0.5)	(2.2)	(2.5)	(1.1)	(0.2)
(Loss)/profit on ordinary activities before taxation	**(85.6)**	115.5	65.0	89.6	97.0	54.8	60.1	41.5	15.2	9.3
Tax on profit on ordinary activities	**(20.3)**	(1.2)	(12.9)	(22.8)	(22.8)	(18.8)	(18.7)	(14.0)	(5.0)	(3.0)
Minority interest	**0.6**	0.1	(0.7)	(0.2)	–	–	–	–	–	–
Dividends	**(32.4)**	(28.6)	(26.3)	(21.0)	(18.1)	(14.6)	(11.5)	(9.6)	(3.5)	(3.0)
Retained (loss)/profit	**(137.7)**	85.8	25.1	45.6	56.1	21.4	29.9	17.9	6.7	3.3
Statistics										
Basic (loss)/earnings per share	**(80.0p)**	88.4p	43.4p	58.3p	66.5p	34.2p	42.9p	35.5p	25.5p	16.7p
Normalised diluted earnings per share*	**60.3p**	66.0p	57.7p	52.2p	47.1p	38.3p	26.6p	19.7p	12.6p	11.7p
Dividends per ordinary share	**24.5p**	22.0p	20.7p	18.2p	16.0p	13.5p	11.5p	10.0p	8.7p	7.5p
Net assets										
Intangible fixed assets	**467.7**	508.3	523.7	242.6	9.1	–	–	–	–	–
Tangible fixed assets and investments	**445.8**	539.2	680.9	518.8	300.6	249.5	221.0	201.3	71.2	66.4
Net current liabilities	**(186.5)**	(120.8)	(349.5)	(62.5)	(33.6)	(61.3)	(41.1)	(34.1)	(9.1)	(6.4)
Creditors falling due after one year	**(360.0)**	(405.1)	(458.2)	(408.8)	(50.4)	(30.1)	(23.8)	(51.5)	(16.5)	(18.7)
Provisions for liabilities and charges	**(104.4)**	(119.5)	(19.6)	(23.1)	(13.8)	(12.0)	(10.1)	(9.7)	(2.1)	(3.3)
	262.6	402.1	377.3	267.0	211.9	146.1	146.0	106.0	43.5	38.0
Capital and reserves										
Share capital and share premium	**51.4**	50.3	47.0	41.5	36.1	30.5	28.6	28.2	6.1	6.1
Other reserves	**206.4**	346.5	325.8	221.3	175.8	115.6	117.4	77.8	37.4	31.9
Equity shareholders' funds	**257.8**	396.8	372.8	262.8	211.9	146.1	146.0	106.0	43.5	38.0
Equity minority interest	**4.8**	5.3	4.5	4.2	–	–	–	–	–	–
	262.6	402.1	377.3	267.0	211.9	146.1	146.0	106.0	43.5	38.0
Net (debt)/funds										
Cash at bank and in hand	**93.7**	92.3	53.8	101.0	94.2	55.9	30.0	39.5	18.9	15.7
Loan notes	**(9.1)**	(10.0)	(10.3)	(10.3)	(10.6)	(14.2)	(12.5)	(15.5)	(3.2)	(4.3)
Bank and other loans	**(361.2)**	(359.7)	(585.4)	(383.4)	(42.0)	(13.1)	(10.0)	(43.9)	(15.5)	(17.5)
Bank overdrafts	**–**	(0.5)	(0.4)	(4.5)	(2.0)	(3.1)	(1.2)	(5.4)	–	–
Finance lease obligations	**(58.0)**	(37.1)	(14.3)	(18.7)	(4.5)	(7.5)	(9.4)	(12.5)	(2.6)	(2.5)
	(334.6)	(315.0)	(556.6)	(315.9)	35.1	18.0	(3.1)	(37.8)	(2.4)	(8.6)
Net gearing	**127%**	78%	148%	118%	(17)%	(12)%	2%	36%	6%	23%

1993 represents the first full year of trading following flotation.

† 2002 and 2001 have been restated for a change in accounting policy for deferred tax.

* Normalised diluted earnings per share figures have been restated to exclude earnings from discontinued operations.

Shareholder information

Shareholder enquiries
For additional copies of the Annual Report and Accounts or further information about the Group, please contact the Company Secretary at:

National Express Group PLC
75 Davies Street
London
W1K 5HT
Tel: +44 (0)20 7529 2000
Fax: +44 (0)20 7529 2100

Information about the Group including the Report and Accounts and the Group's Corporate Responsibility Report is available on the internet at www.nationalexpressgroup.com

Registrar
Administrative enquiries concerning shareholdings in National Express Group PLC, such as the loss of a share certificate, dividend payments or a change of address, should be directed, in the first instance, to the Registrar at Lloyds TSB Registrars Scotland, PO Box 28448, Edinburgh EH4 1WQ. Correspondence should refer to National Express Group PLC and state clearly the registered name and address of the shareholder. If you have received more than one copy of this Annual Report there may be multiple accounts in your name on the share register. To rectify this and save the Company unnecessary expenditure, please write to the Registrar, giving details of the accounts concerned and instructions as to how they should be amalgamated.

Payment of dividends to mandated accounts
Shareholders who do not currently have their dividends paid directly to a bank or building society account, and who wish to do so, should complete a mandate form obtainable from the Registrar, at the address shown above. Tax vouchers are sent to the shareholder's registered address under this arrangement unless requested otherwise.

Shareholder electronic communications
Log on to www.shareview.co.uk if you would like to:
- check the balance of your shareholding;
- register your e-mail address so that future shareholder information can be sent to you electronically; or
- submit your vote on-line prior to a general meeting.

Unclaimed Assets Register
The Company participates in the Unclaimed Assets Register (UAR) which provides a search facility for shareholdings and other financial assets that may have been forgotten. For further information contact UAR, Lloyds Chambers, 1 Portsoken Street, London E1 8DF. Tel: 0870 241 1713 or visit www.uar.co.uk.

Analysis of ordinary shareholdings at 10 March 2003		Number of accounts	% of total number of accounts	Number of shares 000	% of ordinary capital
By size of holding					
1 –	500	8,797	54	1,645	1
501 –	1,000	2,520	15	1,861	1
1,001 –	5,000	3,534	22	8,249	6
5,001 –	50,000	1,366	8	13,588	10
50,001–	1,000,000	180	1	47,823	36
Over	1,000,000	22	–	61,270	46
		16,419	**100**	**134,436**	**100**
By investor type					
Individuals		15,129	92	21,500	16
Institutional investors		1,188	7	102,424	76
Other corporate investors		102	1	10,512	8
		16,419	100	134,436	100

Dividends and financial calendar

	Event	Date
Dividends	Final dividend record date	22 April 2003
	Final dividend payment date	16 May 2003
	Interim dividend record date	September 2003
	Interim dividend payment date	October 2003
	Final dividend record date	April 2004
	Final dividend payment date	May 2004
Financial calendar	Annual General Meeting	14 May 2003
	Interim results announced	September 2003
	Preliminary results announced	March 2004
	Annual Report circulated	April 2004
	Annual General Meeting	April/May 2004

Corporate information

Secretary and registered office

A J McDonald
National Express Group PLC
75 Davies Street
London W1K 5HT
Tel: +44 (0)20 7529 2000
Fax: +44 (0)20 7529 2100
e-mail: info@natex.co.uk
www.nationalexpressgroup.com

Registered number

2590560

Registrar

Lloyds TSB Registrars Scotland
PO Box 28448
Finance House
Orchard Brae
Edinburgh EH4 1WQ
Shareholder helpline: 0870 601 5366

Principal bankers

HSBC Bank plc
8 Canada Square
London E14 5HQ

Royal Bank of Scotland
135 Bishopsgate
London EC2M 3UR

Corporate solicitors

Ashurst Morris Crisp
Broadwalk House
5 Appold Street
London EC2A 2HA

Stockbrokers

Merrill Lynch International Limited
Merrill Lynch Financial Centre
2 King Edward Street
London EC1A 1HQ

Dresdner Kleinwort Wasserstein
PO Box 560
20 Fenchurch Street
London EC3P 3DB

Auditors

Ernst & Young LLP
Becket House
1 Lambeth Palace Road
London SE1 7EU

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The report is printed on Arctic Matt, which is made from totally chlorine free (TCF) and elemental chlorine free (ECF) fibres. The paper is manufactured in Sweden at the Håfreströms AB Mill which is accredited to ISO 14001 and ISO 9001, and is also a member of the EMAS Eco-Management and Audit Scheme. The paper is recyclable and bio-degradable.