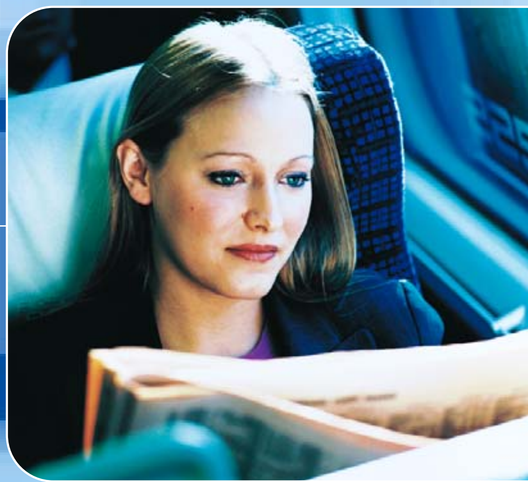
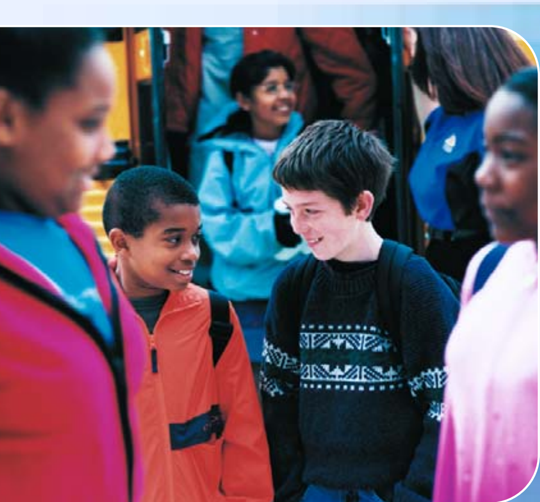
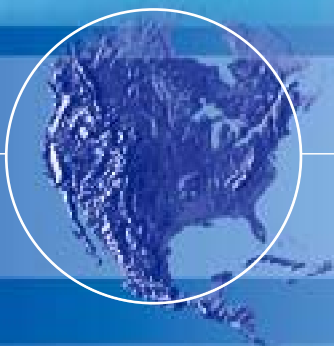
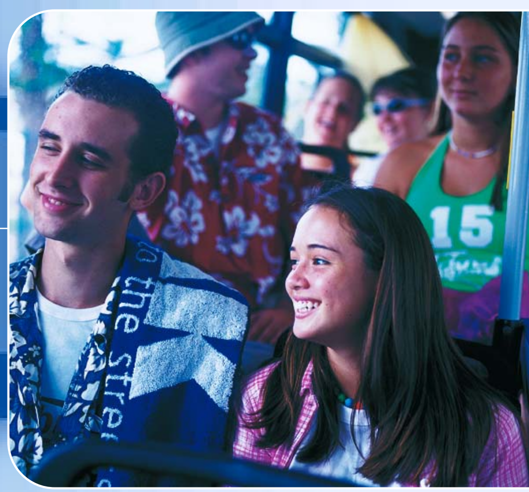
National Express Group







Annual Report 2001



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

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

We conduct our business to ensure that these communities benefit economically from our activities whilst also receiving quality local services.

Our 45,000 employees are committed to improving the quality, value for money and the safety of all our services.

We invest in all aspects of our 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 international public transport market.

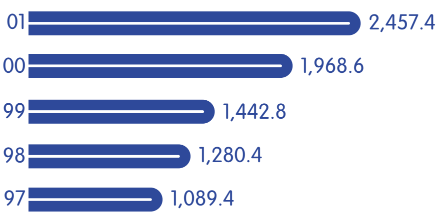
Operational highlights

- Sustained bus patronage and launch of two new Showcase routes in the Midlands
- Focus on restoring rail performance by working with Railtrack and industry parties
- UK train passenger numbers continue to be affected by network disruption
- £160m new train order for Midland Mainline signed in March 2002

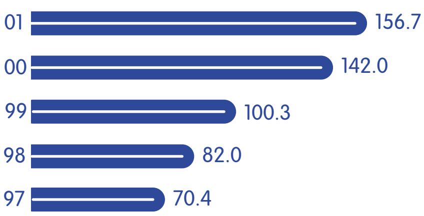
	Buses	Trains
Services	High frequency urban bus services operating primarily in Birmingham and across the West Midlands – representing the largest single area bus network in the UK outside London. Also operates the Midland Metro light-rail service.	Largest train operator in the UK. Provides a range of intercity, urban and rural passenger train services and a dedicated train maintenance operation.
Principal brands	Travel West Midlands, Travel Midland Metro, Travel Dundee	c2c, Caledonian Sleeper, Central Trains, Eurostar, Gatwick Express, Maintrain, Midland Mainline, Qjump, ScotRail, Silverlink, Stansted Express, WAGN, Wales & Borders, Wessex Trains

Continuing operations	Buses 2001	Buses 2000	Trains 2001	Trains 2000
Turnover (£m)	208.3	200.1	1,458.2	1,058.6
Operating profit (£m)	52.8	50.6	40.6	34.1
Operational fleet	1,930	2,086	968	959
Passenger journeys (m)	357	361	267	180
Employees	5,697	5,462	12,588	10,784

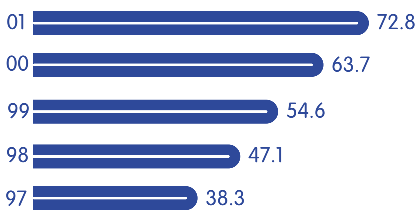
Turnover from continuing operations (£m)



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



Diluted earnings per share – normalised (p)



- Launch of e-ticketing by GoByCoach.com
- Continued growth in the USA
- Improvements in Australian train and tram punctuality and reliability
- Continuing to address high levels of fare evasion in Melbourne
- £93m capital investment across our businesses

Coaches

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

UK express coach services: GoByCoach.com, "Rapide" and "Shuttle"
AirLinks: Airbus, Flightlink, Jetlink, Heathrow Hotel hoppa, Railair, Speedlink
Eurolines: UK and The Netherlands

USA

One of the largest private operators of student transportation bus services, public transit bus services and paratransit services.

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

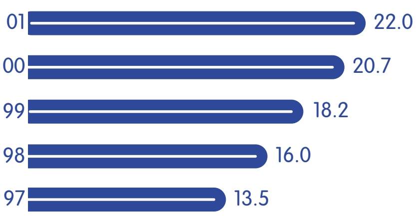
Australia

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

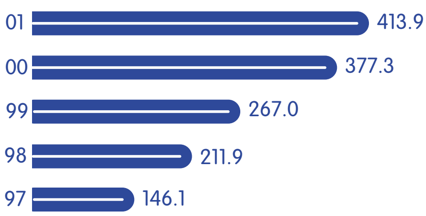
Buses: Blue Ribbon, Glenorie Bus Company, National Bus Company, Southern Coast Transit, Westbus
Trains and trams: M>Train, M>Tram, V/Line Passenger

Coaches 2001	Coaches 2000	USA 2001	USA 2000	Australia 2001	Australia 2000
181.3	186.8	401.7	301.6	207.9	221.5
10.6	11.3	39.3	32.7	13.4	13.3
347	376	11,544	11,150	1,725	1,765
22	22	286	243	209	215
2,047	2,007	19,648	16,635	4,478	3,998

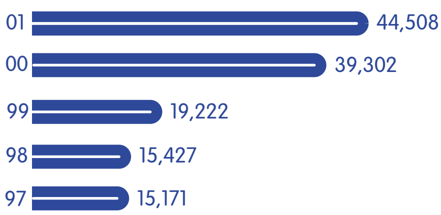
Dividends per share (p)



Net assets (£m)



Average number of employees



Highlights of the year

January

At the beginning of the year the first buses in the UK fitted with Euro III engines were introduced at Travel West Midlands. These buses are the cleanest in the UK and are fitted with revolutionary ecobusting particulate traps which help to keep exhaust emission levels to a minimum.

February

The growing popularity of booking tickets on the internet has encouraged us to open a telesales facility to support this channel. Alison Nimmo, Chief Executive of Sheffield One, opened a new high tech 27,000 sq ft call centre in Sheffield for our UK rail companies to provide telesales, customer service and co-ordinated customer contact handling.

March

We have spearheaded the introduction of a new portable ticketing system across the UK rail network. New ticketing units called Advantix Mobile, incorporating leading edge technology, will provide greater flexibility, efficiency and improved service for passengers and staff by providing latest ticketing and timetable information.

DURHAM
SCHOOL SERVICES

July

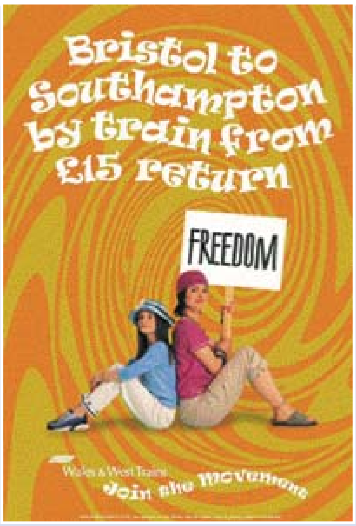
The Rt Hon John Spellar MP, Minister for Transport, opened our 30,000 sq ft customer contact centre for the coach division in Birmingham. This facility provides valuable internet and direct sales support.

August

Hillary Clinton and Charles Schumer (right), Senators for New York, visited Stewart International Airport to mark the opening of the new Facility Inspection Station which will make the airport more attractive for international cargo carriers. Chuck Seliga, Managing Director of the airport pictured left.

September

At the beginning of September we launched Durham School Services, the new branding for the USA student transportation division. This distinctive new branding has been rolled out across all our school bus operations, providing the division with a consistent umbrella brand which incorporates all the established Durham values.



April

A new customer service improvement programme, Silver Service, was introduced on Silverlink this year. This programme was designed to improve customer service and to respond to the findings of customer research. On-going progress is regularly monitored through a mystery shopper programme.

May

Wales & West undertook a number of successful marketing campaigns during the year including "Join the Movement". One million free tickets were distributed to householders across the Wales & West catchment area to attract potential customers to train travel.

June

Work began on the construction of the Midland Mainline new Customer Service Academy based in Derby. The Academy, which opened in April 2002, provides a multi-purpose centre for recruitment, induction, customer service and skills development for rail staff within the Group.

October

As part of the Strategic Rail Authority's remapping of the UK rail network, the new Wales & Borders and Wessex franchises were launched on 1 October. As part of the Prism acquisition we agreed with the SRA to oversee their transition and formation.

November

We acquired the Glenorie Bus Company, opening the way for new and better integrated services. This acquisition gives our Sydney Westbus operations critical mass. A key objective for 2002 is to grow our business in the Hills district of Sydney where Glenorie operates under the Hillsbus brand.

December

In December our coach division won the best marketing campaign of 2001 for its £10 travel offer at the Coach and Bus Week Awards. 250,000 customers took advantage of the promotion over the ten week promotional period.

Chairman's statement

Financial highlights

- Turnover from continuing operations up 25% to £2.5bn (2000: £2bn)
- Operating profit from continuing operations before exceptionals and goodwill up 10.4% to £156.7m (2000: £142m)
- Operating cash flow of £185.5m (2000: £167.5m).
- Normalised profit before tax increased by 8.3% to £129.2m (2000: £119.3m)
- Normalised diluted EPS up 14.3% to 72.8p (2000: 63.7p restated)
- Total dividend per share up 6.3% to 22.0p (2000: 20.7p)
- Sale of UK airports for £241m
- Net debt reduced to £315m (2000: £556.6m)
- EBITDA interest cover increased to 8 times (2000: 5.3 times)
- Australian train and tram interim funding agreement
- New terms with the Strategic Rail Authority ("SRA") for our Central Trains ("Central") and ScotRail franchises.

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

The year presented a number of significant challenges for our businesses as described in our October 2001 trading statement. The tragic events of 11 September, operational issues within our Australian train and tram businesses and the continuing reduction in train subsidies all affected our performance for the year.

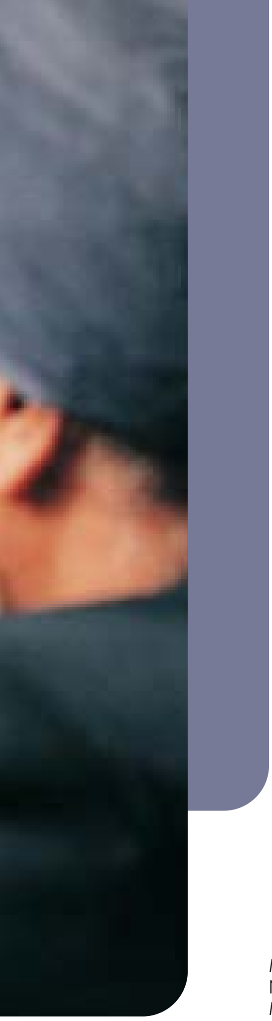
At the same time our UK trains business continued to be impacted by network disruption.

We are, however, pleased to report that since the year end we have reached agreement with both the Victorian Government in Australia and the SRA in the UK to address some of these issues as follows:

- In February, we announced that we had reached an interim agreement with the Victorian Government in Australia, which resulted in a payment to the Group of £16.5m. This settles outstanding contractual claims and disputes arising from the privatisation of the Victorian transport system in 1999 and provides for the development of patronage recovery proposals over the next 18 months. The agreement has put our train and tram franchises on a stronger financial platform. More importantly, we continue discussions with the Victorian Government on the long-term viability of our franchises, with the aim of completing these by the autumn.
- Early in March, we announced that we had agreed new terms with the SRA for our Central and ScotRail franchises. Under this agreement these franchises will receive an extra £115m in grant until March 2004 in exchange for a payment to the SRA of £59m. Based on the increased subsidy, these franchises are currently forecast to achieve break-even until the end of their franchise periods in 2004.

In the UK, we are pleased with the consistency in performance of our bus business and its ability to adjust services to meet changing passenger needs. In view of its lack of critical mass, we sold Bronckaers, our Belgian bus business, in October.

Our UK train operations continue to be impacted by the underperformance of Railtrack. We had and still have a disproportionate number of emergency speed restrictions ("ESRs") on our network which have a



Michael Davies, Chairman, with Norman Dhariwa, a Travel West Midlands bus driver.

negative impact on the punctuality and reliability of our services. Whilst we are working with Railtrack and their contractors to address this, we have developed a range of internal initiatives designed to improve passenger journeys. In September, we received £16m from Railtrack in full and final settlement to mitigate the revenue shortfall incurred as a result of the ESRs following Hatfield. In addition, the late delivery and poor performance of our new trains over the last 18 months has been offset by liquidated damages from the manufacturers.

Our GoByCoach.com brand continues to drive the progress of the coach division. The growth in internet sales has been encouraging, with nearly 10% of total bookings now online. Also over 50% of our sales are now direct through our customer contact centre and our own sales outlets.

We completed the integration of the businesses acquired during the last couple of years, particularly within the USA where since 1999 we have increased turnover from £65m to £400m. We are pleased with the progress of this division and see further opportunities for growth, both organically and through acquisition.

Our Australian bus operations continue to progress well. In December we acquired the Glenorie Bus Company in Australia for A$23.5m (£8.5m). This well-established business, based in the north-west of Sydney, brings the Westbus fleet to around 500 buses and gives Westbus greater critical mass and exposure to a key growth market.

As highlighted in October, following 11 September, our insurance premia have doubled to £30m for the year ending 31 October 2002.

Safety

The safety of our passengers and our people is of paramount importance. We aim to ensure that all our operations embrace safety as a key component of their culture. Health and safety performance continues to be reviewed by the Board Safety Committee at its quarterly meetings. During 2001 we developed measures to be applied across the Group, as follows:

- The approval of a new policy on health and safety management, setting out our expectations for health and safety management standards;
- The establishment of safety systems which will enable us to benchmark our performance both against other operators and within our own operations;
- The communication of good practice across all our operations; and
- Regular safety tours.

Board changes since the last Annual General Meeting

In May Sue Lyons OBE joined the Board as a Non Executive Director. Sue has spent her career in engineering and manufacturing culminating in her appointment as Managing Director, Defence (Europe) at Rolls Royce. She brings valuable industrial experience to the Board.

At the beginning of December Richard Brown resigned as a Director of the Group. He had played an important role in the development of the Group's trains division and we thank him for his contribution over the years.

Outlook and current trading

2001 was a challenging year for the Group particularly within our UK and Australian train and tram operations.

We were pleased to announce after the year end that agreements were reached with the SRA in the UK and the Victorian Government in Australia which help address some of our areas of concern. The agreements, which have been achieved through a partnership approach, give us greater confidence to develop these businesses further. We are continuing to work with the Victorian Government to reach a successful conclusion for the long-term viability of the franchises.

UK train patronage has recovered to pre-Hatfield levels but there is still no real evidence of growth returning. However, we intend to play an integral part in rebuilding consumer confidence in UK rail. Our bus businesses worldwide continue to perform well and we intend to grow these operations both organically and by acquisition.

Current trading for the Group is in line with market expectations.

Michael Davies *Chairman*

Despite the difficult trading that we experienced this year, I am pleased to report that considerable progress was made within all our businesses. We continued to invest further to deliver improvements which we know our customers expect from public transport.

Delivering local services

We aim to provide local transport to meet local needs. This goal can only be achieved by working with local and national bodies which play a vital role in developing local transport services.

In the UK we work closely with local authorities, passenger transport executives and other user groups as well as with the Welsh and Scottish assemblies to ensure that our services at least meet their requirements. In addition we help them to develop their vision for future transport services.

As part of the rail refranchising process, this year we continued our discussions with the SRA in relation to the launch of the new Wales & Borders and Wessex franchises. These two franchises were successfully launched with a new look and service proposition at the beginning of October. We await the recommencement of the bidding timetable for the award of these franchises.

We continue to operate the Great Northern part of the West Anglia Great Northern service as the SRA prepares for the refranchising of the new Greater Anglia franchise.

In March the London Lines organisation was launched to encompass the support functions of the c2c, Silverlink and WAGN (including Stansted Express) businesses. This combined single management structure will focus on developing our London commuter and leisure markets and providing an enhanced service for our passengers by rolling out best practice across these companies.

Overseas, we work closely with school boards on the opportunities and benefits that can be achieved from outsourcing school bus operations. This involvement normally takes place well in advance of any contract coming up for tender. Similar initiatives are also undertaken in the public transit division, particularly in relation to paratransit services where a dedicated skill set is required.

With the particular challenges facing transport services in Australia, there is a close working partnership between the Victorian Government, as well as our fellow franchisees, to address on-going issues. The interim agreement announced recently confirmed the progress that has been made.

Delivering new assets

This year was a landmark year for investment in fleet and facilities to develop our services.

In January 2001 we placed a £23m order for 180 new low-floor Euro III double deck buses for Travel West Midlands ("TWM"), bringing our total investment in new buses for TWM to more than £100m since its acquisition in 1995. During the year 140 of these buses were delivered.

In February 2002 we announced a £160m order for the manufacture and supply of 23 new trains for our Midland Mainline ("MML") franchise. The new order, which will begin delivery in the second quarter of 2004, was placed as part of MML's two year franchise extension, awarded in August 2000 by the SRA, which takes the franchise to 2008. The order will double capacity on the service where passenger growth of more than 50% has been achieved since privatisation. The current MML Turbostar fleet will be utilised elsewhere in the Group.

By March this year, the new c2c fleet was introduced. With the resolution of industrial relations issues and the benefits of the £50m investment in the rebranding and development of its stations, c2c is now well placed to deliver high standards of service. Recent performance figures illustrate the benefits that can be achieved from such a package of investments.

In the USA we purchased a total of 569 buses for the commencement of the 2002 school year. As part of our investment in Australia we placed an A$410m contract for 29 trains which will be introduced in late 2004 on our V/Line passenger operation.

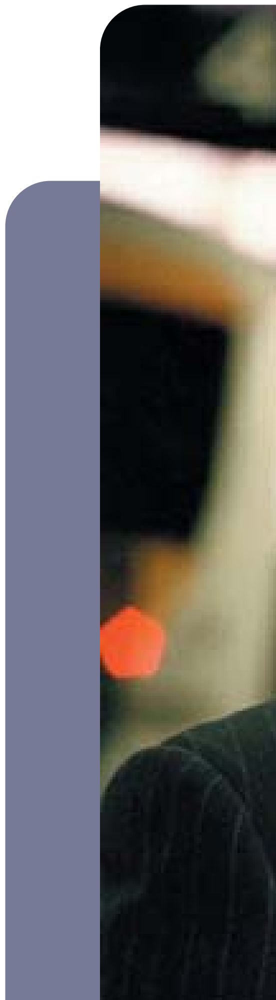
July saw the opening of the 30,000 sq ft customer contact centre for the coach division in Birmingham. This facility ensures that customers have access to multiple channel retailing when purchasing tickets. It provides valuable internet and direct sales support, handles customer enquiries and supports third party agents.

Delivering new technology

The success in the UK of the GoByCoach.com brand confirms that technology can play a major role in the provision of public transport services.

The installation of the ITIS "NavTrak" in-vehicle GPS tracking product on all scheduled coach routes, will increase the reliability of services through better tracking of vehicles and the provision of improved customer information.

In the UK we have invested in a number of initiatives, including the Advantix Mobile, a new ticketing system which is being piloted on Gatwick Express and MML. Qjump.co.uk, our fast and easy ticket buying site for UK train travel, and ticket-on-departure machines are being rolled out. These will ease the booking and collection of train tickets. To support our multiple distribution channels we opened a new 27,000 sq ft call centre in Sheffield in February.



Phil White, Chief Executive, with Hayley Bowen, a c2c ticket office clerk based at Fenchurch Street station.

We continue to invest in smartcards. In partnership with Centro, smartcard equipment is shortly due to be fitted to all TWM buses in Coventry. Ticketing availability remains an issue in our Australian operations. We are actively working with our industry partners to develop a simple and user-friendly ticketing system that can be implemented to address fare evasion.

Delivering the necessary skills

We recognise that our services rely on the quality of our people and their development. We continue to invest in innovative ways to attract and retain people working in the public transportation industry. We also recognise the need to improve productivity within selected businesses by training and investing in development. In April 2002 the opening of our train Customer Service Academy in Derby will provide a central facility where best practice can be developed and rolled out.

A number of new senior executives joined the Group during the year. Craig Wallace took up his role as Chief Executive of our Australian division in January. In May, Ian Buchan was appointed Chief Executive of the UK trains division. In January 2002, Denis Wormwell was appointed Managing Director of the coach division.

I would like to thank all our staff for their contributions during this year.

Delivering safe operations

Railway safety remains firmly in the public eye in the UK. We are co-ordinating the actions necessary to address Lord Cullen's recommendations in a consistent manner across the trains division. During the year we commissioned a review of train driver training arrangements and are taking forward the recommendations from that review as a high priority. We are progressing with the fitting of the train protection and warning system ("TPWS") and are on target to complete this work during 2003. The prevention of signals passed at danger ("SPADs") continues to be at the forefront of our management efforts.

In the USA we continue to make progress in a number of safety related areas. Total accident frequency rates showed improvements over the previous year in both the student transportation and public transit divisions. In Australia we undertook a number of strategic initiatives to address risk management and safety performance.

Delivering a vision for public transport

Moving ahead, we look forward to a return to passenger growth across all our operations. It is crucial within the UK that the industry looks forward and outward, becomes more integrated in its approach to solutions and puts in place adequate funding to develop the railways. It is paramount that customers can expect services that are punctual, reliable and safe. We will continue to invest to make public transportation the first choice for travel.

Phil White *Chief Executive*

Buses

With Birmingham being a university city, students are an important market sector to Travel West Midlands. This key market sector is targeted before the start of the new academic year with student-specific travelcard marketing campaigns.

The public transport market in the West Midlands remained buoyant despite the major construction work in Birmingham city centre. We are adapting our services to respond to the investment in retail and leisure facilities in both city centre and out-of-town destinations and as a result patronage levels were sustained.

Driver training and recruitment continues to be an area for focus. We implemented a package of recruitment and retention measures to tackle the tight local labour market. Investment in driver training has enabled nearly 700 new drivers to be trained over the year and nearly 1,200 have been awarded a NVQ (II). A further 800 drivers are currently in the NVQ programme. Early in the year we also agreed a unique five year pay deal with the drivers at TWM which improved their terms and conditions and removed the annual pay bargaining negotiations. All these measures improved the retention rates during the year.

We introduced 140 "state-of-the-art" environmentally friendly easy access double deck buses with delivery of a further 140 due in the first six months of 2002. These buses are Euro III compliant and are fitted with particulate traps, ensuring that they are the "greenest" buses in the UK. These buses are being used to upgrade services on some of the West Midlands' busiest routes.

Two major Showcase routes both serving large regional hospitals were launched during the year. The Birmingham Heartlands Hospital is a key destination within a major corridor, linking Birmingham and North Solihull. In Wolverhampton the first stage of a partnership with the city and NHS Trust has greatly improved access to and around a major hospital complex. We are committed to further investment in Quality Partnerships as experience has shown that since their inception these initiatives have increased patronage by more than 30%.

In partnership with Centro, we opened a Walsall Tourist and Travel Information Shop which provides an integrated one-stop shop for all local public transport and tourist information, including sales of all local bus operators' travelcards and National Express coach and rail tickets. The centre is currently seeking Heart of England Tourist Information Accreditation. TWM is intending to develop this model to other key centres.

We were also an important partner in a number of transportation projects to improve links between developments. The Wolverhampton Interchange Project was launched in December and aims to improve significantly interchange facilities between bus, rail and metro services in the centre of Wolverhampton.

This lighthearted student campaign featured heavily in new student guides, adverts on beermats in student pubs and inserts into fresher packs.

We operate 2,000 buses in the West Midlands which, together, travel the equivalent of 65 times around the world each week.

In association with developers of the Touchwood Shopping Centre, a major new retail development, we launched a co-ordinated package of route improvements and promotions to serve the new centre. The package included a public transport guide delivered direct to 30,000 households, bus stop improvements, a park & ride shuttle service and travelcard incentives for shopping centre staff. A dedicated route linking the major new business park at Blythe Valley to Solihull also began operating in mid 2001.

In partnership with Centro, smartcard equipment is shortly due to be fitted to all TWM buses in Coventry. This will enable passengers to replace their current "flash passes" with smartcards.

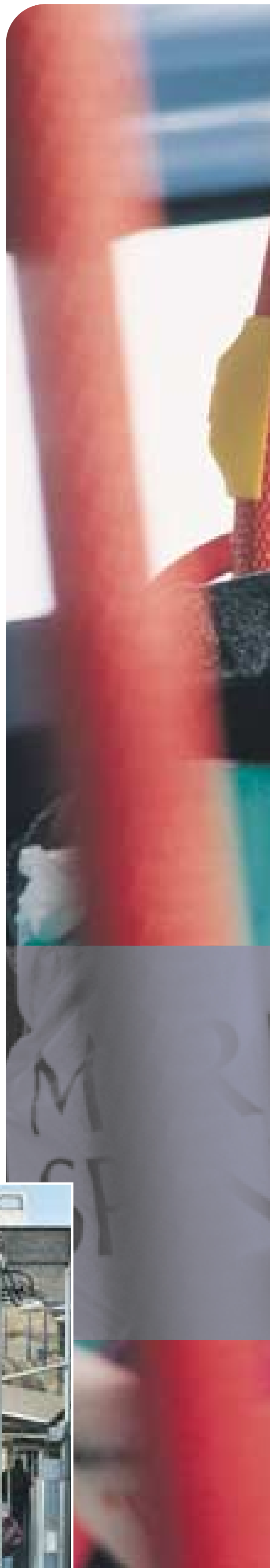
We continued to attract new passengers through a range of innovative marketing campaigns. The annual student campaign was launched in August to promote the advantages of the Student Faresaver range. With Birmingham being a university city, we undertook a number of student-focused campaigns during the year promoting our student travelcard range. The main campaign immediately prior to the start of the new academic year resulted in revenue increases of more than 10%. In addition, we target schoolchildren and their parents with campaigns to promote our Term Plus Travel Card range.

This year we extended the focus of the campaign to include all travelcards available to children, giving them and their parents a choice of products designed to meet their needs. This activity increased revenue by more than 10%. The Daysaver 4 group ticket continues to grow in popularity.

Each year we distribute nearly 2m items of publicity materials. These include route timetables, area network guides and promotional leaflets to over 1,000 outlets such as libraries, travelcard agents, railway stations, major employers, schools and colleges.

This year the TWM internet site, www.travelwm.co.uk, was upgraded and now includes summarised details of every TWM service, fares information, service changes and promotions. In addition to providing summarised information on all TWM services, the "How do I get to …?" section includes attractions such as cinemas, theatres, museums and bingo halls.

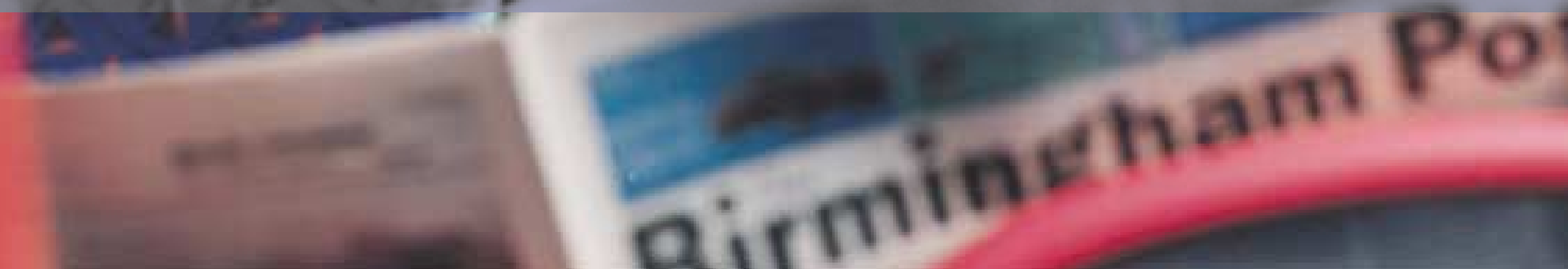
In partnership with the West Midlands local authorities, Centro and other local bodies, we aim to improve service quality for our passengers through investment, innovation and better provision of information. We are an integral partner in the delivery of the local transport plan and the development of the accompanying bus, ticketing and information strategies.



Over the past year we trained 700 new drivers, and nearly 1,200 were awarded a National Vocational Qualification in customer service. A further 800 drivers are currently enrolled in the NVQ programme.

We play a major role in bringing integrated transportation to the West Midlands.

We continue to adapt our services to respond to investment in retail and leisure facilities in both city centre and out-of-town destinations. Routes have been added to include new destinations for shopping and entertainment, such as the Touchwood shopping centre in Solihull and Millennium Point in Birmingham.



Trains

Gatwick Express customers can now enjoy an enhanced travelling experience. New rolling stock provides more spacious interiors, increased leg room and table space and at-seat service. New trains were also delivered this year on the c2c service.

Although we are increasingly using technology to provide more information for our customers, we recognise that the presence of front line staff is paramount at each stage of the journey.

We continually seek to improve facilities for less able travellers at railway, coach and bus stations. New lifts at Northampton railway station make public transport more accessible.

2001 proved to be a challenging year for the UK train network. The large number of ESRs imposed on the network following the Hatfield accident in October 2000 continued to impact on the punctuality and reliability of our services. Extended and unpredictable travelling times discouraged passengers from travelling by train.

This situation was compounded by the outbreak of foot and mouth disease at Easter and the events of 11 September after which there was a severe reduction in international travel. Our Gatwick Express service was significantly affected by the reduction in in-bound USA flights.

In September, we received £16m in compensation from Railtrack in full and final settlement to mitigate the revenue shortfall incurred as a result of the ESRs following Hatfield. In addition, the late delivery and poor performance of our new trains over the last 18 months has been offset by liquidated damages from the manufacturers.

With travel being an ideal internet purchase, we continued to invest in multiple distribution channels for the sale and distribution of train tickets. A fundamental part of this plan is our internet retailing strategy and the development of an infrastructure to support this proposition. Our retailing strategy was expanded through the launch of Qjump.co.uk – our fast and easy ticket buying site for UK train travel – with the roll-out of the internet retailing system on all our train operating company websites. In October, the Qjump service was launched on third-party websites including GNER. In addition, we have invested £10m in a portable hand-held data terminal which prints train tickets to and from anywhere in the UK as well as providing up-to-date rail network timetabling and fare information. These units are used by on-board staff.

A new central resource for the integration of internet and telephone rail ticket retailing was launched early in the year providing telesales, customer service and co-ordinated customer contact handling.

In April 2002, the new Customer Service Academy in Derby opens. It will provide a multi-purpose centre for recruitment, induction, customer service and skill development for train staff.

Following the appointment of Ian Buchan as Chief Executive of the trains division in May, we are reorganising the division into three market sectors: London and the South East, Long Distance/Intercity and Regional Services.

London and the South East

Turnover for the year was £516.4m (2000: £264.2m) with an operating profit of £46.7m (2000: £32.7m). In March we launched the London Lines organisation to encompass the support functions of our c2c, Silverlink and WAGN (including Stansted Express) businesses. This involved the consolidation of a number of central functions, such as fleet maintenance and customer relations.

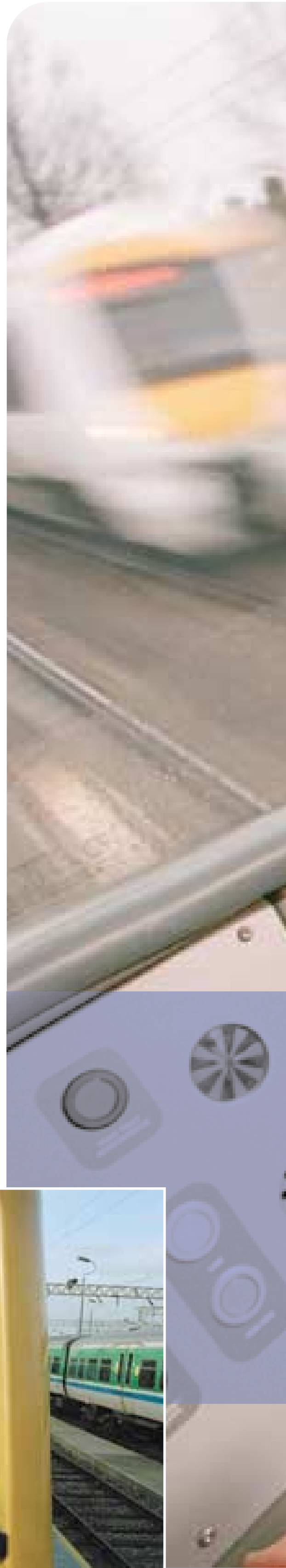
During the year the performance of c2c was dominated by two key factors: the new trains and the impact of industrial action, now resolved, which related to the introduction of driver only operated trains, which will be completed during 2002.

On Silverlink, the service was badly disrupted by ESRs and a temporary timetable was introduced to accommodate the West Coast re-modernising work, which was withdrawn in September following remedial work by Railtrack.

Also on Silverlink a major new service initiative, Silver Service, was launched to improve overall service delivery both at stations and on the train. Station improvements and enhancements were implemented on Silverlink stations at Harrow, Milton Keynes, Northampton and Watford Junction.

WAGN's performance was severely affected throughout the year by ESRs and the poor quality of the infrastructure on which the service runs. We are strongly encouraging Railtrack as a matter of urgency to address this issue. This did not, however, stop us from investing in the service with the delivery of a new branding partnership with local councils and the installation of CCTV at selected stations such as Brimsdown, Enfield Lock and Ponders End. To improve contact with customers, a service update programme was devised to provide a continuous dialogue with passengers. Letters, posters, e-mails and the website are all used more effectively to improve communication.

Gatwick Express services were significantly impacted by the reduction in travel following 11 September and we made changes to the timetable to reflect the reduction in demand. Patronage levels are currently running 12% below last year. During 2002, we have increased focus on working with low-cost airlines to promote rail-air services following British Airways' decision to downsize its operations at Gatwick. This work should have a long-term benefit to the Gatwick Express business.



New stations encourage passengers to use train services. Beauly, a recently opened station on ScotRail's network, provides a valuable commuter service into Inverness.

During the year we commissioned a thorough review of train driver training arrangements. We are now implementing the review's recommendations as a high priority throughout the division.

Following the Cullen and Uff joint inquiry report into train protection systems, we are fitting our rolling stock with the TPWS – train protection and warning system. We are well on schedule to complete this work by the end of 2003, in line with the national plan.

Long Distance/Intercity

Turnover for the year was £121.7m (2000: £113.2m) with an operating profit of £10.5m (2000: £10.7m). MML's performance was impacted by ESRs on its network throughout the year. In February 2002 we announced the signing of a £160m order for the manufacture and supply by Bombardier of new rolling stock for MML. The new fleet, to be called Meridien, will be fully in service by January 2005 and will replace the current Turbostar fleet, which will be reallocated within the Group.

Regional Services

Turnover for the year was £779.9m (2000: £647.3m) with an operating loss of £19m (2000: loss £13.4m). Following the agreement with the SRA, Central and ScotRail, which form part of our Regional Services, are currently forecast to break-even until the end of their franchise periods in early 2004.

At Central, an additional 70 drivers and conductors were recruited to prevent cancellations caused by staff shortages. New passenger-focused initiatives at Central include additional help points giving real-time running information. The Lincoln bus "add on" initiative encourages people to leave their cars at home by buying from Central and local bus operators an integrated bus and train ticket which gives discounted bus travel in the city and the surrounding area.

We also improved services on the Shrewsbury to Chester line through the introduction of new services and reduced fares. We have also marketed Central services to students in the Midlands through a new student website.

The SRA and Centro have agreed to enter into good-faith negotiations, which have already begun, to extend the Central franchise by two years to March 2006. This extension was set out in the SRA's Strategic Plan, which was published in January 2002.

At ScotRail a special timetable was introduced in response to the withdrawal by train drivers of rest day and overtime working as part of a pay dispute. Four one day strikes have been held in March 2002. We continue to hold discussions with ASLEF with a view to finding a solution. However, whilst these strikes continue we will be incurring losses.

In October the remapping of the Wales & West franchise concluded with the establishment of the Wales & Borders and Wessex Trains franchises. We will continue to operate these franchises until they are awarded.

WAP technology means customers can access real-time train running information from dedicated sites and monitor the progress of their train before they even reach the station.

Over 250 self-service ticket machines have been installed at railway stations, speeding up the purchasing of tickets.

With the increased usage of the web for travel services, a new on-line ticketing service, Qjump.co.uk, was launched this year. It uses leading edge technology to provide the most accurate timetable and fare information available.

Coaches

The success and popularity of GoByCoach.com continues to grow through further new technological developments such as e-ticketing. More than 10% of our total coach bookings are now made through the GoByCoach.com website and over 50% from direct sales.

Our scheduled routes remained popular despite a severe reduction in in-bound tourism after 11 September, foot and mouth and the strength of sterling. Providing accurate travel information to customers continues to be a priority.

Passenger revenue increased with sales through direct channels growing by 29%. Sales via the GoByCoach.com website doubled reflecting the increased use of this facility by our customers. We continued to develop the Shuttle brand, which provides turn up and go high frequency commuter services.

Technology continued to play a major role in the development of the division. Ticket collection points were increased and, during December, GoByCoach.com was enhanced to offer customers the facility to print e-tickets directly from the website.

We continued to focus on improving the customer experience by evolving the existing product offering to provide incremental journeys to increase loyalty while attracting new customers. Areas for focus during the year included extending multi-channel distribution, increasing the use of technology, providing more reliable information, enhancing network frequency and tactical marketing activity.

We made a considerable investment in improving the service we offer. Customer research has reinforced the importance of information both before and at the point of travel. Our investment in the new customer contact centre and the GoByCoach.com website provides readily accessible information.

In July, we opened a new £1.4m customer contact centre which incorporates the latest telephony equipment, in Birmingham. It offers a one-stop shop for all our products and services. In addition we introduced a new customer relations system to enable swifter and more consistent resolution of customer enquiries. We introduced a Customer Recovery Service ("CRS"), which empowers and encourages front-line staff to be more proactive in dealing with customer matters. We also introduced new easily recognisable customer service staff at principal departure points.

Airport services

The impact of 11 September affected the performance of AirLinks in the last quarter of the year. It resulted in the reduction of scheduled airport services on some corridors. AirLinks secured or extended many of its important contracts, notably with Gatwick airport passenger services, and major customers, including British Airways, BAA, JMC, Virgin Atlantic and NCP.

European coaching

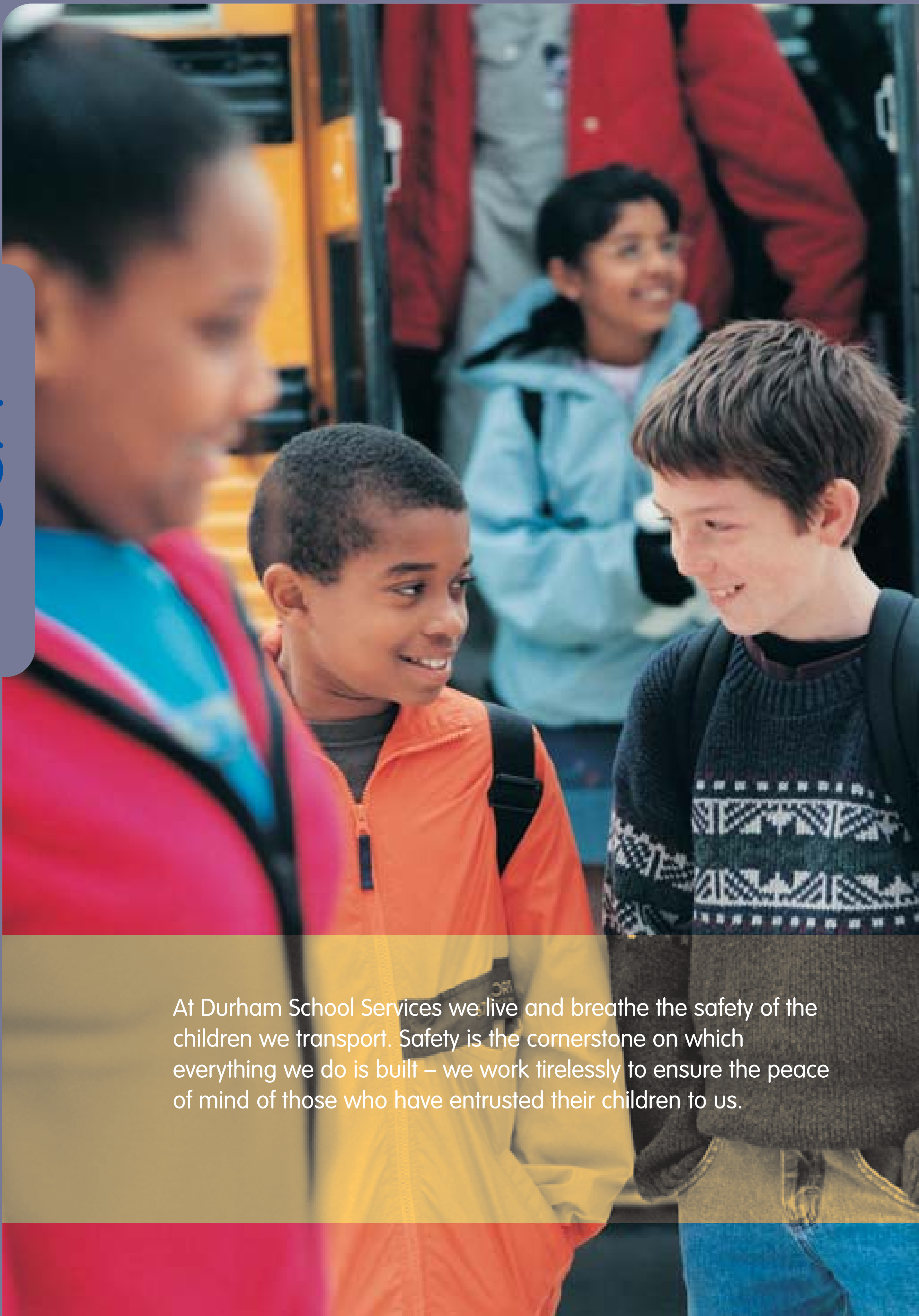
With the growth in internet booking, Eurolines upgraded its central reservation system to accommodate increased internet sales. This business has, however, been badly affected by the reduction in in-bound tourism both to the UK and continental Europe.

In July we opened a new £1.4m customer contact centre in Birmingham. The 30,000 sq ft facility enables customers to purchase tickets by phone or internet and provides valuable internet and direct sales support, handles enquiries and supports third party agents.

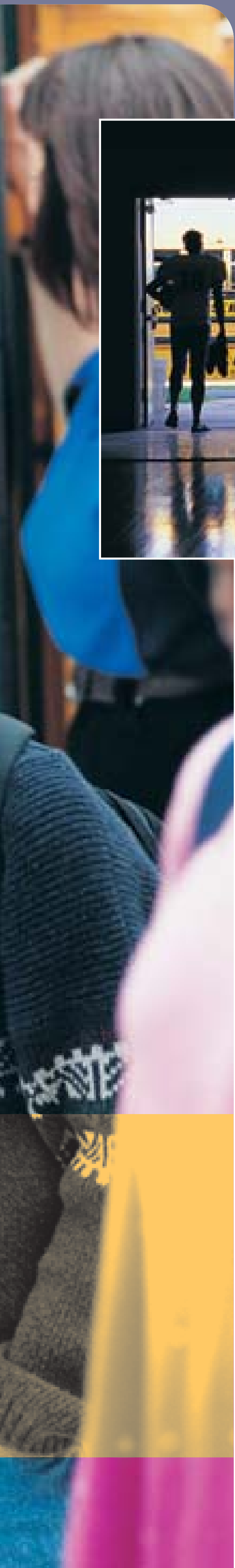
GoByCoach.com

GoByCoach.com is one of the fastest growing names in the travel industry. Since its launch two years ago, it now registers over 4.2m page hits per month.

USA



At Durham School Services we live and breathe the safety of the children we transport. Safety is the cornerstone on which everything we do is built – we work tirelessly to ensure the peace of mind of those who have entrusted their children to us.



We regularly provide transport for school and extra-curricular activities, such as sport, including football.

DURHAM
SCHOOL SERVICES

Research has established that the Durham School Services brand has high name recognition. The brand was rolled out across all our student transportation operations last summer.

During 2001 we saw a number of significant developments in our USA division, with the consolidation of businesses and functions as well as the sharing of best practice across operations. The division benefited as a slower US economy helped improve the quality and availability of driver applicants. Our operations remain contractually based and in 2001 we continued to enjoy a high level of success in renewing our existing contracts while we strategically bid or negotiated an exit from those contracts which did not meet our financial returns or had little or no strategic relevance to the overall business.

We were impacted by the increase in insurance costs after the annual renewal of our policies in October 2001.

Student transportation

The division had a strong start to the 2002 school year largely due to the improved availability of drivers. We continue to invest in the quality of our staff, formalising and expanding our training programmes for all general managers, operation supervisors and dispatchers. We anticipate that these programmes will be completed by April 2002.

In August 2001, we rebranded the division "Durham School Services". The Durham brand is well established and brand equity research showed that we would benefit from a consistent umbrella brand. The rebranding was combined with standard policies and procedures in financial reporting, safety, maintenance, recruitment and retention of personnel being extended throughout the division.

Durham School Services continues to focus on expanding the market. Moving forward, in view of the changing economic climate in the USA, school districts are likely to outsource more of their services, including their school bus operations. Currently 30% of the student transportation market is outsourced. With only 2% market share of the total school bus transportation market and 7% of the privatised market, we are well positioned to benefit from this development. We also continue to review potential share shift opportunities.

Public transit

ATC's focus is on the combination of the provision of quality services and the delivery of improved financial results. During the year we strengthened our contract bidding team which has resulted in improved consistency in bidding and the re-negotiation of lower margin contracts. As a result, significant wins were achieved in California and Washington.

Currently 10% of the public transit market is outsourced and ATC holds a 2.5% market share leaving it well placed to benefit from any increase in outsourcing.

Consolidation and centralisation of operations, most notably within the finance function, ensured improved financial control and increased standardisation of the ATC product offering.

The ATC brand operates in 20 states, collectively carrying more than 160m passengers across its fixed route and auxiliary operations.

All levels of staff are trained through the ATC University programme including maintenance engineers.

Training and the continuous maintenance of skills are the two most important elements of transportation delivery. ATC requires its managers and supervisors to attend training programmes to ensure that there are comprehensive curricula for all levels of staff including vehicle operators, operator trainers, road supervisors and customer service agents as well as all levels of other staff. In addition ATC requires its managers and supervisors to attend its Management University once a year. This week-long training course, held at ATC's corporate headquarters, is designed to create a consistent leadership message among all ATC divisions. During the year ATC also established a separate Maintenance University to improve the skills of its maintenance managers and supervisors, bringing them up to speed on the latest technological advances.

ATC commands a strong place in the industry as a provider of quality services with reliability on average exceeding 90%. It has one of the lowest accident and complaint rates in the industry.

Airport management

The tragic events of 11 September severely impacted the operations of Stewart International Airport, located 55 miles north-west of New York, and passenger numbers declined by 20%. Performance was also affected by the ComAir strike and the bankruptcy of Midway Airlines.

Despite this, significant progress was made during the year, including the completion and opening of a federal government facility cargo inspection station, continued development of the industrial park, as well as certain facility improvements which were primarily funded in partnership with governmental aviation programmes. Permission was also granted for the construction of the new control tower.

ATC provides curb to curb public transportation across 20 states for people with disabilities. As part of the Dallas contract, won in 2000, more than 12,000 pick-ups and drop-offs are made each week. Specially trained drivers help customers with a range of disabilities go about their daily lives.

Australia

Westbus launched the successful Beach Bus service in December 2001 following passenger feedback that such a service would prove popular. More than 1,000 passengers, most of them teenagers, travelled on the Beach Bus from Castle Hill, Manly during the summer months.

More and more people are using Melbourne's public transport services, thanks to high levels of reliability and punctuality on the city's train and tram services.

The branding of M>Train and M>Tram was rolled out across all areas of the operation during the year.

We have been working to address key operational issues in our Melbourne train and tram businesses and were pleased to announce in February 2002 an interim agreement was reached with the Victorian Government.

This agreement has put these businesses on a stronger financial footing and enables us to develop patronage recovery proposals which will address some of the key operational issues such as fare evasion. For example, we are working with the State Government and the other operators through a dedicated ticketing task force to develop proposals to improve and ultimately replace the ticketing system. This initiative will improve the availability, ease of use and security of ticket machines. A major media campaign promoting heavy penalties for fare evasion has also been launched, coupled with intensive fare evasion "blitz" inspection activity.

In October our two metropolitan Victorian businesses were officially rebranded under the "Moving Melbourne" banner: Bayside Trains became M>Train and Swanston Trams became M>Tram. The launch of the new brand was supported by a new customer-friendly website, www.movingmelbourne.com, and new customer information at tram stops. We also began the roll-out of refurbished trains and trams in Victoria, delivering improved features.

A major highlight of 2001 was the signing of a A$410m (£147m) contract to build 29 new two-car diesel trains for regional Victoria. The new 160kph trains, to be delivered from 2004, will improve services and customer comfort as well as significantly reduce journey times.

Buses

During the year good progress was made in our bus operations. Significant improvements in both punctuality and reliability were achieved.

In August John Lee joined as Managing Director of Westbus. John was formerly senior adviser to New South Wales' inaugural Co-ordinator General of Rail and brings extensive experience from his involvement in co-ordinating commuter services for the Sydney 2000 Olympics.

Towards the end of the year we acquired Glenorie Bus Company for A$23.5m (£8.5m) which gave critical mass to our Sydney operations. Growth of our business in the Hills district of Sydney is a key objective for 2002 and this acquisition opens the way for new and better integrated services, including in-bound commuter services from Glenorie's catchment area, the fast-growing western suburbs of Sydney.

Demand for school services in New South Wales continues to grow and we expect this aspect of the business to generate further revenue in 2002.

Serena's Song is the world's first wheelchair-accessible hot air balloon approved by the United States Federal Aviation Administration. The balloon is sponsored by ATC which provides paratransit transportation as part of its services. The balloon has carried more than 10,000 disabled passengers, for charity, over countless miles across the US.

The UK coach division continued its support of the Royal British Legion with the launch in September of an eye-catching ten-foot-high poppy as part of the new livery.

M> Man is the star of "My Train", a free education programme offered to over 15,000 children from 500 schools throughout the State of Victoria, Australia. The programme aims to teach passengers of tomorrow how to use public transport.

We recognise that we have a responsibility to the local communities in which we operate. We publicly demonstrate our commitment through a range of activities, including financial, physical and in kind support. Our businesses primarily select initiatives that promote the provision of public transport. Each subsidiary has developed a range of initiatives which best meet their local needs and which bring out their individual business strengths.

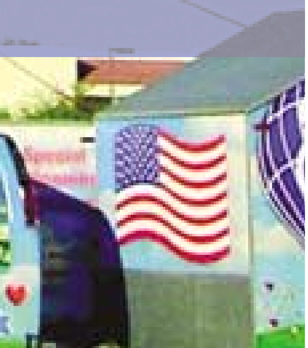
UK

Our trains division undertook a range of community initiatives to foster greater safety on the railways. Central appointed a community rail officer, jointly funded with the local authorities, to raise awareness of rail services for passengers and user groups. To help in the reform of young offenders, MML provides work placement opportunities for youths through the Derby Youth Offending Service.

The coach division continues its support for the Great Ormond Street Hospital and the Royal British Legion. TWM continues to support "Operation Safer Travel" in partnership with the West Midlands Police. During the year TWM was short listed for a Bus Industry Award in recognition of its work in this field.

USA

During 2001, Durham continued its longstanding relationship with the Special Olympics. This year marks the fourth year of the alliance, with more than 750 Durham employees and their families helping out at the Summer Games.



Australia

Our Australian operations are committed to introducing long-term safety initiatives, as well as crime reducing activities. Working closely with police, the Government and school children, a number of programmes have been designed to curb anti-social behaviour and foster respect for public transport.

Industry involvement

We continue to develop our involvement in the transport industry, thereby ensuring that a more fully integrated transportation system can be achieved. We continue to support the Association of Train Operating Companies, the Confederation of Passenger Transport UK, the Institute of Logistics & Transport, Transport 2000, Union International de Transport Public and the Institute of Public Policy Research.

In addition, we maintain close links with a range of passenger and consumer groups. This dialogue is supplemented by a variety of tracking surveys and market research programmes aimed at improving our understanding of our passengers' needs and priorities.

Environmental initiatives

We are committed to the development of sustainable and integrated transport systems and, this year, have produced our first environmental report. Copies are available from our corporate website, www.nationalexpressgroup.com.

Finance Director's report

Year at a glance

2001 was a challenging year, with a series of significant external events impacting on our results. In particular, our trains division continued to be affected throughout 2001 by network disruption. In addition, the tragic events of 11 September adversely affected passenger revenue in our trains and coaches divisions and at Stewart International Airport in the USA. The Group's cost base has also been impacted, with worldwide insurance premia doubling from November 2001. Notwithstanding, turnover from continuing operations increased by 24.8% to £2.5bn (2000: £2bn) and normalised operating profit from continuing operations increased by 10.4% to £156.7m (2000: £142m), benefiting from the full year effect of acquisitions made in 2000.

Net interest payable was £26.7m (2000: £34m). Excluding exceptional items, interest cover improved to 5.8 times (2000: 4.5 times) and EBITDA interest cover from continuing operations improved to 8 times (2000: 5.3 times).

After interest and the Group's share of losses from associated undertakings, normalised profit before tax increased by 8.3% to £129.2m (2000: £119.3m).

Normalised diluted earnings per share, restated to exclude discontinued activities, increased by 14.3% to 72.8p (2000: 63.7p restated). Total dividends per share for 2001 are 6.3% higher than in 2000 at 22p (2000: 20.7p).

Group operating cash flow remained strong at £185.5m (2000: £167.5m), before interest, tax and dividends, which has enabled the Group to fund net capital investment in existing businesses of £92.8m (2000: £100.4m). During the year, we sold our airports division for £241m and Bronckaers, our small bus operation in Belgium, for £3.7m. These sales generated net proceeds of £237.6m, which resulted in debt falling from £556.6m at the start of the year to £315m at 31 December 2001.

Net assets increased by 9.7% to £413.9m (2000: £377.3m) and gearing at the year end was 76.1% (2000: 147.5%).

Divisional review

Buses

Notwithstanding the continuing disruption caused by the major redevelopment of Birmingham city centre, turnover in 2001 increased by 4.1% to £208.3m (2000: £200.1m) and operating profit before goodwill and exceptional items increased by 4.3% to £52.8m (2000: £50.6m). The operating margin was maintained at 25.3% (2000: 25.3%). The return on net assets increased to 82.8% (2000: 46.9%) due to investment in buses being funded by a combination of finance and operating leases.

Trains

As shown in the table on page 31, turnover in 2001 increased by £399.6m or 37.7% to £1,458.2m (2000: £1,058.6m) and operating profit before goodwill and exceptional items increased by 19.1% to £40.6m (2000: £34.1m), reflecting a full year's contribution from the Prism companies acquired in September 2000. Included in turnover are franchise subsidies from the SRA, which increased to £554.8m (2000: £482.6m). This reflects a full year's contribution from Prism companies, partly offset by a £26.7m underlying reduction in subsidies.

Turnover and operating profit for our London and the South East train operating companies increased by £252.2m and £14m respectively. This reflects a full year's contribution from c2c and WAGN, which were acquired as part of the Prism acquisition. This

William Rollason with Steve McAleavy, Marketing Director of National Express Coaches.

is a good performance given that network disruption continued throughout 2001. This situation was compounded by the outbreak of foot and mouth disease at Easter, which deterred leisure and discretionary travel, followed by the events of 11 September. Our Gatwick Express business in particular was significantly affected, due to the reduction in in-bound USA travel.

Although turnover for MML, our long distance/intercity train operating company, increased by £8.5m, operating profit fell by £0.2m due to the overall effect of the network disruption.

Turnover for our regional train operating companies increased by £132.6m, reflecting a full year's contribution from our Welsh franchises, acquired with Prism. However, the network disruption has had the most severe impact on our regional operators, who have lost a high proportion of the leisure and discretionary travel business on which their profitability is heavily based. This, coupled with the effects of foot and mouth disease, has resulted in the operating loss for these companies increasing from £13.4m to £19m.

Given the above, two of our regional rail franchises, Central and ScotRail, have been renegotiated. The SRA has agreed to provide £115m additional franchise subsidy, in return for a payment of £59m and various other concessions. The full cost of £67m has been recognised in 2001 as an exceptional item and provisions as at 31 December 2001 include £62.5m in respect of the total payments to be made in March 2002. Following this agreement, Central and ScotRail are currently forecast to achieve a break-even position between January 2002 and the end of their franchise periods in early 2004.

Coaches

For the full year, turnover fell by 2.9% to £181.3m (2000: £186.8m) and operating profit before goodwill and exceptional items fell by 6.2% to £10.6m (2000: £11.3m), due to the effects of 11 September on our airport coach business. Consequently, the operating margin fell to 5.8% (2000: 6.0%). Initiatives were put in place to limit the impact of 11 September on the business, and these will take full effect in 2002.

USA

Our businesses in the USA represent a significant part of the Group, generating £401.7m (2000: £301.6m) or 16.3% (2000: 15.1%) of Group turnover and £39.3m (2000: £32.7m) or 24.9% (2000: 21.1%) of Group operating profit before goodwill and exceptional items. These results reflect a full year benefit from the acquisition in 2000 of Forsythe, Stewart and SS&L. The operating margin has fallen to 9.8% (2000: 10.8%), but the return on net assets has increased to 7.8% (2000: 6.6%).

Australia

In 2001, 8.4% (2000: 11.1%) of Group turnover and 8.5% (2000: 8.6%) of Group operating profit before goodwill and exceptional items was generated by our Australian businesses. These businesses contributed turnover of £207.9m (2000: £221.5m), including £56m (2000: £69.6m) of franchise payments from the State of Victoria, and operating profit of £13.4m (2000: £13.3m). Excluding the decline in franchise subsidies of £13.6m, turnover remained stable and operating profit increased by £13.7m. The operating margin has increased to 6.4% (2000: 6.0%) and the return on net assets at the year end has fallen to 13.2% (2000: 24.2%) due to the investment in infrastructure and rolling stock in Australian trains during the year.

Trains results

	Turnover 2001 £m	Turnover 2000 £m	Operating profit/(loss) 2001 £m	Operating profit/(loss) 2000 £m
Train operating companies				
– London and the South East	**516.4**	264.2	**46.7**	32.7
– Long Distance/Intercity	**121.7**	113.2	**10.5**	10.7
– Regional	**779.9**	647.3	**(19.0)**	(13.4)
Other	**40.2**	33.9	**2.4**	4.1
	1,458.2	1,058.6	**40.6**	34.1

Share of operating losses of associated undertakings

We hold a 33% investment in Altram LRT Limited, which started operating the Midland Metro in June 1999, and a 40% investment in Inter-Capital and Regional Rail Limited, which manages the operations of Eurostar (UK). Our share of the operating loss from these businesses was £1.9m (2000: £1.8m).

Interest

Net interest payable was £26.7m (2000: £34m), reflecting the significant reduction in debt due to proceeds of £237.6m being received from the sale of businesses in the year. Excluding exceptional items, interest cover improved to 5.8 times (2000: 4.5 times). Earnings before interest, tax, depreciation, amortisation and exceptional items ("EBITDA") from continuing operations were £214.4m (2000: £179.8m) and EBITDA interest cover from continuing operations improved to 8 times (2000: 5.3 times).

Goodwill and exceptional items

The goodwill charge increased to £41.9m (2000: £22.7m), principally reflecting the acquisition of Prism in 2000.

In 2001 there were exceptional operating charges of £83.5m (2000: £30.6m). These include:

- £67m (2000: nil) in respect of the agreement with the SRA, under which Central and ScotRail franchise subsidies were amended;
- £7.9m (2000: £7.2m) on the reorganisation of our UK operations. This includes the creation of the London Lines organisation encompassing the support functions of our c2c, Silverlink and WAGN rail businesses. This reorganisation started in 2000. The £3.1m incurred on the reorganisation of the coach division following 11 September largely represents the write-down of assets, including a £1.7m impairment charge of goodwill previously written off to reserves. (The write-off of this goodwill through the profit and loss account has no effect on net assets or shareholders' funds);
- £3.6m (2000: £1.5m) on reorganisation costs in the USA, largely in respect of exiting a substantial five year public transit contract that was in place when we acquired ATC in December 1999;
- £0.6m (2000: £2.4m) on the reorganisation of our Australian operations which again we started in 2000;
- £3m (2000: £2.4m) on introducing new trains across our UK franchises; and
- £1.4m (2000: £0.6m) abortive acquisition costs, including costs incurred on franchise bids.

Other exceptional items were a profit on sale of businesses of £91.7m (2000: £1m loss) which arose on the sale of our airports division and Bronckaers. It includes the net benefit of £34.3m negative goodwill taken to reserves on the acquisition of these businesses (the release of which has no effect on net assets or shareholders' funds).

The tax credit associated with goodwill and exceptional items was £26.6m (2000: £12.8m).

Tax

The tax charge on normalised profit before tax of £129.2m (2000: £119.3m) was £27.8m (2000: £25.7m), which represents an effective rate of 21.5% (2000: 21.5%). This tax rate reflects the mix of earnings in the UK, USA and Australia, and other benefits including capital allowances arising from the continued high level of investment in new vehicles and infrastructure in 2001. The level of planned investment in future years means that a full provision is not required under our current accounting policy for deferred tax. However, we will adopt Financial Reporting Standard ("FRS") 19, "Deferred Tax", in our financial statements for the year ending 31 December 2002. This will require a full provision to be made for deferred tax and will result in an increase in our effective tax rate to approximately 23%.

The total tax charge has been reduced to £1.2m (2000: £12.9m), due to the tax relief available on the goodwill and exceptional items.

Cash flow

We generated £185.5m (2000: £167.5m) of operating cash flow, reflecting a £55.5m improvement (2000: £1.2m deterioration) in working capital (due to the establishment of the £62.5m SRA provision).

Net interest paid was £29.2m (2000: £19.2m), as 2000 benefited from syndicated loan interest for the last quarter of the year not becoming payable until 2001. Tax paid fell to £6m (2000: £26.6m) as tax relief on exceptional operating charges reduced UK quarterly tax payments in 2001 and we received a £4.1m tax repayment in respect of prior years.

Net capital expenditure in 2001 of £92.8m (2000: £100.4m) included £29m (2000: £24.1m) on infrastructure and rolling stock in Australia trains and £21.7m (2000: £11.7m) on USA school buses. We received £237.6m from the sale of businesses and paid out £8.6m (2000: £283m) on acquisitions, largely for Glenorie Bus Company, an Australian company.

Dividends paid in 2001 absorbed £28.1m (2000: £22m), the increase reflecting the 9.7m shares issued as part of the consideration for the acquisition of Prism in 2000. New shares issued for cash in the year raised £3.2m (2000: £4.9m).

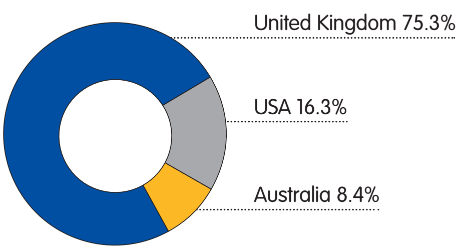
Overall there was a net cash inflow of £258.8m (2000: £226.2m outflow), which was used to repay loans.

Balance sheet

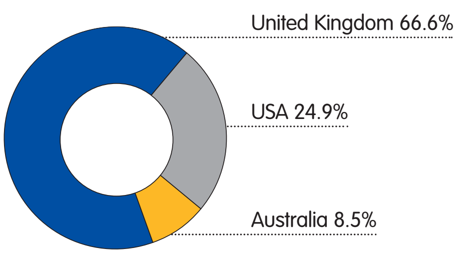
Net assets have increased by £36.6m to £413.9m (2000: £377.3m) at 31 December 2001. This is due primarily to the Group generating £33.2m of retained earnings, after adjusting for the £32.6m net benefit from the realisation of goodwill. This consists of £34.3m negative goodwill included in the profit on sale of businesses and £1.7m goodwill included in exceptional operating charges, the release of which has no net effect on net assets or shareholders' funds.

Net debt fell from £556.6m at the start of the year to £315m due to the net

Turnover
by geographical market



Operating profit
by geographical market



cash inflow of £258.8m (2000: £226.2m outflow), offset by £1.4m (2000: nil) of debt in subsidiaries acquired and a £15.8m (2000: £14.5m) adverse effect of non cash movements (largely exchange rate movements).

Based on net assets of £413.9m (2000: £377.3m) and net debt of £315m (2000: £556.6m), gearing at 31 December 2001 was 76.1% (2000: 147.5%).

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 2001, the Group had committed credit facilities of £610m of which £250m was undrawn. While we centralise these facilities to minimise cost of funds, we also have access to uncommitted working capital facilities in the UK, USA and Australia to help maximise funding flexibility.

Cash deposits 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 and forward rate agreements. The net effect of these transactions is that as at 31 December 2001, the Group was hedged against interest rate movements on £354m of gross debt for an average of 3.7 years. Each 1% increase in interest rates would cost the Group approximately £1.7m.

Currency rate risk

Our investments in overseas operations, which are primarily in the USA and Australia, expose us to translation risk on both net assets and earnings denominated in foreign currency. It is our policy to hedge between 50% and 100% of our investment in foreign currency denominated 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 2001, the Group had hedged 98% of its investment in US dollar denominated net assets and 93% of its investment in Australian dollar denominated net assets.

The average exchange rates for the year for the US dollar and the Australian dollar were US$1.44 (2000: US$1.51) and A$2.80 (2000: A$2.63). Each 1% weakening of the US and Australian dollar exchange rates would reduce the Group's operating profit by approximately £0.4m and £0.1m respectively.

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

Commodity prices

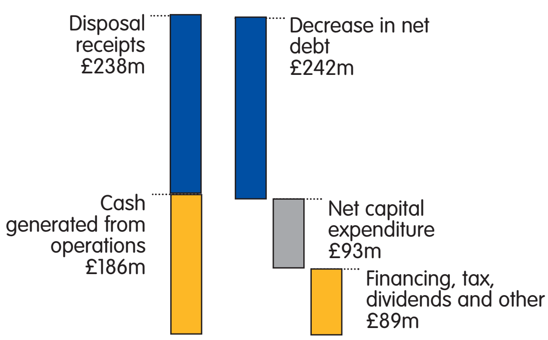
We are exposed to commodity price risk as a result of fuel usage. It is our policy to hedge this exposure in order to provide certainty as to the level of fuel costs in the short term and to reduce the year on year impact of price fluctuations over the medium term. This is achieved by entering into fuel swaps and purchase contracts. As at 31 December 2001, the Group had hedged approximately 95% of its 2002 expected usage, 70% of its 2003 expected usage and 65% of its 2004 expected usage.

Accounting policies

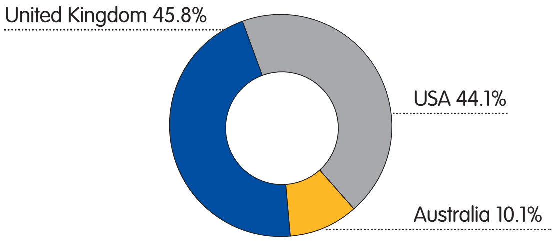
The Group has followed the transitional arrangements of FRS 17, "Retirement Benefits", and has provided the necessary pension disclosures in note 28 to the accounts. FRS 18, "Accounting Policies", has been adopted in the year and the effect on the Group is not material. As noted above, FRS 19, "Deferred Tax", will be adopted in the year ending 31 December 2002, when it becomes mandatory.

William Rollason *Finance Director*

Cash flow

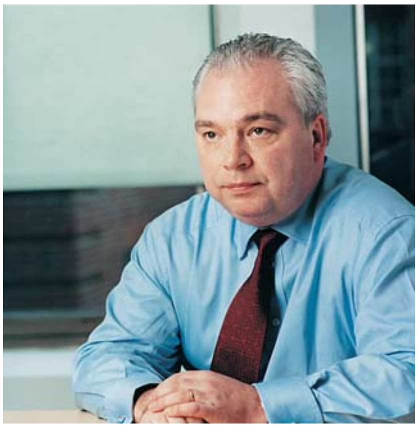


Average number of employees by geographical location



Board of Directors


Michael Davies


Phil White


Barry Gibson


Sue Lyons


Ray O'Toole


William Rollason


David Ross


Tim Stevenson


Tony McDonald *Company Secretary*

Michael Davies *Non Executive Chairman*
Michael Davies has been Chairman since 1992. He holds a number of directorships. He is Chairman of Simon Group plc and the Corporate Services Group. He is also a Non Executive Director of British Airways plc. Aged 67.

Phil White *Chief Executive*
Phil White was appointed to the Group Board in January 1996 while Managing Director of West Midlands Travel. He became Chief Executive in January 1997. Aged 52.

Barry Gibson *Non Executive Director*
Barry Gibson joined the Board in November 1999. Until October 2001 he was the Group Chief Executive of Littlewoods Organisation plc. Aged 50.

Sue Lyons OBE *Non Executive Director*
Sue Lyons joined the Board in May 2001. She was previously Managing Director, Defence (Europe) at Rolls Royce. She is a visiting Professor in Principles of Engineering Design at Imperial College. Aged 49.

Ray O'Toole *Chief Operating Officer*
Ray O'Toole joined the Board in November 1999 as Chief Operating Officer. Formerly with FirstGroup plc, he was responsible for their operations in Yorkshire and the North West, and group engineering. Aged 46.

William Rollason *Finance Director*
William Rollason joined the Board in December 1999 as Finance Director. He was formerly an Associate Director at Carlton Communications Plc. Aged 41.

David Ross *Non Executive Director*
David Ross joined the Board in February 2001. He is Chief Operating Officer of The Carphone Warehouse Group PLC which he joined in 1990. He is a chartered accountant. Aged 36.

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 and holds other directorships. He is a qualified barrister. Aged 53.

Tony McDonald *Company Secretary*
Tony McDonald was appointed Company Secretary in May 2000. Prior to joining the Group he held senior legal positions at Guardian Royal Exchange and BP. He is a qualified solicitor. Aged 41.

Directors' report

The Directors are pleased to present their Annual Report and the audited accounts for the year ended 31 December 2001.

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 6 to 33.

Profit and dividends

The profit on ordinary activities before tax for the year ended 31 December 2001 was £95.5m and retained profits of £65.8m were transferred to reserves.

The Directors recommend a final net dividend of 14.7p per share, which, together with the interim net dividend of 7.3p per share paid on 19 October 2001, gives a total net dividend for the year of 22p per share (2000: 20.7p). If approved by shareholders, the final dividend will be paid on 3 May 2002 to shareholders on the register at 5 April 2002.

Directors

The Directors of the Company who served during the year are listed below:

Michael Davies
Phil White
Richard Brown (resigned 7 December 2001)
Barry Gibson
Sue Lyons (appointed 23 May 2001)
Clive Myers (resigned 2 May 2001)
Ray O'Toole
William Rollason
David Ross (appointed 1 February 2001)
Tim Stevenson (appointed 1 February 2001)
James Watson (resigned 2 May 2001)

Barry Gibson and William Rollason will retire by rotation at the Annual General Meeting, and, being eligible, will offer themselves for re-election. Sue Lyons, who was appointed a Director on 23 May 2001, will stand for election at the Annual General Meeting.

The names and brief biographies of the current Directors appear on page 35. 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 40 to 43.

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 seeks to enhance the level of 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 the 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 profit sharing and share incentive schemes.

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

Charitable and political contributions
Charitable donations made during the year totalled £218,840. 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 2001 were 36 days (2000: 38 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 11 March 2002:

CGNU plc	6,614,796	5.01%*
Henderson Investment Funds Limited	6,938,720	5.99%*
WMT Employees Shareholding Trustees Limited	5,610,664	4.26%*

**Percentage as at date of notification*

Annual General Meeting
The Annual General Meeting will be held on 2 May 2002. Shareholders will be asked to approve six items of special business, details of which are given in the Notice of Meeting accompanying this report.

Going concern
It should be recognised that any consideration of the foreseeable future involves making a judgment, 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*
20 March 2002

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 and its committees

The Directors believe it is essential for the Group to be led and controlled by an effective Board. The Directors are responsible for the Group's activities and its system of corporate governance. The Board meets frequently throughout the year and the Directors receive information to enable them to discharge their duties. There is a formal schedule of matters reserved for the Board's decision and a procedure in place for any Director to take independent professional advice where considered necessary. The Company Secretary is responsible for ensuring that Board procedures are followed and applicable rules and regulations are complied with. All Directors are encouraged to keep abreast of matters affecting their duties as a Director and to attend training courses relevant to their role.

The Board comprises three Executive and five independent Non Executive Directors. The offices of Chairman and Chief Executive are held separately. Tim Stevenson is the Senior Independent Director. The Non Executive Directors bring strong independent judgment 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 page 35.

All new appointments to the Board are made by the Board on the recommendation of the Remuneration and Nomination Committee. All Directors submit themselves for election at the Annual General Meeting following their appointment and thereafter by rotation at least once every three years.

The Board has established a number of committees with defined terms of reference and receives reports of their proceedings. The principal committees are the combined Remuneration and Nomination Committee (Chairman Michael Davies), the Audit Committee (Chairman Tim Stevenson) and the Safety Committee (Chairman Michael Davies). The membership of these committees is comprised solely of the Non Executive Directors: Michael Davies, Barry Gibson, Sue Lyons, David Ross and Tim Stevenson.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee is responsible for determining the contract terms, remuneration, pensions and other benefits of the Executive Directors and 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. It also considers eligible candidates for senior appointments. The Chairman does not attend Committee discussions concerning the review of his own remuneration. The report on Directors' remuneration is set out on pages 40 to 43.

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.

Safety Committee

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

Relations with shareholders

The Company maintains a regular dialogue with its institutional shareholders and fund managers with a variety of meetings and presentations throughout the year. 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.

Accountability and audit

The Combined Code has extended the requirement that the Board reviews the effectiveness of the Group's system of internal financial control to cover all controls including financial, operational, compliance and risk management. The Company has established procedures to ensure full compliance with this requirement.

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Group. This system has been 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:

- managing business risks, with key risks identified and classified in conjunction with operational management and steps taken to mitigate or eliminate these where appropriate;
- financial reporting, within comprehensive financial planning and accounting frameworks; and
- capital investment, with detailed appraisal and authorisation.

In addition there is an extensive programme in place to review and address risk management and safety issues throughout the Group. This programme is applied to all new businesses acquired by the Group as part of the process of integration. The Board receives regular reports on progress during the year.

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, alongside its other responsibilities, reviews a summary of the reports of the internal audit function on the internal control 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.

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 and a continuous monitoring process supported by regular reports from management on the risks applicable to their areas of business. In addition, bi-annual returns on control measures from local management are reviewed by the Group's internal auditors and provide further assurance to the Board in its review. A formal programme also exists to prioritise the key business risks facing each of the Group's various businesses, to seek to ensure that appropriately focused controls and monitoring procedures are in place to manage and, where appropriate, reduce those risks and to deal with areas for improvement which come to management's or the Board's attention. This programme includes reviews of any changes in those risks and the controls in place to manage them and is used by management in the subsidiary companies in managing their businesses and by the Group in its review.

Statements of the respective responsibilities of the Directors and Auditors are set out on pages 44 and 45.

The Remuneration and Nomination Committee ("the Committee"), comprised solely of the Non Executive Directors, is responsible for determining the remuneration and conditions of employment of the Chairman and Executive Directors. The fees of the Non Executive Directors (other than the Chairman) are set by the Board as a whole.

Policy

In determining appropriate levels of remuneration for the Executive Directors, the Committee aims to provide packages that are competitive in the marketplace and will attract and retain high quality executives capable of achieving the Group's objectives. To this end, the Committee seeks advice each year from a firm of executive remuneration consultants, who are instructed to review the existing remuneration of all the Directors, making comparisons with peer companies of similar size and complexity. Proposals for the forthcoming year are then discussed in the light of the Group's growth prospects. The Committee is kept informed by the Chief Executive of the salary levels of all senior executives employed by the Group.

Individual components of remuneration

A detailed breakdown of Directors' remuneration appears on pages 41 to 43. 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, as stated above, the rates for similar roles in comparable companies.

(ii) Performance-related bonus: a discretionary bonus scheme for the Executive Directors was first introduced in 1993. Payments for 2001 are conditional on the achievement of year on year growth in earnings per share, on a graduated basis. For 2001, the Committee set the maximum bonus payable at 75% of basic salary for achieving earnings per share growth of 20% or above. No bonus is payable if earnings per share growth of less than 4% is achieved.

(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.

(v) Share option and long-term incentive arrangements: the Committee has made awards to Executive Directors under two schemes. Details of the awards are shown under the heading "Directors' share options" on page 42.

The two schemes are:

(a) Executive Share Option Scheme: the Company operates an executive share option scheme for Directors and other senior management. Options granted under this scheme to Executive Directors up until 1999 are subject to performance criteria of growth in the Company's earnings per share of RPI+6% over the three year period from the date of grant.

Following the approval by shareholders in 2000 options granted to Executive Directors under the Company's Executive Share Option Scheme are subject to an annual maximum grant of twice basic salary. Each grant is exercisable after three years, subject to a sliding scale of compound annual growth in earnings per share. Each option is subject to a fixed three year performance period and will lapse at the end of that period if the performance conditions are not fulfilled.

Options granted in 2000 and 2001 become exercisable in full where compound annual growth in earnings per share is 10% in excess of the growth in RPI over the same period. No part of the option is exercisable if the compound annual growth in earnings per share is 2% or less in excess of the growth in RPI. Between these two points an option is exercisable on a straight line basis.

Currently, Executive Directors may hold options over shares having a market value (measured at the date of grant of an option) not exceeding eight times the individual's salary. To the extent that any option on its grant would cause an individual to exceed the existing limit of four times salary, the option will be satisfied by the transfer of shares from the Company's Employee Benefit Trust, rather than by the issue of new shares.

(b) Long Term Share Incentive Scheme ("LTIS"): The LTIS was introduced in 1997. In normal circumstances, shares may vest under this scheme no earlier than three years from the date of award. The number of shares which may vest is based on the 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. Phil White is the only remaining Director to hold an award under the LTIS and no further awards to Directors are planned under this scheme.

Approval is being sought at the Annual General Meeting to adopt a new Executive Share Option Plan (the "Plan") which will reflect current market practice and the guidelines of institutional investment protection bodies. Further details of the new Plan can be found in Appendix 1 to the Notice of the Annual General Meeting.

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

Directors' service contracts

No Executive Director has a service contract with the Company terminable on more than 12 months' notice. The Non Executive Directors do not have service contracts with the Company.

Outside appointments

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

Directors' remuneration

Directors' emoluments

	Salary/fees £000	Performance related bonus £000	Benefits £000	Pension contributions £000	Termination of employment £000	Total 2001 £000	Total 2000 £000
Executive Directors							
Phil White	400	200	153	38	–	**791**	742
Ray O'Toole	250	125	53	19	–	**447**	434
William Rollason	250	125	58	19	–	**452**	438
Non Executive Directors							
Michael Davies	125	–	–	–	–	**125**	100
Barry Gibson	30	–	–	–	–	**30**	28
Sue Lyons (appointed 23 May 2001)	18	–	–	–	–	**18**	–
David Ross (appointed 1 February 2001)	28	–	–	–	–	**28**	–
Tim Stevenson (appointed 1 February 2001)	35	–	–	–	–	**35**	–
Former Executive Director							
Richard Brown (resigned 7 December 2001)	235	125	14	81	246	**701**	415
Former Non Executive Directors							
Clive Myers (resigned 2 May 2001)	14	–	–	–	–	**14**	49
James Watson (resigned 2 May 2001)	9	–	–	–	–	**9**	28

Notes

(a) The total emoluments of the highest paid Director for the year ended 31 December 2001 (including salary, bonus and gains on exercise of options, but excluding pension contributions) were £1,073,018. In the previous year the emoluments of the highest paid Director were £847,571.

(b) Phil White, Ray O'Toole and William Rollason participate in defined contribution pension schemes. Included in benefits are contributions payable above the earnings cap to Phil White (£122,537), Ray O'Toole (£31,100) and William Rollason (£31,100).

(c) Richard Brown left the Company on 7 December 2001. He received a payment of £246,240 on termination of employment.

The following information relates to Richard Brown who participated in a defined benefit pension scheme:

	Age	Increase in accrued pension pa during the year £000	Transfer value of increase £000	Total accrued pension pa as at 7 December 2001 £000
Richard Brown	49	12	233	103

Directors' interests and transactions

The beneficial interests of the Directors in office as at 31 December 2001 are shown below:

Directors' shareholdings	At 31 December 2001	At 31 December 2000
Executive Directors		
Phil White	**115,408**	115,408
Ray O'Toole	**1,500**	1,500
William Rollason	**3,000**	3,000
Former Executive Director Richard Brown (resigned 7 December 2001)	**3,000**	3,000
Non Executive Directors		
Michael Davies	**90,000**	90,000
Barry Gibson	**3,000**	3,000
Sue Lyons	**–**	–
David Ross	**574**	–
Tim Stevenson	**5,773**	–

Executive Directors

Directors' share options	Note	At 31 December 2000	During year Granted	During year Exercised	During year Lapsed	At 31 December 2001	Exercise price	Market price at date of exercise	Date from which exercisable†	Expiry date
Phil White	(i)	35,353	–	35,353	–	**–**	495.0p	925p	12.09.99	12.09.03
	(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)	41,964	–	18,251	6,557	**17,156**	–	922p	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
William Rollason	(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
Former Executive Director										
Richard Brown	(i)	25,000	–	–	–	**25,000**	525.0p	–	24.03.00	31.07.02
	(i)	85,000	–	–	–	**85,000**	540.0p	–	31.01.02	31.07.02
	(i)	–	46,377	–	–	**46,377**	862.5p	–	31.01.02	31.07.02
	(iii)	1,502	–	–	–	**1,502**	427.0p	–	31.01.02	31.07.02

† *In the case of awards under the Long Term Incentive Scheme, this date is the earliest date on which, under normal circumstances, shares awarded under the Scheme may vest.*

Notes

(i) Options granted under the Executive Share Option Schemes.

(ii) 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 pursuant to the Long Term Share Incentive Scheme. In normal circumstances, no award under this scheme may vest until three years after the date of the award.

(iii) Options granted under the Savings Related Share Option Scheme.

In addition to their individual interests in shares the Executive Directors were, for Companies Act purposes, regarded as interested in the 946,971 shares held at 11 March 2002 by the National Express Group QUEST ("QUEST"), established for satisfying exercises under the Group's Savings Related Share Option Scheme. All employees (including Executive Directors) are potential beneficiaries under this Trust.

No change occurred in any of the interests held by Directors in office between 31 December 2001 and 11 March 2002. The Register of Directors' Interests maintained by the Company contains full details of the Directors' holdings of shares and options over shares in the Company. The aggregate difference between the exercise prices and the mid-market prices on the dates of exercise by Directors of all share options during the year was £320,292.

The mid-market price of the Company's ordinary shares at 31 December 2001 was 565p (2000: 723p) and the range during the year ended 31 December 2001 was 467p to 1010p.

Statement of Directors' responsibilities

Company law requires the Directors 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.

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

We have audited the Group's accounts for the year ended 31 December 2001 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.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the Annual Report 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 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 are 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, 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. 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 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.

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 2001 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP *Registered Auditor*
London
20 March 2002

Group profit and loss account

for the year ended 31 December 2001	Note	Total before goodwill and exceptional items 2001 £m	Goodwill and exceptional items 2001 £m	Total 2001 £m	Total before goodwill and exceptional items 2000 £m	Goodwill and exceptional items 2000 £m	Total 2000 £m
Turnover							
– continuing operations		**2,457.4**	**–**	**2,457.4**	1,968.6	–	1,968.6
– discontinued operations		**6.8**	**–**	**6.8**	34.0	–	34.0
Turnover	2	**2,464.2**	**–**	**2,464.2**	2,002.6	–	2,002.6
Other operating income	3	**12.4**	**–**	**12.4**	13.4	–	13.4
Other operating costs before goodwill and exceptional items		**(2,318.8)**	**–**	**(2,318.8)**	(1,860.9)	–	(1,860.9)
Franchise amendment costs		**–**	**(67.0)**	**(67.0)**	–	–	–
Other exceptional items		**–**	**(16.5)**	**(16.5)**	–	(30.6)	(30.6)
Goodwill amortisation		**–**	**(41.9)**	**(41.9)**	–	(22.7)	(22.7)
Total operating costs	4	**(2,318.8)**	**(125.4)**	**(2,444.2)**	(1,860.9)	(53.3)	(1,914.2)
Operating profit		**157.8**	**(125.4)**	**32.4**	155.1	(53.3)	101.8
– continuing operations		**156.7**	**(125.4)**	**31.3**	142.0	(53.3)	88.7
– discontinued operations		**1.1**	**–**	**1.1**	13.1	–	13.1
Operating profit	2	**157.8**	**(125.4)**	**32.4**	155.1	(53.3)	101.8
Share of operating losses of associated undertakings		**(1.9)**	**–**	**(1.9)**	(1.8)	–	(1.8)
Profit/(loss) on sale of businesses	15	**–**	**91.7**	**91.7**	–	(1.0)	(1.0)
Profit on ordinary activities before interest		**155.9**	**(33.7)**	**122.2**	153.3	(54.3)	99.0
Net interest payable	7	**(26.7)**	**–**	**(26.7)**	(34.0)	–	(34.0)
Profit on ordinary activities before taxation		**129.2**	**(33.7)**	**95.5**	119.3	(54.3)	65.0
Tax on profit on ordinary activities	8	**(27.8)**	**26.6**	**(1.2)**	(25.7)	12.8	(12.9)
Profit after tax		**101.4**	**(7.1)**	**94.3**	93.6	(41.5)	52.1
Minority interest		**0.1**	**–**	**0.1**	(0.7)	–	(0.7)
Profit attributable to shareholders		**101.5**	**(7.1)**	**94.4**	92.9	(41.5)	51.4
Dividends	10	**(28.6)**	**–**	**(28.6)**	(26.3)	–	(26.3)
Retained profit for the financial year		**72.9**	**(7.1)**	**65.8**	66.6	(41.5)	25.1
Basic earnings per share	11			**72.9p**			43.4p
Diluted earnings per share	11			**68.3p**			39.7p
Normalised diluted earnings per share	11	**72.8p**			63.7p		

Balance sheets

at 31 December 2001	Note	Group 2001 £m	Group 2000 £m	Company 2001 £m	Company 2000 £m
Fixed assets					
Intangible assets	12	**503.6**	523.7	**–**	–
Tangible assets	13	**512.8**	653.6	**1.4**	3.4
Investments and interests in associated undertakings	14	**26.4**	27.3	**582.0**	915.3
		1,042.8	1,204.6	**583.4**	918.7
Current assets					
Stock	16	**21.4**	20.7	**–**	–
Debtors	17	**376.1**	327.1	**621.4**	515.4
Cash at bank and in hand	18	**92.3**	53.8	**56.7**	7.2
		489.8	401.6	**678.1**	522.6
Creditors: amounts falling due within one year	19	**(610.6)**	(751.1)	**(460.5)**	(312.5)
Net current (liabilities)/assets		**(120.8)**	(349.5)	**217.6**	210.1
Total assets less current liabilities		**922.0**	855.1	**801.0**	1,128.8
Creditors: amounts falling due after more than one year	20	**(405.1)**	(458.2)	**(355.6)**	(428.8)
Provisions for liabilities and charges	22	**(103.0)**	(19.6)	**(6.1)**	(8.1)
		413.9	377.3	**439.3**	691.9
Capital and reserves					
Called-up share capital	24	**6.6**	6.5	**6.6**	6.5
Share premium account	25	**43.7**	40.5	**43.7**	40.5
Share capital to be issued	25	**0.3**	0.4	**0.3**	0.4
Merger reserve	25	**15.4**	57.3	**–**	214.2
Capital reserve	25	**–**	17.0	**26.4**	52.1
Revaluation reserve	25	**0.8**	17.5	**–**	–
Profit and loss account	25	**341.8**	233.6	**362.3**	378.2
Equity shareholders' funds		**408.6**	372.8	**439.3**	691.9
Equity minority interest		**5.3**	4.5	**–**	–
		413.9	377.3	**439.3**	691.9

P M White *Chief Executive*

W P Rollason *Finance Director*
20 March 2002

Group statement of cash flows

for the year ended 31 December 2001	Note	2001 £m	2000 £m
Net cash inflow from operating activities	31(a)	**185.5**	167.5
Interest received		**9.5**	3.1
Interest paid		**(37.7)**	(20.7)
Interest element of finance lease rentals		**(1.0)**	(1.6)
Returns on investments and servicing of finance		**(29.2)**	(19.2)
UK corporation tax paid		**(5.4)**	(24.8)
Overseas tax paid		**(0.6)**	(1.8)
Taxation		**(6.0)**	(26.6)
Payments to acquire tangible assets		**(102.6)**	(89.3)
Receipts from sale of tangible assets		**10.6**	3.6
Purchase of own shares to satisfy employee share scheme		**(0.7)**	(1.6)
Payments to acquire other investments		**(0.1)**	(13.1)
Capital expenditure and financial investment		**(92.8)**	(100.4)
Receipts from the sale of businesses	15	**237.6**	–
Payments to acquire businesses	15	**(8.6)**	(283.0)
Cash disposed in businesses sold	15	**(1.7)**	–
Cash acquired in businesses purchased	15	**0.4**	52.6
Deferred consideration for businesses acquired		**(1.5)**	–
Acquisitions and disposals		**226.2**	(230.4)
Equity dividends paid		**(28.1)**	(22.0)
Cash inflow/(outflow) before financing activities		**255.6**	(231.1)
Management of liquid resources			
Cash withdrawn from short term deposits		**4.5**	19.4
Financing			
Issue of share capital		**3.2**	4.9
Cash inflow/(outflow) from lease financing		**21.2**	(4.4)
Movements on bank deposits relating to loan notes		**–**	3.1
Loans advanced		**–**	187.5
Loans repaid		**(241.2)**	–
Net cash (outflow)/inflow from financing		**(216.8)**	191.1
Increase/(decrease) in cash	31(b)	**43.3**	(20.6)

Group statement of total recognised gains and losses

for the year ended 31 December 2001	Note	2001 £m	2000 £m
Profit attributable to shareholders		**94.4**	51.4
Exchange differences on foreign currency net investments	25	**(0.6)**	(0.5)
Total recognised gains and losses for the year		**93.8**	50.9

Note of historical cost Group profits and losses

for the year ended 31 December 2001

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 2000 and 31 December 2001.

Reconciliation of movements in Group equity shareholders' funds

for the year ended 31 December 2001	Note	2001 £m	2000 £m
Total recognised gains and losses		**93.8**	50.9
Dividends	10	**(28.6)**	(26.3)
New share capital issued for cash		**3.2**	4.9
New share capital issued for non cash consideration		**–**	80.5
Goodwill realised		**(32.6)**	–
Net addition to shareholders' funds		**35.8**	110.0
Equity shareholders' funds at 1 January		**372.8**	262.8
Equity shareholders' funds at 31 December		**408.6**	372.8

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 51).

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.

Businesses acquired	Date of acquisition
Glenorie Bus Company Pty Limited	19 December 2001

Businesses sold	Date of disposal
East Midlands International Airport Limited	28 March 2001
Bournemouth International Airport Limited	28 March 2001
Autobusbedrijf Bronckaers NV	31 October 2001

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 associated undertakings. The Group accounts include the appropriate share of these undertakings' results and reserves based on their latest accounts.

Goodwill
Goodwill in respect of acquisitions made prior to 1 January 1998 has been set off directly against reserves.

In accordance with Financial Reporting Standard 10, 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.

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 finance leases and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives. 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 income 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.

1 Accounting policies continued

Investment properties

Certain of the Group's properties are held for long-term investment. Investment properties are accounted for in accordance with SSAP 19, as follows:

(a) 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
(b) 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 Financial Reporting Standard 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 as at 31 December 1995.

Deferred taxation

Provision has been made for deferred taxation using the liability method on all timing differences to the extent that it is probable that the liability will crystallize.

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.

The airports division was sold on 28 March 2001. Prior to that date, certain East Midlands Airport employees were required to retire from their current positions in advance of the normal retirement date, due to the physically demanding nature of their employment. On early retirement, these employees were entitled to receive one-off lump sum payments. Provision for the estimated cost of the early retirement of these employees was made on a systematic basis over their remaining service lives.

1 Accounting policies continued

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:

	2001 Closing rate	2001 Average rate	2000 Closing rate	2000 Average rate
US dollar	**1.46**	**1.44**	1.49	1.51
Australian dollar	**2.84**	**2.80**	2.69	2.63

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:
– 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. If they are terminated early, the gain or loss is spread over the remaining maturity of the original instrument.

2 Turnover and segmental analysis

The turnover of the Group comprises revenue from road passenger transport, airport operations, train passenger services and related activities in the UK, USA and Australia. Within the trains division, franchise agreement payments from the Strategic Rail Authority and local Passenger Transport Executives within the West Midlands region and Scotland are treated as turnover. During the year franchise agreement payments amounted to £554.8m (2000: £482.6m) in the UK and £56.0m (2000: £69.6m) from the Victoria Department of Public Transport in Australia.

2 Turnover and segmental analysis continued

Analysis by class of business	Turnover 2001 £m	Turnover 2000 £m	Operating profit before goodwill and exceptional items 2001 £m	Operating profit before goodwill and exceptional items 2000 £m	Net assets 2001 £m	Net assets 2000 £m
Buses	**208.3**	200.1	**52.8**	50.6	**63.8**	108.0
Trains	**1,458.2**	1,058.6	**40.6**	34.1	**9.8**	91.0
Coaches	**181.3**	186.8	**10.6**	11.3	**35.2**	32.4
UK operations	**1,847.8**	1,445.5	**104.0**	96.0	**108.8**	231.4
USA	**401.7**	301.6	**39.3**	32.7	**501.5**	496.5
Australia	**207.9**	221.5	**13.4**	13.3	**101.6**	55.0
Continuing operations	**2,457.4**	1,968.6	**156.7**	142.0	**711.9**	782.9
Discontinued operations – Airports	**6.8**	34.0	**1.1**	13.1	**–**	162.4
	2,464.2	2,002.6	**157.8**	155.1	**711.9**	945.3
Exceptional items (see table below)			**(83.5)**	(30.6)		
Goodwill amortisation			**(41.9)**	(22.7)		
			32.4	101.8		
Unallocated net liabilities					**(303.3)**	(572.5)
					408.6	372.8
Equity minority interest					**5.3**	4.5
Total net assets					**413.9**	377.3

Exceptional items can be analysed as follows:

	Buses £m	Trains £m	Coaches £m	USA £m	Australia £m	Other £m	Total £m
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
Abortive bid costs	0.2	1.0	–	–	0.2	–	1.4
	0.2	**75.8**	**3.1**	**3.6**	**0.8**	**–**	**83.5**
2000							
New trains	–	2.4	–	–	–	–	2.4
Reorganisation	1.6	5.6	–	1.5	2.4	–	11.1
Abortive bid costs	–	–	–	0.6	–	–	0.6
Atlantic Express	–	–	–	–	–	16.5	16.5
	1.6	8.0	–	2.1	2.4	16.5	30.6

The exceptional franchise amendment expenditure represents the cost to the Group of its renegotiations with the Strategic Rail Authority of the Central Trains and ScotRail rail franchises. The exceptional expenditure on new trains is the costs associated with bringing the new trains into service. Reorganisation costs include £1.7m (2000: £nil) relating to the impairment of goodwill previously written off to reserves in respect of a coach business. The exceptional expenditure during the year ended 31 December 2000 of £16.5m is the settlement, with no admission of liability, of the litigation brought against the Group by Atlantic Express Group Inc. in the USA, and the associated professional fees.

Goodwill amortisation of £41.9m (2000: £22.7m) is analysed as Trains £21.6m (2000: £6.0m), Coaches £0.4m (2000: £0.2m), USA £18.5m (2000: £15.2m) and Australia £1.4m (2000: £1.3m).

The allocation of net assets by division for the year ended 31 December 2000 has been restated to reflect a reassessment of the allocation of certain net assets. 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 associated undertakings have been analysed according to the activities of the associated undertakings.

Notes to the accounts

3 Other operating income

	2001 £m	2000 £m
Rents receivable	**12.4**	13.4

Included in rents receivable is £1.2m (2000: £5.3m) of income from discontinued operations.

4 Operating costs

	2001 £m	2000 £m
Materials and consumables	**104.5**	92.8
Staff costs	**803.0**	649.5
Depreciation – owned assets	**58.3**	40.7
– leased assets	**2.3**	3.2
Operating lease charges – plant and equipment	**229.1**	141.5
– land and buildings	**489.7**	441.8
External charges	**715.4**	522.0
Operating costs before goodwill amortisation	**2,402.3**	1,891.5
Goodwill amortisation	**41.9**	22.7
Total operating costs	**2,444.2**	1,914.2

Operating costs relating to discontinued operations amount to £6.9m (2000: £26.2m), including materials and consumables £0.3m (2000: £1.4m), staff costs £3.5m (2000: £11.0m), depreciation £1.0m (2000: £4.3m), operating lease charges £nil (2000: £0.2m) and external charges £2.1m (2000: £9.3m).

Operating costs include £7.7m (2000: £11.8m) of franchise agreement payments to the Strategic Rail Authority.

Operating costs include exceptional costs of £83.5m (2000: £30.6m) being materials and consumables £0.2m (2000: £0.1m), staff costs £4.9m (2000: £9.5m) and external charges £78.4m (2000: £21.0m).

Included within external charges are fees paid to our auditors in respect of audit services of £0.7m (2000: £0.7m). In addition, external charges include fees paid to our auditors in respect of non-audit services of £1.3m (2000: £0.1m) in the UK and £0.4m (2000: £0.2m) overseas. £1.1m (2000: £0.1m) of these non-audit fees were in respect of tax services. A further £0.1m (2000: £1.4m) was capitalised with respect to acquisitions.

5 Staff costs

	2001 £m	2000 £m
Wages and salaries	**735.3**	593.7
Social security costs	**55.6**	43.5
Pension costs (see note 28)	**12.1**	12.3
	803.0	649.5

The average number of employees (including Executive Directors) during the year was as follows:	2001 Number	2000 Number
Managerial and administrative	**4,503**	4,305
Operational	**40,005**	34,997
	44,508	39,302

6 Directors' emoluments

	2001 £m	2000 £m
The emoluments of the Directors are as follows:		
Fees	**0.3**	0.2
Basic salaries	**1.1**	1.0
Benefits	**0.3**	0.1
Performance related bonuses	**0.6**	0.7
Pension contributions	**0.2**	0.3
Termination of employment	**0.2**	–
	2.7	2.3

More detailed information concerning Directors' emoluments, shareholdings and options is shown in the report on Directors' remuneration on pages 40 to 43.

7 Net interest payable

	2001 £m	2000 £m
Interest payable and similar charges:		
Bank loans and overdrafts	**(35.1)**	(36.9)
Other loans	**(0.1)**	(0.9)
Finance lease charges	**(1.0)**	(1.6)
	(36.2)	(39.4)
Interest receivable	**9.5**	5.4
Net interest payable	**(26.7)**	(34.0)

8 Taxation

	2001 £m	2000 £m
Current taxation:		
UK corporation tax	**27.4**	30.7
Prior years – UK	**(1.8)**	(2.3)
	25.6	28.4
Less double tax relief	**(2.9)**	(7.8)
	22.7	20.6
Current taxation – overseas	**5.1**	5.1
	27.8	25.7
Tax relief on goodwill and exceptional items:		
UK corporation tax	**(21.5)**	(8.2)
Overseas	**(5.1)**	(4.6)
Tax on profit on ordinary activities	**1.2**	12.9

The tax relief on exceptional items arises on exceptional items which are included within operating costs.

9 Loss/profit attributable to shareholders of the parent company

The loss dealt with in the accounts of the parent company was £227.3m (2000: £393.7m profit). In the year ended 31 December 2000, £318.5m of this profit was non-distributable.

10 Dividends

	2001 £m	2000 £m
Ordinary – interim (paid) of 7.3p per share (2000: 6.5p)	**9.4**	7.6
– final (proposed) of 14.7p per share (2000: 14.2p)	**19.2**	18.7
	28.6	26.3

11 Earnings per share

	2001	2000
Basic earnings per share	**72.9p**	43.4p
Diluted earnings per share	**68.3p**	39.7p
Normalised diluted earnings per share	**72.8p**	63.7p

Basic earnings per share is calculated by dividing the profit attributable to shareholders of £94.4m (2000: £51.4m) by the weighted average number of ordinary shares in issue during the year, excluding those held by employee share ownership trusts (see note 24) 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.

The reconciliation of weighted average number of ordinary shares is detailed as follows:	Number of shares 2001	Number of shares 2000
Basic weighted average shares	**129,457,561**	118,393,605
Adjustment for dilutive potential ordinary shares	**8,852,402**	11,191,236
Diluted weighted average shares	**138,309,963**	129,584,841

The normalised diluted earnings per share has been calculated in addition to the basic and diluted earnings per share required by Financial Reporting Standard 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 year ended 31 December 2000 has been restated to exclude the earnings from discontinued operations. The normalised diluted earnings per share for the year ended 31 December 2001 excludes the earnings from discontinued operations. It has not been adjusted to reflect the interest earned on the cash proceeds from the disposal of the discontinued operations.

Normalised profits after tax and minority interest are:	2001 £m	2000 £m
Profit after tax and minority interest	**94.4**	51.4
Earnings from discontinued operations	**(0.8)**	(10.4)
Exceptional operating costs	**83.5**	30.6
Goodwill amortisation	**41.9**	22.7
(Profit)/loss on sale of businesses	**(91.7)**	1.0
Tax relief on goodwill and exceptional items	**(26.6)**	(12.8)
	100.7	82.5

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 franchises (nine years).

Group	Goodwill £m
Cost:	
At 1 January 2001	549.9
Additions	13.4
Exchange adjustments	8.6
At 31 December 2001	**571.9**
Amortisation:	
At 1 January 2001	26.2
Charge for the year	41.9
Exchange adjustments	0.2
At 31 December 2001	**68.3**
Net book value:	
At 31 December 2001	**503.6**
At 31 December 2000	523.7

13 Tangible assets

Group	Freehold land and buildings £m	Long leasehold property £m	Short leasehold property £m	Infrastructure £m	Public service vehicles £m	Plant and equipment £m	Total £m
Cost or valuation:							
At 1 January 2001	190.7	61.1	23.3	20.9	334.2	112.8	743.0
Additions	3.7	4.0	11.8	20.4	46.4	24.1	110.4
Acquisition of businesses	2.5	–	–	–	1.5	0.2	4.2
Disposals	(5.5)	(0.1)	(1.3)	–	(24.1)	(3.6)	(34.6)
Disposal of businesses	(141.9)	(18.9)	–	–	(6.3)	(40.7)	(207.8)
Reclassifications	–	–	(1.0)	1.0	–	–	–
Exchange adjustments	(0.4)	0.8	(2.0)	(0.2)	(0.8)	–	(2.6)
At 31 December 2001	**49.1**	**46.9**	**30.8**	**42.1**	**350.9**	**92.8**	**612.6**
Depreciation:							
At 1 January 2001	9.5	1.7	1.9	0.6	50.7	25.0	89.4
Charge for the year	1.1	1.2	4.8	0.1	33.5	19.9	60.6
Disposals	(0.4)	(0.1)	–	–	(20.0)	(1.8)	(22.3)
Disposal of businesses	(6.5)	(0.8)	–	–	(3.1)	(17.7)	(28.1)
Exchange adjustments	–	0.1	–	–	(0.1)	0.2	0.2
At 31 December 2001	**3.7**	**2.1**	**6.7**	**0.7**	**61.0**	**25.6**	**99.8**
Net book value:							
At 31 December 2001	**45.4**	**44.8**	**24.1**	**41.4**	**289.9**	**67.2**	**512.8**
At 31 December 2000	181.2	59.4	21.4	20.3	283.5	87.8	653.6

The net book value of freehold land and buildings and long leasehold property includes £9.1m (2000: £69.8m) in respect of investment properties and £6.3m (2000: £18.7m) in respect of land which is not depreciated.

The Directors have reviewed the valuation of the Group's investment properties at 31 December 2001 and are of the opinion that the open market value of these properties at 31 December 2001 is fairly stated in these accounts.

13 Tangible assets continued

Particulars relating to revalued assets are as follows:	2001 £m	2000 £m
Land and buildings valuation at end of year	**21.3**	78.0
Historical cost of revalued assets	**23.2**	64.7
Aggregate depreciation based thereon	**(2.7)**	(4.2)
Historical cost net book value	**20.5**	60.5

Tangible fixed assets held under finance lease agreements are analysed as follows:	2001 £m	2000 £m
Public service vehicles	**42.2**	18.2
Plant and equipment	**1.6**	1.3
Net book value	**43.8**	19.5

Company	Short leasehold property £m	Plant and equipment £m	Total £m
Cost:			
At 1 January 2001	0.8	3.1	3.9
Additions	–	0.6	0.6
Disposals	–	(2.2)	(2.2)
At 31 December 2001	**0.8**	**1.5**	**2.3**
Depreciation:			
At 1 January 2001	–	0.5	0.5
Charge for the year	0.2	0.3	0.5
Disposals	–	(0.1)	(0.1)
At 31 December 2001	**0.2**	**0.7**	**0.9**
Net book value:			
At 31 December 2001	**0.6**	**0.8**	**1.4**
At 31 December 2000	0.8	2.6	3.4

14 Investments and interests in associated undertakings

Group	Loan to associated undertaking £m	Interests in associated undertakings £m	Other investments £m	Own shares £m	Total £m
Cost or valuation:					
At 1 January 2001	4.4	1.4	22.8	9.9	38.5
Additions	0.1	–	–	0.7	0.8
At 31 December 2001	**4.5**	**1.4**	**22.8**	**10.6**	**39.3**
Share of post-acquisition reserves:					
At 1 January 2001	–	(1.3)	–	–	(1.3)
Share of results of associated undertakings	–	(0.1)	–	–	(0.1)
At 31 December 2001	**–**	**(1.4)**	**–**	**–**	**(1.4)**
Provisions:					
At 1 January 2001	–	–	(6.0)	(3.9)	(9.9)
Provisions for impairment	–	–	–	(1.6)	(1.6)
At 31 December 2001	**–**	**–**	**(6.0)**	**(5.5)**	**(11.5)**
Net book value:					
At 31 December 2001	**4.5**	**–**	**16.8**	**5.1**	**26.4**
At 31 December 2000	4.4	0.1	16.8	6.0	27.3

(a) Interests in associated undertakings 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 a train operator management company. The investment is held by the Company.

(b) The principal other investments are as follows:

Name	Country of registration	Class of share	Proportion held %
London & Continental Railways Limited ("LCR")	England and Wales	Ordinary shares	21
Prepayment Cards Limited ("PCL")	England and Wales	Ordinary shares	20

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 Financial Reporting Standard 9.

14 Investments and interests in associated undertakings continued

(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 amount of the loan outstanding at the year end has been recognised as an investment in own shares.

The QUEST did not purchase shares in 2001, having purchased shares with a market value of £1.6m in the year ended 31 December 2000, in order to satisfy the requirements of the Savings Related Share Option Scheme. A contribution of £0.3m was gifted to the QUEST in 2000 by the Company to reflect the difference between the market price at the time of purchase and the option price. In accordance with UITF 13 the value of the shares has been recognised as an investment in own shares.

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 2001	255.9	643.8	20.1	9.9	929.7
Additions	15.9	100.0	–	0.7	116.6
Disposals	–	(248.3)	–	–	(248.3)
Exchange adjustments	–	9.0	–	–	9.0
At 31 December 2001	**271.8**	**504.5**	**20.1**	**10.6**	**807.0**
Provisions:					
At 1 January 2001	–	(4.4)	(6.1)	(3.9)	(14.4)
Provisions for impairment	–	(209.0)	–	(1.6)	(210.6)
At 31 December 2001	**–**	**(213.4)**	**(6.1)**	**(5.5)**	**(225.0)**
Net book value:					
At 31 December 2001	**271.8**	**291.1**	**14.0**	**5.1**	**582.0**
At 31 December 2000	255.9	639.4	14.0	6.0	915.3

The loan represents an investment in a convertible bond of a subsidiary undertaking.

The carrying value of the investments in subsidiary undertakings has been reviewed at 31 December 2001 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 £209.0m to investments in subsidiary undertakings held by the Company.

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 Main Line 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 Ltd (trading as Wessex Trains)	Operation of train passenger services
West Anglia Great Northern Railway Ltd	Operation of train passenger services

14 Investments and interests in associated undertakings continued

Incorporated in The Netherlands

Eurolines Nederland BV	Administration and marketing of express coach services in Europe

Incorporated in the USA

Trading as Durham School Services:	
Crabtree-Harmon Corporation	Operation of school bus services
Durham Transportation Inc	Operation of school bus services
Kenneth E Bauman Inc	Operation of school bus services
Robinson Bus Service Inc	Operation of school bus services
School Services & Leasing Inc	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 Australia

National Express Group Australia (Bayside Trains) Pty Limited (trading as M>Train)	Operation of train passenger services
National Express Group Australia (Swanston Trams) Pty Limited (trading as M>Tram)	Operation of tram passenger services
National Express Group Australia (V/Line Passenger) Pty Limited	Operation of train passenger services
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% (2000: 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 and associated undertakings at 31 December 2001 will be annexed to the next annual return.

15 Disposals and acquisitions during the year

(a) Disposals

The airports division was sold for gross proceeds of £241.0m. Proceeds net of expenses were £233.9m, resulting in a profit on disposal of £95.2m. The sale was completed on 28 March 2001. Autobusbedrijf Bronckaers NV (a small bus operation in Belgium) was sold on 31 October 2001 for gross proceeds of £3.7m.

	Airports £m	Other £m	Total £m
Net assets disposed of:			
Tangible fixed assets	175.9	3.8	**179.7**
Stock	0.4	0.2	**0.6**
Debtors	4.1	3.8	**7.9**
Cash at bank and in hand	1.7	–	**1.7**
Creditors: amounts falling due within one year	(6.6)	(2.1)	**(8.7)**
Provisions	(1.0)	–	**(1.0)**
	174.5	5.7	**180.2**
Goodwill realised	(35.8)	1.5	**(34.3)**
Profit/(loss) on sale	95.2	(3.5)	**91.7**
Total consideration	233.9	3.7	**237.6**
Total consideration	233.9	3.7	**237.6**
Less net cash disposed	(1.7)	–	**(1.7)**
Net cash inflow	232.2	3.7	**235.9**

The airports division contributed £5.0m outflow (2000: £13.7m inflow) to the Group's net operating cash flow and paid out £nil (2000: £2.9m) in respect of taxation and £4.7m (2000: £13.4m) in respect of capital expenditure.

During the year ended 31 December 2000 the Fregata Travel operation was terminated at a cost of £1.0m.

(b) Acquisitions

During the year the Group acquired a 57% shareholding in Glenorie Bus Company Pty Limited (19 December 2001) and the net assets of a coach business (17 January 2001).

	Total £m
Tangible fixed assets	**4.2**
Debtors	**0.1**
Cash at bank and in hand	**0.4**
Creditors: amounts falling due within one year	**(1.7)**
Fair value of net assets acquired	**3.0**
Minority share	**(1.3)**
Goodwill on acquisition	**7.3**
Total consideration	**9.0**
Total consideration	**9.0**
Deferred cash consideration	**(0.4)**
Payments to acquire subsidiary undertakings	**8.6**
Less net cash acquired	**(0.4)**
Net cash outflow	**8.2**

Fair value adjustments for acquisitions in the year ended 31 December 2001 totalled £1.2m. The adjustments comprised a £1.4m increase in the value of tangible fixed assets offset by all intangible assets totalling £0.2m being written off. The post acquisition turnover and operating profit from acquisitions made during the year are not disclosed, as the amounts involved are not material.

Fair value adjustments made in the year ended 31 December 2000 have been revised resulting in a £6.1m increase in goodwill. Tangible fixed assets have been reduced by £2.8m and, following a reassessment of liabilities under the Group's accounting policy, creditors have been increased by £4.3m, offset by an adjustment for the associated taxation of £1.0m. These adjustments relate to the acquisition of SS&L (31 August 2000) and Prism (19 September 2000).

16 Stock

Group	2001 £m	2000 £m
Raw materials and consumables	**21.4**	20.7

17 Debtors

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
Trade debtors	**158.6**	155.9	**9.2**	–
Amounts due from subsidiary undertakings	**–**	–	**594.3**	512.1
Amounts due from associated undertakings	**3.0**	2.0	**1.0**	1.0
Corporation tax recoverable	**–**	–	**11.5**	–
Other debtors	**120.7**	108.8	**5.0**	1.8
Prepayments and accrued income	**93.8**	60.4	**0.4**	0.5
	376.1	327.1	**621.4**	515.4

Included within other debtors of the Group is £6.8m (2000: £2.6m) and within other debtors of the Company is £3.3m (2000: nil) which is recoverable after more than one year.

Included within prepayments of the Group is £1.9m (2000: £2.2m) in respect of pension contribution payments made in advance of their recognition in the profit and loss account. Of this amount £1.7m (2000: £1.9m) will be recoverable after more than one year.

18 Cash at bank and in hand

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
Cash	**29.7**	21.0	**–**	–
Overnight deposits	**54.5**	20.2	**54.2**	–
Other short term deposits	**8.1**	12.6	**2.5**	7.2
	92.3	53.8	**56.7**	7.2

19 Creditors: amounts falling due within one year

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
Loan notes	**10.0**	5.5	**1.5**	1.5
Bank loans	**3.6**	156.2	**3.6**	149.0
Other loans	**0.1**	0.3	**–**	–
Bank overdrafts	**0.5**	0.4	**177.5**	59.7
Trade creditors	**169.2**	201.9	**3.3**	3.2
Amounts owed to associated undertakings	**0.2**	0.1	**–**	–
Amounts owed to subsidiary undertakings	**–**	–	**240.4**	65.5
Finance lease obligations	**6.3**	3.6	**–**	–
Corporation tax	**15.1**	28.3	**–**	3.6
Social security and other taxation	**22.2**	18.6	**–**	–
Accruals and deferred income	**364.2**	317.5	**15.0**	11.3
Proposed dividend	**19.2**	18.7	**19.2**	18.7
	610.6	751.1	**460.5**	312.5

20 Creditors: amounts falling due after more than one year

	Group 2001 £m	Group 2000 £m	Company 2001 £m	Company 2000 £m
Loan notes	–	4.8	–	–
Bank loans	**356.0**	428.8	**355.6**	428.8
Other loans	–	0.1	–	–
Finance lease obligations	**30.8**	10.7	–	–
Accruals and deferred income	**18.3**	13.8	–	–
	405.1	458.2	**355.6**	428.8

21 Net borrowings

	Group 2001 £m	Group 2000 £m	Company 2001 £m	Company 2000 £m
Due within one year				
Loan notes	**10.0**	5.5	**1.5**	1.5
Bank loans	**3.6**	156.2	**3.6**	149.0
Other loans	**0.1**	0.3	–	–
Bank overdrafts	**0.5**	0.4	**177.5**	59.7
Finance lease obligations	**6.3**	3.6	–	–
	20.5	166.0	**182.6**	210.2
Due within one to two years				
Loan notes	–	0.6	–	–
Bank loans	**70.8**	42.6	**70.4**	42.6
Other loans	–	0.1	–	–
Finance lease obligations	**6.8**	3.6	–	–
	77.6	46.9	**70.4**	42.6
Due within two to five years				
Loan notes	–	1.8	–	–
Bank loans	**285.2**	386.2	**285.2**	386.2
Finance lease obligations	**18.9**	6.2	–	–
	304.1	394.2	**285.2**	386.2
Due by instalments after five years				
Finance lease obligations	**5.1**	0.9	–	–
Due other than by instalments after five years				
Loan notes	–	2.4	–	–
Total borrowings	**407.3**	610.4	**538.2**	639.0
Cash at bank and in hand (see note 18)	**(92.3)**	(53.8)	**(56.7)**	(7.2)
Net borrowings	**315.0**	556.6	**481.5**	631.8

During the year ended 31 December 1999, the Company agreed a part term (£550.0m), part revolving (£250.0m) syndicated loan facility for a total of £800.0m. During the year ended 31 December 2001, the Company voluntarily repaid £190.0m of the term loan from the Group's cash resources.

Secured borrowings within the Group total £37.1m (2000: £14.3m).

22 Provisions for liabilities and charges

Group

	Early retirement costs (a) £m	Unfunded pension provision (b) £m	Insurance claims (c) £m	Other (d) £m	Total £m
At 1 January 2001	1.0	0.5	17.9	0.2	19.6
Provided in the year	–	0.1	18.3	68.0	86.4
Transfer from current liabilities	–	–	7.7	–	7.7
Utilised in the year	–	–	(9.1)	(0.1)	(9.2)
Released in the year	–	–	(0.6)	–	(0.6)
Disposal of subsidiary undertakings	(1.0)	–	–	–	(1.0)
Exchange difference	–	–	0.1	–	0.1
At 31 December 2001	**–**	**0.6**	**34.3**	**68.1**	**103.0**

Company

	Insurance claims (c) £m
At 1 January 2001	8.1
Provided in the year	2.1
Utilised in the year	(4.1)
At 31 December 2001	**6.1**

(a) The early retirement costs provision related to a scheme for certain East Midlands Airport employees who were required to retire from their current positions in advance of the normal retirement date, due to the physically demanding nature of their employment.

(b) The unfunded pension provision relates to commuted pensions not provided within the pension schemes.

(c) 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 2001, 2000, 1999, 1998, 1996 and prior years;
   (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.

(d) Other provisions include £62.5m payable to the Strategic Rail Authority in March 2002 in respect of the renegotiation of the Central Trains and ScotRail franchises. These negotiations had been ongoing since August 2001.

23 Deferred taxation

The major components of the provision for deferred taxation and the amounts not provided for are as follows:

Group

	Provided 2001 £m	Provided 2000 £m	Not provided 2001 £m	Not provided 2000 £m
Potential capital gains on properties	**–**	–	**–**	7.4
Accelerated capital allowances	**–**	–	**53.8**	53.6
Short term timing differences	**–**	–	**(14.2)**	(7.6)
Tax effect of losses carried forward	**–**	–	**(11.9)**	(13.9)
	–	–	**27.7**	39.5

No provision has been made or quantified in respect of any additional taxation liabilities which would arise if retained profits of overseas undertakings were remitted to the UK.

24 Called-up share capital

	2001 £m	2000 £m
At 31 December		
Authorised:		
146,650,000 (2000: 146,650,000) ordinary shares of 5p each	**7.3**	7.3
Issued called-up and fully paid:		
131,965,352 (2000: 129,658,233) ordinary shares of 5p each	**6.6**	6.5

Movement in ordinary shares during the year	£m	Number of shares
At 1 January 2001	6.5	129,658,233
Exercise of share options	–	611,099
West Midlands Travel Limited ("WMT") appropriation	0.1	1,696,020
At 31 December 2001	**6.6**	**131,965,352**

(a) Option schemes

At 31 December 2001 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 2001	Number of shares 2000
Executive Share Option Scheme	**3,710,090**	2,878,117
Savings Related Share Option Scheme	**2,141,166**	2,592,035
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)	**622,580**	628,180

(b) Employee Benefit Trust (the "Trust")

During the year the Trust purchased 150,000 shares on behalf of NEX share schemes. The Trust holds 805,150 shares (2000: 745,421 shares) on behalf of three NEX share schemes. The dividends payable on these shares have been waived. At 31 December 2001, the shares held under these schemes were as follows:

	Number of shares 2001	Number of shares 2000
WMT Long Service Option Scheme	**648,607**	720,627
Long Term Share Incentive Scheme	**6,543**	24,794
Executive Share Option Scheme	**150,000**	–

Details of the exercise prices and conditions of exercise of NEX option schemes are contained in the report on Directors' remuneration on pages 40 to 43.

(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 6,603,733 (2000: 8,299,753) 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 holds 951,196 shares (2000: 1,108,656 shares) on behalf of NEX share schemes. The market value of these shares at that date was £5.4m (2000: £8.0m). During the year, options over 157,460 (2000: 240,261) shares were exercised by employees.

All rights to dividend 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 employees of the four train operating companies formerly owned by Prism. Two appropriations made in 1999 and 2000 remain to vest to employees under the scheme. There are a total of 59,270 (2000: 122,979) NEX shares held in Trust for these appropriations. 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 1 January 2001	40.5	0.4	57.3	17.0	17.5	233.6	366.3
Shares issued during the year	3.2	(0.1)	–	–	–	–	3.1
Transfers from revaluation reserve	–	–	–	–	(16.7)	16.7	–
Other transfers	–	–	(41.9)	15.6	–	26.3	–
Goodwill realised	–	–	–	(32.6)	–	–	(32.6)
Exchange differences	–	–	–	–	–	(0.6)	(0.6)
Retained profit for the year	–	–	–	–	–	65.8	65.8
At 31 December 2001	**43.7**	**0.3**	**15.4**	**–**	**0.8**	**341.8**	**402.0**

The merger reserve arose in the year ended 31 December 2000 on the acquisition of Prism in accordance with Section 131 of the Companies Act 1985. An amount equal to the total goodwill amortisation charged in the profit and loss account during the year was transferred from the merger reserve to the profit and loss account.

As at 31 December 2001, all of the revaluation reserve relates to non-investment properties. As at 31 December 2000, £3.5m of the revaluation reserve related to investment properties.

As at 31 December 2001, the cumulative amount of goodwill on acquisitions made prior to 1 January 1998 which has been set off against the profit and loss reserve is £281.8m (2000: £249.2m).

Company	Share premium £m	Share capital to be issued £m	Merger reserve £m	Capital reserve £m	Profit and loss account £m	Total £m
At 1 January 2001	40.5	0.4	214.2	52.1	378.2	685.4
Shares issued during the year	3.2	(0.1)	5.2	(5.2)	–	3.1
Other transfers	–	–	(219.4)	(20.5)	239.9	–
Exchange differences	–	–	–	–	0.1	0.1
Retained loss for the year	–	–	–	–	(255.9)	(255.9)
At 31 December 2001	**43.7**	**0.3**	**–**	**26.4**	**362.3**	**432.7**

During the year ended 31 December 1995, the Company acquired the entire shareholding of a business, with part of the consideration being settled in shares. The total share premium not recognised due to the availability of merger relief amounted to £239.9m, and this was credited instead to other non-distributable reserves. This business has now been transferred to another subsidiary undertaking at the nominal value of the shares issued on acquisition and the £239.9m included in other non-distributable reserves has been transferred to the profit and loss reserve.

The profit and loss reserve for the Company includes £109.5m (2000: £318.5m) that is non-distributable.

26 Capital commitments

Group	2001 £m	2000 £m
Contracted	**34.5**	11.7

27 Other financial commitments

The trains division has contracts with 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 2001 £m	Land and buildings 2000 £m	Other 2001 £m	Other 2000 £m
Commitments which expire:				
Within one year	**1.6**	0.3	**0.8**	3.9
Between two and five years	**469.8**	583.2	**199.2**	188.4
Over five years	**0.7**	0.3	**23.0**	21.4
	472.1	583.8	**223.0**	213.7

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

Other divisions' commitments	Land and buildings 2001 £m	Land and buildings 2000 £m	Other 2001 £m	Other 2000 £m
Operating leases which expire:				
Within one year	**1.6**	2.1	**1.1**	0.3
Between two and five years	**5.2**	4.2	**1.8**	1.3
Over five years	**18.2**	11.0	**5.5**	0.4
	25.0	17.3	**8.4**	2.0

Company	Land and buildings 2001 £m	Land and buildings 2000 £m
Operating leases which expire:		
Between two and five years	**0.2**	0.2
Over five years	**0.5**	0.5
	0.7	0.7

28 Retirement benefits

Under the transitional arrangements for the implementation of Financial Reporting Standard ("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 £12.1m (2000: £12.3m) of which £7.1m (2000: £6.8m) related to overseas schemes. Outstanding contributions at the year end amounted to £0.9m (2000: £0.7m).

(a) Buses, coaches and trains divisions

The buses and coaches 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 and Coaches 31 March 2001	Trains 31 December 1998
Actuarial method used	Attained age	Projected unit
Rate of investment returns per annum	5.6%	6.75%
Increase in earnings per annum	4.0%	4.5%
Scheme assets taken at market value	£392.5m	£599.0m
Funding level	99%-119%	104%-123%

(b) USA and Australia divisions

Subsidiaries in the USA contribute to a number of defined contribution plans.

The Australian subsidiaries contribute to a number of pension schemes providing benefits both on a defined benefit and defined contribution basis. The principal defined benefit schemes are State run, comprising a large number of participating companies, and 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.

(c) FRS 17, "Retirement Benefits"

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

	Buses and Coaches	Trains
Rate of increase in salaries	4.0%	4.0%
Rate of increase of pensions in payment	2.5%	2.5%
Discount rate	6.0%	6.0%
Inflation assumption	2.5%	2.5%

The assets in the schemes and the expected long-term rate of return as at 31 December 2001 were:

	Rate of return	Buses and Coaches £m	Trains £m	Total £m
Equities	8.0%	269.6	579.4	**849.0**
Bonds	5.4%	93.6	65.7	**159.3**
Property	6.7%	0.7	39.2	**39.9**
Other	5.0%	6.8	2.1	**8.9**
		370.7	686.4	**1,057.1**

28 Retirement benefits continued

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

	Buses and Coaches £m	Trains £m	Total £m
Total market value of assets	370.7	686.4	**1,057.1**
Present value of scheme liabilities	(338.0)	(603.0)	**(941.0)**
Surplus in the schemes	32.7	83.4	**116.1**
Irrecoverable surplus	–	(30.4)	**(30.4)**
Pension asset	32.7	53.0	**85.7**
Related deferred tax liability	(9.8)	(15.9)	**(25.7)**
Net pension asset	22.9	37.1	**60.0**

If FRS 17 had been adopted in these financial statements, the Group's net assets and profit and loss reserve at 31 December 2001 would have been as follows:

	£m
Net assets excluding pension assets/liabilities	412.6
Pension asset	60.0
Net assets including pension asset	**472.6**
Profit and loss reserve excluding pension assets/liabilities	340.5
Pension reserve	60.0
Profit and loss reserve	**400.5**

29 Related party transactions

In respect of services provided, the Group received £6.1m (2000: £5.1m) from Altram LRT Limited ("Altram"), an associated undertaking. Included in debtors due from associated undertakings is £2.0m (2000: £1.0m) due from Altram and a loan of £1.0m (2000: £1.0m) to Inter-Capital and Regional Rail Limited. Creditors due to associated undertakings are £0.2m (2000: £0.1m) due to Altram. Included in investments is a loan of £4.5m (2000: £4.4m) to Altram.

30 Contingent liabilities

(a) Uncalled share capital and guarantees

The Company has amounts of uncalled share capital relating to three (2000: eight) of its subsidiary undertakings. The amounts uncalled total £12.8m (2000: £34.8m) and are unlikely to be called in the near future. The Company has also guaranteed credit facilities totalling £52.9m (2000: £13.4m) of certain subsidiary undertakings.

(b) Bonds and letters of credit

In the ordinary course of business, the Group is required to procure performance bonds, season ticket bonds and letters of credit in support of its operations. As at 31 December 2001, the Company had issued counter-indemnities relating to these amounting to £225.5m (2000: £154.0m). These contingent liabilities are not expected to crystallize.

31 Cash flow statement

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

	Continuing operations 2001 £m	Discontinued operations 2001 £m	Total 2001 £m	Continuing operations 2000 £m	Discontinued operations 2000 £m	Total 2000 £m
Operating profit	**31.3**	**1.1**	**32.4**	88.7	13.1	101.8
Depreciation of tangible assets	**59.6**	**1.0**	**60.6**	39.6	4.3	43.9
Amortisation of goodwill	**41.9**	**–**	**41.9**	22.7	–	22.7
Increase in stocks	**(1.4)**	**–**	**(1.4)**	(1.5)	–	(1.5)
(Increase)/decrease in debtors	**(54.9)**	**–**	**(54.9)**	(57.5)	0.4	(57.1)
Increase/(decrease) in creditors	**38.5**	**(7.1)**	**31.4**	65.8	(4.1)	61.7
Increase/(decrease) in provisions	**80.4**	**–**	**80.4**	(4.3)	–	(4.3)
Other movements	**(4.9)**	**–**	**(4.9)**	0.3	–	0.3
Net cash inflow/(outflow) from operating activities	**190.5**	**(5.0)**	**185.5**	153.8	13.7	167.5

The operating cash inflows include outflows of £16.0m (2000: £28.8m) from continuing operations which relate to exceptional costs.

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

	2001 £m	2000 £m
Increase/(decrease) in cash in the year	**43.3**	(20.6)
Cash outflow/(inflow) from movement in debt and lease financing	**220.0**	(186.2)
Cash inflow from movement in liquid resources	**(4.5)**	(19.4)
Change in net debt resulting from cash flows	**258.8**	(226.2)
Loans and finance leases of subsidiaries acquired in year	**(1.4)**	–
Other non cash movements in net debt	**(15.8)**	(14.5)
Change in net debt resulting from non cash flows	**(17.2)**	(14.5)
Movement in net debt in the year	**241.6**	(240.7)
Net debt at 1 January	**(556.6)**	(315.9)
Net debt at 31 December	**(315.0)**	(556.6)

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 2001 £m	Cash flow £m	Acquisitions/ disposals £m	Other movements £m	At 31 December 2001 £m
Cash	21.0	9.1	–	(0.4)	**29.7**
Overnight deposits	20.2	34.3	–	–	**54.5**
Liquid resources – other short term deposits	12.6	(4.5)	–	–	**8.1**
Cash at bank and in hand	53.8	38.9	–	(0.4)	**92.3**
Bank overdrafts	(0.4)	(0.1)	–	–	**(0.5)**
Debt due within one year					
Loan notes	(5.5)	0.3	–	(4.8)	**(10.0)**
Bank and other loans	(156.5)	159.5	–	(6.7)	**(3.7)**
	(162.0)	159.8	–	(11.5)	**(13.7)**
Debt due after one year					
Loan notes	(4.8)	–	–	4.8	**–**
Bank and other loans	(428.9)	81.4	(0.4)	(8.1)	**(356.0)**
	(433.7)	81.4	(0.4)	(3.3)	**(356.0)**
Finance lease obligations	(14.3)	(21.2)	(1.0)	(0.6)	**(37.1)**
Net debt	(556.6)	258.8	(1.4)	(15.8)	**(315.0)**

Short term deposits included within liquid resources relate to term deposits repayable within three months.

During the year, following the voluntary repayment of £190.0m of the term loan, certain tangible fixed assets were refinanced through finance leases. The £21.2m cash movement in finance lease obligations represents the associated £30.0m inflow arising from this, offset by repayments of the capital element of finance lease rentals of £8.8m.

32 Derivatives and other financial instruments

Treasury policy and the use of financial instruments are discussed in the Finance Director's report on page 33.

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 on which interest is paid at 31 December 2001 was as follows:

	At floating rates 2001 £m	At fixed rates 2001 £m	Total 2001 £m	Weighted average fixed interest rate 2001 %	Weighted average period for which rate is fixed 2001 Years
Sterling	**10.5**	**26.0**	**36.5**	**5.1**	**1.0**
US dollars	**29.2**	**274.8**	**304.0**	**6.0**	**3.9**
Australian dollars	**13.6**	**53.2**	**66.8**	**6.8**	**3.7**
	53.3	**354.0**	**407.3**	**6.1**	**3.7**

	At floating rates 2000 £m	At fixed rates 2000 £m	Total 2000 £m	Weighted average fixed interest rate 2000 %	Weighted average period for which rate is fixed 2000 Years
Sterling	14.4	–	14.4	–	–
US dollars	247.7	267.8	515.5	6.7	6.0
Australian dollars	18.9	58.0	76.9	6.7	4.7
Other	3.6	–	3.6	–	–
	284.6	325.8	610.4	6.7	5.8

Financial liabilities on which no interest is paid comprise certain creditors falling due after more than one year and provisions totalling £32.4m (2000: £12.3m). These are denominated in sterling £10.2m (2000: £8.0m), US dollars £17.6m (2000: £4.3m) and Australian dollars £4.6m (2000: nil). The weighted average period to maturity of these liabilities is 2.5 years (2000: 2.6 years).

(b) Analysis of financial liabilities by type and currency

Financial liabilities on which interest is paid comprise:

	Loan notes 2001 £m	Bank loans 2001 £m	Other loans 2001 £m	Bank overdrafts 2001 £m	Finance leases 2001 £m	Total 2001 £m
Sterling	**10.0**	**–**	**–**	**0.5**	**26.0**	**36.5**
US dollars	**–**	**303.9**	**0.1**	**–**	**–**	**304.0**
Australian dollars	**–**	**55.7**	**–**	**–**	**11.1**	**66.8**
	10.0	**359.6**	**0.1**	**0.5**	**37.1**	**407.3**

	Loan notes 2000 £m	Bank loans 2000 £m	Other loans 2000 £m	Bank overdrafts 2000 £m	Finance leases 2000 £m	Total 2000 £m
Sterling	10.3	3.0	–	0.3	0.8	14.4
US dollars	–	515.1	0.4	–	–	515.5
Australian dollars	–	63.3	–	0.1	13.5	76.9
Other	–	3.6	–	–	–	3.6
	10.3	585.0	0.4	0.4	14.3	610.4

32 Derivatives and other financial instruments continued

(c) Maturity of financial liabilities

The maturity profile of the Group's financial liabilities at 31 December 2001 was as follows:

	2001 £m	2000 £m
Expiring within one year	**20.5**	166.0
Expiring in more than one year but less than two years	**92.2**	53.2
Expiring in more than two years but less than five years	**321.9**	400.2
Expiring in beyond five years	**5.1**	3.3
	439.7	622.7

(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 £92.3m (2000: £53.8m), which earn interest at floating rates. Cash deposits are placed on the money markets at commercial rates. The currency profile as at 31 December 2001 is as follows:

	2001 £m	2000 £m
Sterling	**75.7**	38.0
US dollars	**5.7**	6.2
Australian dollars	**10.9**	7.8
Other	**–**	1.8
	92.3	53.8

Financial assets on which no interest is receivable total £23.6m (2000: £19.4m) and comprise other investments of £16.8m (2000: £16.8m) and other debtors greater than one year of £6.8m (2000: £2.6m). These assets are denominated in sterling £21.1m (2000: £19.1m), US dollars £0.5m (2000: £0.1m) and Australian dollars £2.0m (2000: £0.2m). The weighted average period to maturity of other debtors greater than one year is 1.7 years (2000: 1.5 years).

(e) Currency exposures

As at 31 December 2000 and 31 December 2001 the Group did not have any material net currency transactional exposures.

(f) Undrawn committed borrowing facilities

At 31 December 2001 the Group had undrawn and unused committed borrowing facilities as follows:

	2001 £m	2000 £m
Expiring in beyond two years	**250.0**	201.3

32 Derivatives and other financial instruments continued

(g) Fair values

The book values and fair values of all the Group's financial instruments at 31 December 2001 are set out below:

	Book value 2001 £m	Fair value 2001 £m	Book value 2000 £m	Fair value 2000 £m
Cash at bank and in hand	**92.3**	**92.3**	53.8	53.8
Other financial assets	**23.6**	**23.6**	19.4	19.4
Loans and overdrafts	**(370.2)**	**(370.2)**	(596.1)	(596.1)
Finance lease obligations	**(37.1)**	**(37.1)**	(14.3)	(14.3)
Forward foreign currency contracts	**–**	**(0.3)**	–	–
Interest rate swaps	**–**	**(26.2)**	–	(22.2)
Fuel price swaps	**–**	**(6.7)**	–	–
Other financial liabilities	**(32.4)**	**(32.4)**	(12.3)	(12.3)

The finance leases have been valued by 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.

(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:

	Losses £m
Unrecognised losses on hedges at 1 January 2001	22.2
Losses arising in previous years that were recognised in 2001	(11.1)
Losses not recognised in 2001 arising before 1 January 2001	11.1
Losses arising in 2001 that were not recognised in 2001	22.1
Unrecognised losses on hedges at 31 December 2001	33.2
Of which:	
Losses expected to be recognised within one year	8.6
Losses expected to be recognised after one year	24.6
	33.2

Of the £22.2m unrecognised losses at 31 December 2000, £8.8m arose on interest rate swap agreements that the Group was party to relating to contracts in the Australia trains division to acquire new rolling stock by means of operating leases. The rolling stock order was placed during the year ended 31 December 2001 and the interest rate swap was closed out.

(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.

Nine year summary

Year ended 31 December	2001 £m	2000 £m	1999 £m	1998 £m	1997 £m	1996 £m	1995 £m	1994 £m	1993 £m
Turnover	**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	**157.8**	155.1	113.2	95.8	83.6	66.1	46.9	16.3	9.3
Operating profit	**32.4**	101.8	95.2	84.9	66.1	62.3	44.0	16.3	9.3
Share of operating losses of associated undertakings	**(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)	–	–	–	–
Profit/(loss) on sale of businesses	**91.7**	(1.0)	–	–	–	–	–	–	0.2
Net interest (payable)/receivable	**(26.7)**	(34.0)	(5.8)	2.1	(0.5)	(2.2)	(2.5)	(1.1)	(0.2)
Profit on ordinary activities before taxation	**95.5**	65.0	89.6	97.0	54.8	60.1	41.5	15.2	9.3
Tax on profit on ordinary activities	**(1.2)**	(12.9)	(22.8)	(22.8)	(18.8)	(18.7)	(14.0)	(5.0)	(3.0)
Minority interest	**0.1**	(0.7)	(0.2)	–	–	–	–	–	–
Dividends	**(28.6)**	(26.3)	(21.0)	(18.1)	(14.6)	(11.5)	(9.6)	(3.5)	(3.0)
Retained profit	**65.8**	25.1	45.6	56.1	21.4	29.9	17.9	6.7	3.3
Statistics									
Basic earnings per share	**72.9p**	43.4p	58.3p	66.5p	34.2p	42.9p	35.5p	25.5p	16.7p
Normalised diluted earnings per share*	**72.8p**	63.7p	54.6p	47.1p	38.3p	26.6p	19.7p	12.6p	11.7p
Dividends per ordinary share	**22.0p**	20.7p	18.2p	16.0p	13.5p	11.5p	10.0p	8.7p	7.5p
Net assets									
Intangible fixed assets	**503.6**	523.7	242.6	9.1	–	–	–	–	–
Tangible fixed assets and investments	**539.2**	680.9	518.8	300.6	249.5	221.0	201.3	71.2	66.4
Net current liabilities	**(120.8)**	(349.5)	(62.5)	(33.6)	(61.3)	(41.1)	(34.1)	(9.1)	(6.4)
Creditors falling due after one year	**(405.1)**	(458.2)	(408.8)	(50.4)	(30.1)	(23.8)	(51.5)	(16.5)	(18.7)
Provisions for liabilities and charges	**(103.0)**	(19.6)	(23.1)	(13.8)	(12.0)	(10.1)	(9.7)	(2.1)	(3.3)
	413.9	377.3	267.0	211.9	146.1	146.0	106.0	43.5	38.0
Capital and reserves									
Share capital and share premium	**50.3**	47.0	41.5	36.1	30.5	28.6	28.2	6.1	6.1
Other reserves	**358.3**	325.8	221.3	175.8	115.6	117.4	77.8	37.4	31.9
Equity shareholders' funds	**408.6**	372.8	262.8	211.9	146.1	146.0	106.0	43.5	38.0
Equity minority interest	**5.3**	4.5	4.2	–	–	–	–	–	–
	413.9	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	**92.3**	53.8	101.0	94.2	55.9	30.0	39.5	18.9	15.7
Loan notes	**(10.0)**	(10.3)	(10.3)	(10.6)	(14.2)	(12.5)	(15.5)	(3.2)	(4.3)
Bank and other loans	**(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	**(37.1)**	(14.3)	(18.7)	(4.5)	(7.5)	(9.4)	(12.5)	(2.6)	(2.5)
	(315.0)	(556.6)	(315.9)	35.1	18.0	(3.1)	(37.8)	(2.4)	(8.6)
Net gearing	**76%**	148%	118%	(17)%	(12)%	2%	36%	6%	23%

1993 represents the first full year of trading following flotation.

** 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 Report and Accounts and the Group's Environmental 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.

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
- submit your vote on-line prior to a general meeting

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.

Amalgamation of shareholdings
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.

Stock Exchange listings
The Company's ordinary shares have been listed on the London Stock Exchange since 10 December 1992.

Analysis of ordinary shareholdings at 11 March 2002

	Number of accounts	Per cent of total number of accounts	Number of shares 000	Per cent of ordinary capital
By size of holding				
1 – 500	8,119	52	1,529	1
501 – 1,000	2,381	15	1,791	1
1,001 – 5,000	3,636	23	8,618	7
5,001 – 50,000	1,392	9	13,722	10
50,001 – 1,000,000	179	1	43,392	33
Over 1,000,000	24	–	62,913	48
	15,731	**100**	**131,965**	**100**
By investor type				
Individuals	14,230	90	21,327	16
Institutional investors	1,387	9	101,912	77
Other corporate investors	114	1	8,726	7
	15,731	**100**	**131,965**	**100**

National Express Group principal brands

www.nationalexpressgroup.com

Buses

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

Provides a fast, efficient tram link between Wolverhampton and Birmingham city centre
www.travelmetro.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 overnight services between London Euston and main cities in Scotland
www.scotrail.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

Eurostar is the high-speed rail link between London, Brussels and Paris
www.eurostar.co.uk

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

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

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

Qjump provides accurate and impartial timetable and fares information, ticket purchase and reservations for all UK National Rail journeys
www.qjump.co.uk

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

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

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

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

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

Wessex Trains provides rail services from London and Birmingham into Wales and the South West
www.wessextrains.co.uk

Coaches

GoByCoach.com

The web-based booking service for the coach division
www.gobycoach.com

NATIONAL EXPRESS

Operates coach services across the UK
www.gobycoach.com

EXPRESS Shuttle

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

AirLinks
THE AIRPORT COACH COMPANY LTD

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

Airbus
London • Heathrow • Stansted

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

FLIGHTLINK

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

JETLINK

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

HEATHROW
Hotel hoppa

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

Railair

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

HEATHROW GATWICK SPEEDLINK

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

eurolines
EUROPE'S EXPRESS COACH NETWORK

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

USA

Student transportation

DURHAM
SCHOOL SERVICES

Provides student transportation services in California, Idaho, Oregon, Texas and Washington
www.durhamtrans.com

Public transit

ATC

Provides paratransit and transit fixed-schedule bus services in 20 states
www.intelitran.com

Airports

Stewart International Airport

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

Australia

BLUE RIBBON

Operates scheduled bus services in Sydney
www.nationalexpressgroup.com

GBC
GLENORIE BUS COMPANY

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

nationalbus

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

SOUTHERN COAST TRANSIT

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

westbus

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

M>Train
Moving Melbourne

Formerly Bayside Trains. Serves Melbourne's northern, western and south-eastern suburbs
www.movingmelbourne.com

M>Tram
Moving Melbourne

Formerly Swanston Trams. Serves Melbourne's north-western and south-eastern suburbs and central business district
www.movingmelbourne.com

V/Line

Provides train and coach lines throughout the State of Victoria
www.vlinepassenger.com.au

Dividends and financial calendar

	Event	Date
Dividends	Final dividend record date	5 April 2002
	Final dividend payment date	3 May 2002
	Interim dividend record date	September 2002
	Interim dividend payment date	October 2002
	Final dividend record date	April 2003
	Final dividend payment date	May 2003
Financial calendar	Annual General Meeting	2 May 2002
	Interim results announced	September 2002
	Preliminary results announced	March 2003
	Annual Report circulated	April 2003
	Annual General Meeting	April/May 2003

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