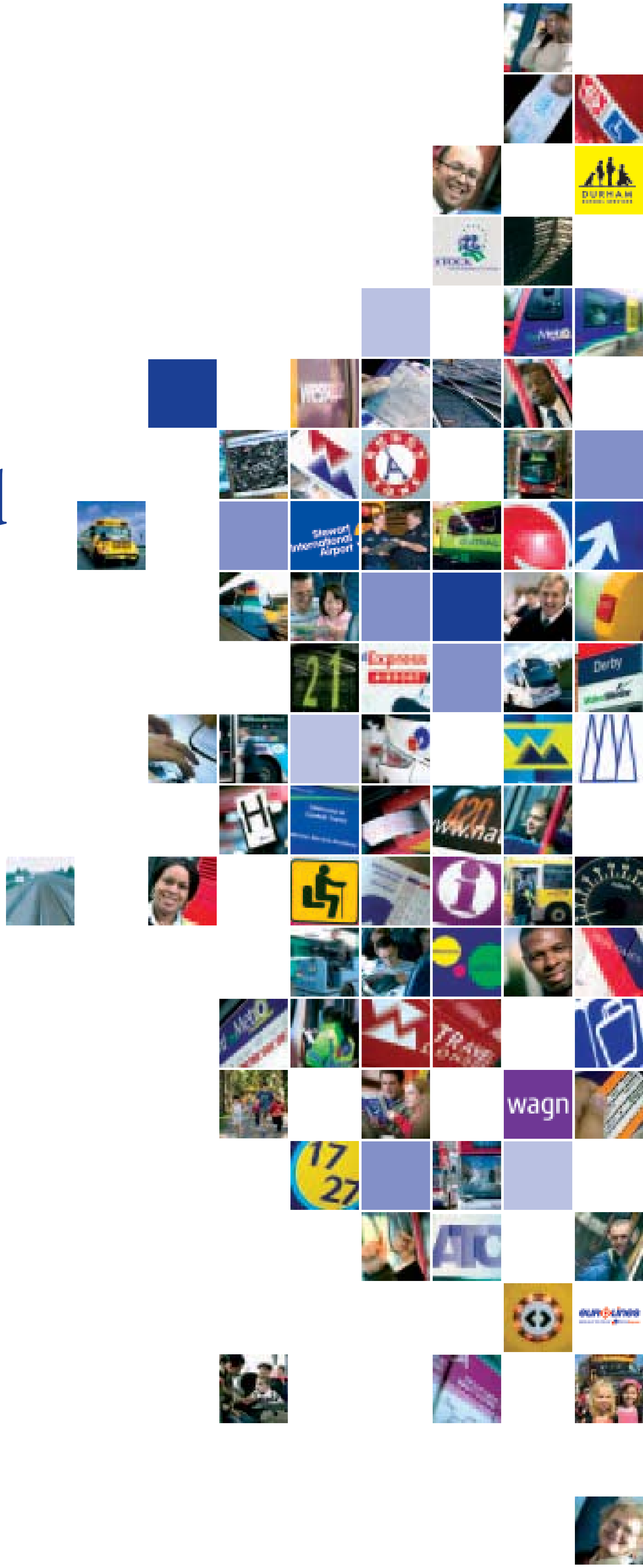
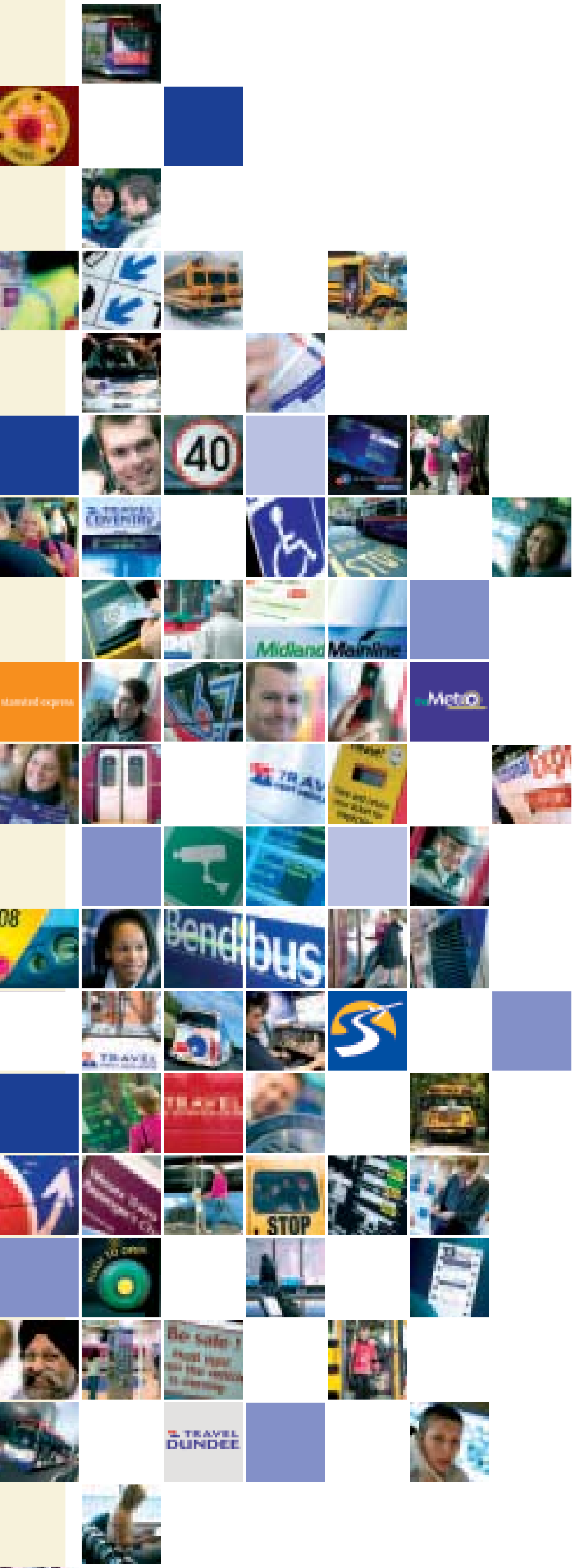
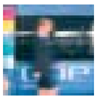
National Express Group

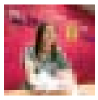
ANNUAL REPORT AND ACCOUNTS 2004

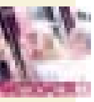
Joining up people and places











Over one billion passengers travelled

NATIONAL EXPRESS GROUP IS A LEADING PUBLIC TRANSPORT PROVIDER DELIVERING QUALITY PUBLIC TRANSPORT SERVICES TO THE GENERAL PUBLIC IN THE UK AND NORTH AMERICA.

WE ARE AN INTERNATIONAL GROUP WITH A LOCAL FOCUS. WE OPERATE LOCAL BUSINESSES, RUN BY LOCAL TEAMS, MEETING THE NEEDS OF LOCAL COMMUNITIES. CONSEQUENTLY WE REMAIN CLOSE TO THE NEEDS OF OUR CUSTOMERS AND OUR STAKEHOLDERS.

WE ARE A GROUP FOCUSED ON QUALITY AND GROWTH. WE LOOK FOR NEW OPPORTUNITIES WHICH NATURALLY COMPLEMENT OUR EXISTING BUSINESSES.

INVESTMENT PLAYS A MAJOR PART IN OUR DRIVE FOR IMPROVEMENT.

WE REMAIN FOCUSED ON PROVIDING QUALITY PUBLIC SERVICES AND INCREASING SHAREHOLDER VALUE.

WE JOIN UP PEOPLE AND PLACES BY...

- BEING EASY & SIMPLE IN EVERYTHING WE DO
- TAKING THE LEAD BY CHALLENGING THE STATUS QUO
- WORKING TOGETHER ENSURING PARTNERSHIPS DELIVER ADDED VALUE
- BEING OPEN AND HONEST WITH OUR CUSTOMERS

on our services in 2004!

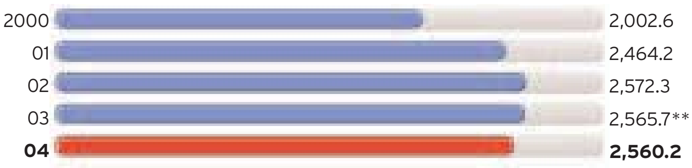
Highlights...2004

Financial Highlights

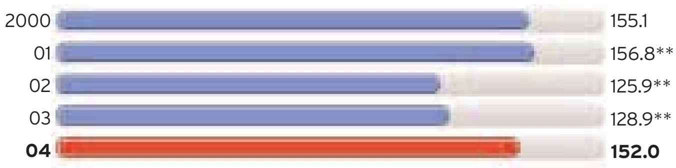
	TRAINS		BUSES		COACHES		NORTH AMERICA	
	2003**	2004	2003**	2004	2003**	2004	2003**	2004
Turnover (£m)	1,702.2	**1,705.2**	211.9	**239.0**	186.4	**192.4**	400.1	**364.6**
Normalised operating profit* (£m)	33.2	**58.5**	47.5	**44.2**	15.9	**18.8**	37.0	**36.9**
Operational fleet	2,931	**2,794**	1,898	**2,116**	331	**315**	13,882	**14,265**
Passenger journeys (m)	304	**339**	341	**365**	17	**18**	335	**339**

* excluding goodwill and exceptional items
** restated for change in accounting policy and classification

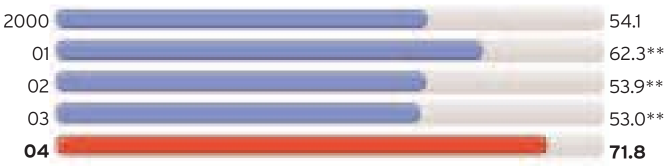
Turnover (£m)



Normalised operating profit

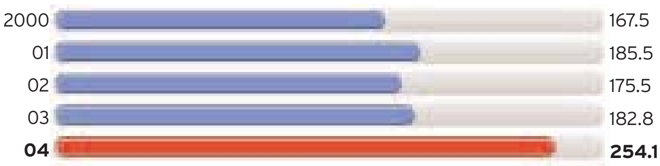


*Normalised diluted earnings per share - (p)**

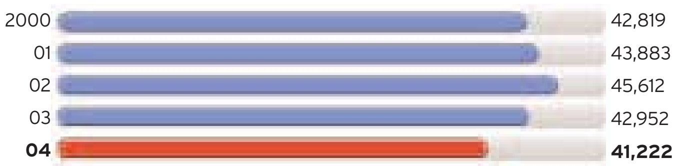


Full year dividend per share (p)

Cash flow from operations (£m)



Total number of employees at 31 December



Operational Highlights

- RAIL PASSENGER NUMBERS UP 5% ON A LIKE-FOR-LIKE BASIS
- RAIL PUNCTUALITY AND RELIABILITY ABOVE GOVERNMENT TARGET OF 85%
- LAUNCH OF 'ONE' RAIL FRANCHISE WITH STRONG PERFORMANCE SINCE APRIL 2004
- SIGNING OF TWO-YEAR FRANCHISE EXTENSIONS FOR GREAT NORTHERN, WESSEX TRAINS AND SILVERLINK
- NEW INITIATIVES UNDERTAKEN TO STIMULATE FURTHER BUS GROWTH
- SUCCESSFUL ENTRY INTO LONDON BUS MARKET
- COACH PASSENGER NUMBERS UP 6%
- FURTHER ROLL-OUT OF BEST VALUE FARES IN COACH DIVISION ALONGSIDE PRODUCT ENHANCEMENTS
- SUCCESSFUL BIDDING SEASON AND CONTRACT RENEWALS IN STUDENT TRANSPORTATION
- IMPROVED FINANCIAL PERFORMANCE IN PUBLIC TRANSIT

2004 has been an excellent year for the National Express Group

Key Events...2004

1 TRAVEL LONDON ACQUISITION

In February, we entered the London bus market with the acquisition of Connex's London bus operations. We operate from the Battersea and Croydon depots and a new state-of-the-art depot in Walworth, South London. We have won three new Transport for London contracts taking the number of services operated from twelve to fifteen. We also increased the bus fleet from 180 to 230.

2 'ONE' LAUNCH

We won the new Greater Anglia franchise, combining the existing Anglia Railways, Great Eastern and West Anglia train services to create one single train company. This new franchise was the first to be awarded under the new franchise template designed by the Strategic Rail Authority ('SRA'). The new company re-branded 'one' was launched on 1 April by the Secretary of State for Transport, the Rt. Hon. Alistair Darling MP, at London's Liverpool Street Station. The company was re-branded 'one' to signify; **one** operator from **one** London station, three companies being merged into **one**, operating through **one** region with **one** point of contact and **one** vision.

3 OPERATION SAFER TRAVEL

Our bus services play an integral role in local communities. Through Operation Safer Travel ('OST') we are able to leverage that strength to deter and detect crime and antisocial behaviour across our networks. OST is an award winning partnership between Travel West Midlands and the West Midlands Police. During 2004 we extended the partnership to tackle crime in Dundee through a partnership between Travel Dundee & Tayside Police. OST has featured in best practice guides and case studies issued by the Department for Transport ('DfT'). Our representatives sit on the DfT "Stop" panel which looks at ways to combat assaults and reduce crime.

4 NEW MERIDIAN TRAINS

Since rail privatisation, we have invested £1 billion in new trains. In May 2004, we commenced the introduction of 16 new state-of-the-art Meridian trains into our Midland Mainline service. The Meridian trains were specifically designed for Midland Mainline and feature a modern buffet-style bar, powerpoints for laptop and mobile phone use, an electronic seat back reservation system and at-seat entertainment throughout the train.

5 ATC BULLET BUSES

In June, we introduced new buses for our public transit business in America. The brand new vehicles, shaped like a bullet, look more similar to a high speed train than a bus. The ten buses, called the Metropolitan Area Express, are the first bus rapid transit services to operate up and down the Strip in Las Vegas, serving the millions of tourists visiting each year. The buses use optical guidance systems as well as the city's first bus-only lanes to ensure speedy and efficient travel for our customers.

6 CENTRAL TRAINS CUSTOMER SERVICE ACADEMY

In July, Minister of State for Transport, Kim Howells, officially opened the Central Trains Customer Service Training Academy in Birmingham – our second facility to be opened following the success of the Midland Mainline Academy. The purpose-built Academy has been designed to assist in the recruitment, induction, driver training and skills development of Central Trains employees. Employees can also gain professional qualifications such as National Vocational Qualifications.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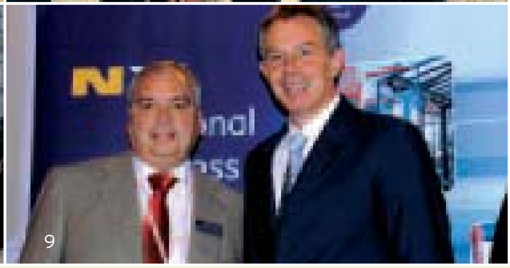
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7 GETAWAY GIVEAWAY

In August, we launched our first ever summer Getaway Giveaway promotion across our trains division. This promotion, a rail industry first, saw seven million free return tickets being distributed to one in four households across the UK. This was the biggest rail ticket giveaway ever seen in Britain, allowing customers to take a free return rail trip anywhere on one of our participating train operating companies. Over 80,000 customers took advantage of the Getaway Giveaway promotion.

8 LAUNCH OF NXL SHUTTLE

National Express coaches have been leading the coaching industry by introducing a new look for future coach travel. In September, we commenced a new non-stop 24 hour/7days a week luxury Birmingham – London service using state-of-the-art new coaches. The new fleet of coaches, which won the Coach of the Year Award 2004 at the International Busworld show in Belgium, feature a futuristic shape. The 14 new coaches have leather seats, increased leg room, air conditioning and on-board entertainment. In addition, they offer the first overland TV channel, nxtv, in the UK with live news broadcasting from Sky news.

9 THE MODEL WHERE EVERYONE WINS - THE DEREGULATED INTEGRATED NETWORK

At the Labour Party conference in 2004, Phil White, our Chief Executive, participated in a Greater Manchester Passenger Transport Executive fringe meeting on the topic of controlled competition for bus services. He promoted the Group's commitment to working in partnership with local authorities and passenger transport executives to tackle congestion by making bus services more attractive to customers. He emphasised that re-regulation was not the solution to growing bus patronage and that the success of the London bus market had been driven by significant investment in services. In addition, the Group sponsored the West Midlands Labour Party reception at which Prime Minister, Tony Blair, addressed the audience.

10 DEVELOPING BENCHMARK STRENGTHS

To support the growth of the business and ensure we have a pipeline of skilled managers, we have launched a high-potential employee development programme across our businesses. In the UK, over 100 managers have participated in the programme. In North America a pilot programme was launched providing nominated employees the opportunity to resolve business issues working in teams.

11 SECRETARY OF STATE FOR TRANSPORT LAUNCHES NEW BUSES

At the Bus and Coach Show 2004, the Secretary of State for Transport, the Rt. Hon. Alistair Darling MP, launched two brand new buses for the Travel West Midlands fleet. These were part of a £10 million investment in new buses for the region during 2004.

12 TRAINS DIVISION TOPS THE PERFORMANCE LEAGUE TABLES

The year ended on a high note following the July-September performance figures published by the SRA. Following the introduction of our industry leading performance improvement process, we have seen a significant increase in the monthly performance figures. This culminated in 'one' and Midland Mainline, our intercity services, becoming the top two operators in the long distance category and c2c and Wagn, our commuter services, coming in the top three of the London and South East category.


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Trains

A range of intercity, commuter and rural passenger train services.

1 *c2c* - www.c2c-online.co.uk
Links South Essex towns with London Fenchurch Street Station

2 *MIDLAND MAINLINE* - www.midlandmainline.com
Operates inter-city services between Yorkshire, the East Midlands and London

3 *SILVERLINK* - www.silverlink-trains.com
Silverlink County operates between London and Northampton. Silverlink Metro operates through North, East and West London

4 *WESSEX TRAINS* - www.wessextrains.co.uk
Operates rail services through Cornwall, Devon, Somerset, Dorset, Wiltshire, Hampshire and Gloucestershire

5 *Wagn* - www.wagn.co.uk
Wagn is the name for the Great Northern services from Kings Cross and Moorgate to Hertfordshire, Cambridgeshire and Norfolk

6 *CENTRAL TRAINS* - www.centraltrains.co.uk
Provides high-frequency local train services in the East and West Midlands and long-distance services between the Midlands, East Anglia, North West and the East Coast

7 *GATWICK EXPRESS* - www.gatwickexpress.com
Provides services between Central London and Gatwick Airport

8 *'one'* - www.onerailway.com
Provides a comprehensive rail network of services in East Anglia including commuter services to London and the region's cities, inter-city, cross country, rural lines and Stansted Express services

Buses

High-frequency urban bus services operating in the West Midlands, London and Dundee. Also operates Midland Metro light-rail service in Birmingham.

9 *TRAVEL WEST MIDLANDS* - www.travelwm.co.uk
The leading bus operator in the West Midlands covering over 500 routes

10 *TRAVEL COVENTRY* - www.travelcoventry.co.uk
Provides 80 bus routes in and around Coventry

11 *TRAVEL DUNDEE* - www.traveldundee.co.uk
Operates a comprehensive network of bus services in and around Dundee

12 *TRAVEL LONDON* - www.travellondonbus.co.uk
National Express Group's London bus operations

13 *THE METRO* - www.midlandmetro.co.uk
Provides a tram link between Wolverhampton and Birmingham City Centre

Coaches

A national integrated network of scheduled and contracted coach services in three business segments – National Express, Airlinks and Eurolines.

14 *NATIONAL EXPRESS* - www.nationalexpress.com
A network of scheduled coach services to over 1,000 destinations within the UK

15 *AIRLINKS* - www.airlinks.co.uk
Provides contract bus/coach services for airlines and the wider airport community at London Airports

16 *EUROLINES* - www.eurolines.co.uk
Scheduled coach services from the UK to 500 European destinations

North America

The third largest operator of private student bus services in the United States as well as a student bus operator in Canada. A provider of public transit and paratransit services in the United States.

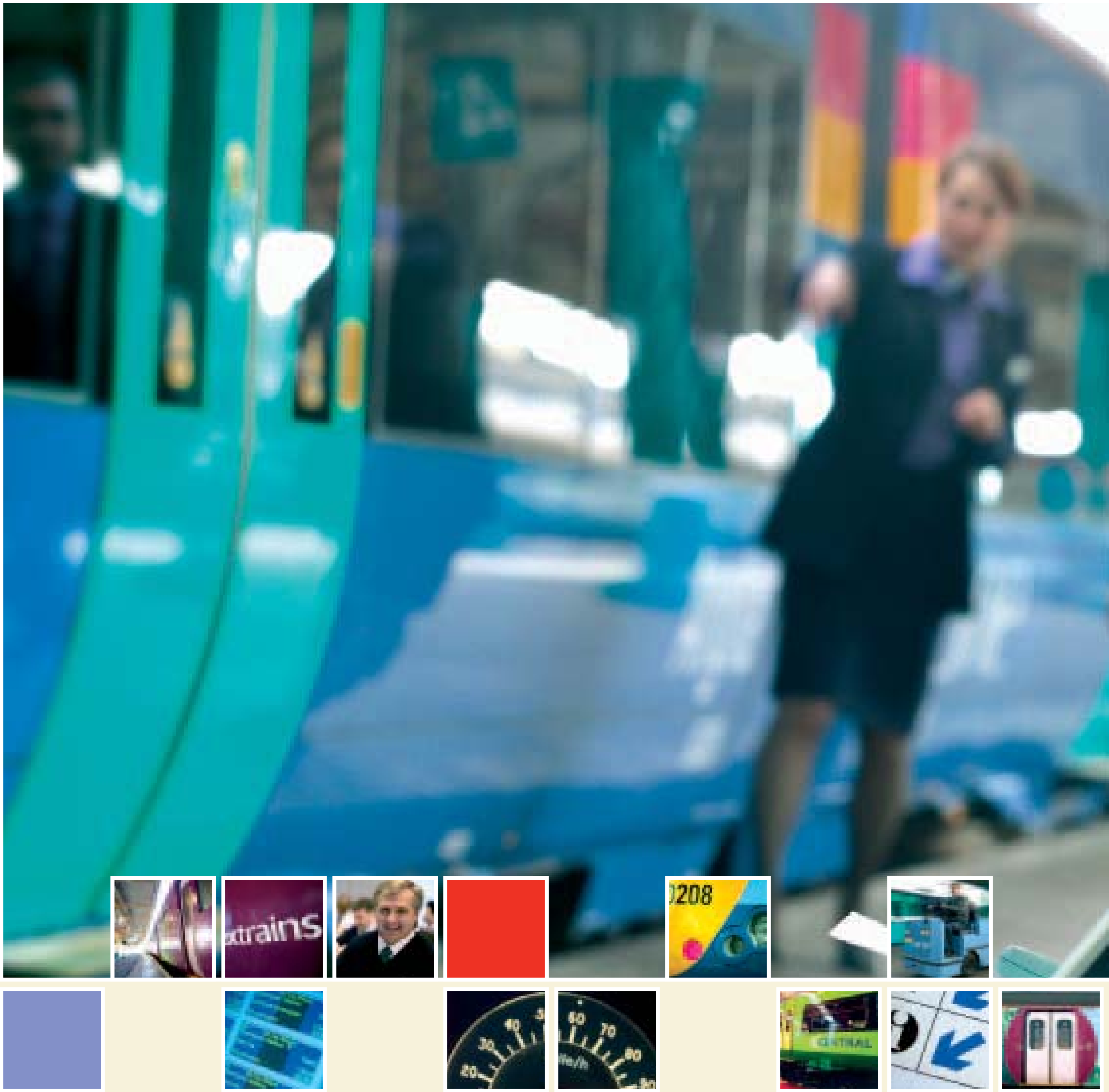
17 *DURHAM SCHOOL SERVICES* - www.durhamschoolservices.com
Provides student transportation throughout the United States of America

18 *STOCK TRANSPORTATION* - www.stocktransportation.com
Provides student transportation in two provinces of Canada

19 *ATC* - www.atc-nec.com
Provides paratransit and transit bus services in 18 states in the USA

20 *STEWART INTERNATIONAL AIRPORT* - www.stewartintlairport.com
Located in New Windsor, New York

Principal Brands & Services…



"OUR TRAINS DIVISION ACHIEVED PUNCTUALITY LEVELS ABOVE THE GOVERNMENT'S TARGET OF 85%."

Trains… We achieved passen

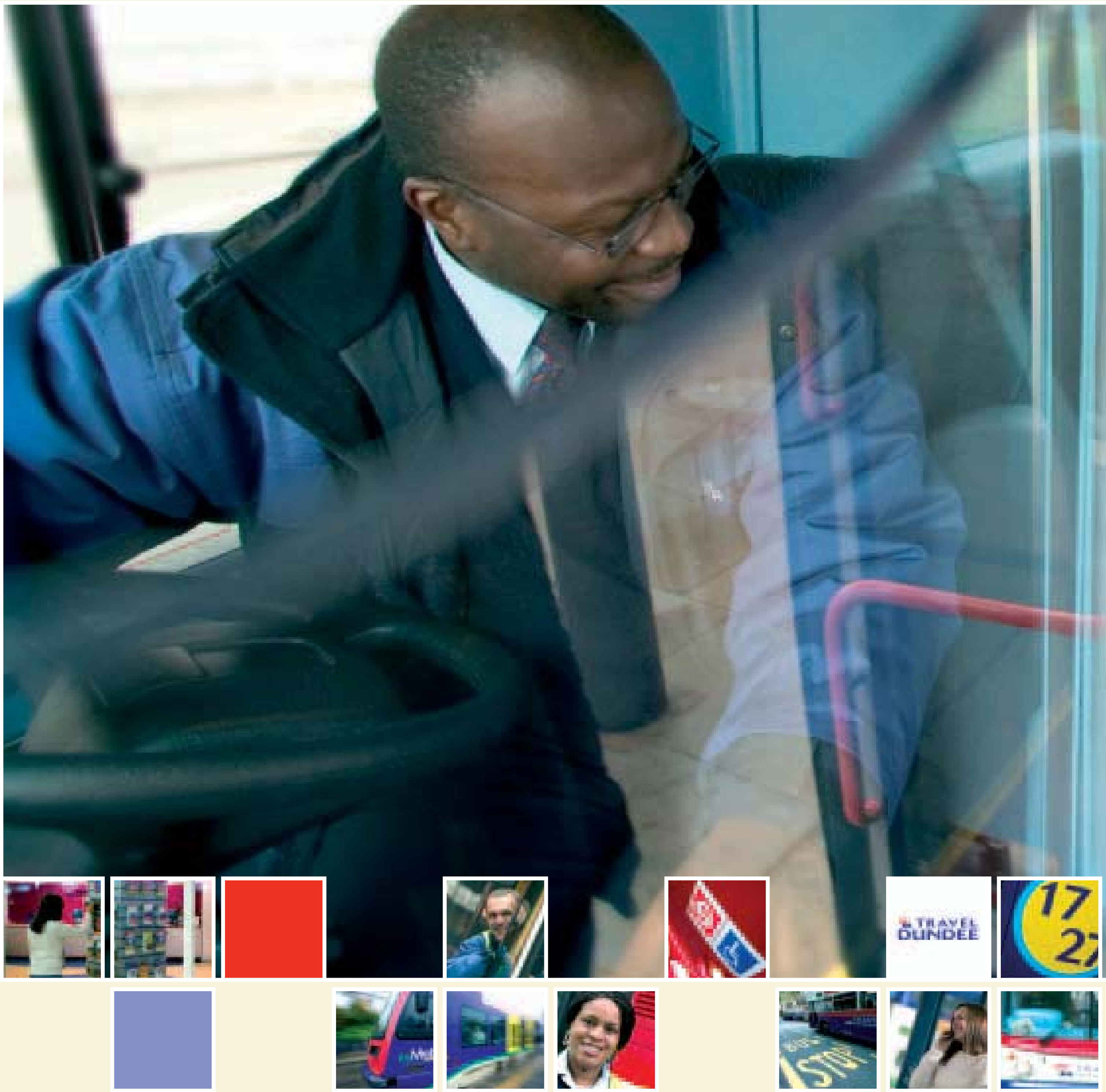
division on the back

EACH YEAR OUR TRAIN COMPANIES CARRY 300 MILLION PASSENGERS

SINCE PRIVATISATION WE HAVE INCREASED PASSENGERS ACROSS THE NETWORK – INCLUDING A 75% INCREASE ON MIDLAND MAINLINE SERVICES

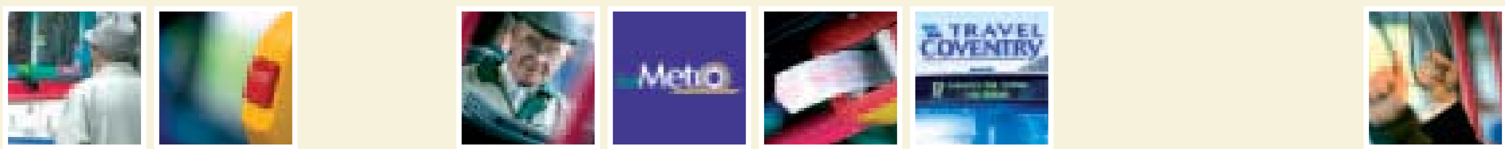
WE HAVE INVESTED OVER £100 MILLION IN STATIONS, TECHNOLOGY, SECURITY AND INTEGRATING TRANSPORT.

ger growth of 5% across our trains
of strong operational performance.



"WE OPERATE ONE OF THE UK'S LARGEST URBAN BUS NETWORKS IN THE WEST MIDLANDS."

Buses… New initiatives includ service have been intr



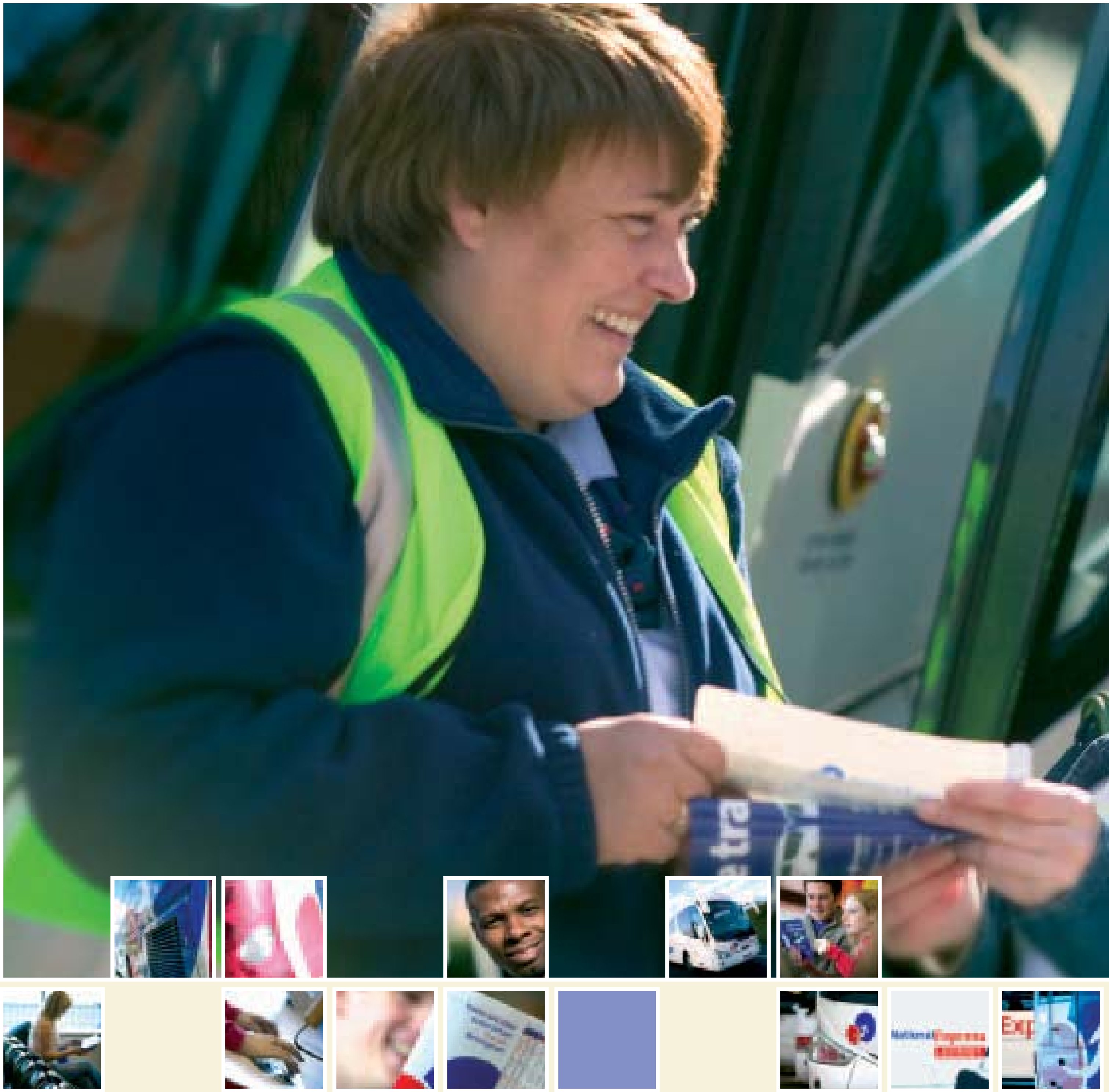
89% OF THE POPULATION LIVE WITHIN 250 METRES OF A WEEKDAY BUS SERVICE

68% OF OUR SERVICES OPERATE EVERY 10 MINUTES

IN THE WEST MIDLANDS, AN AVERAGE FARE OF 62P IS ONE OF THE LOWEST IN THE COUNTRY

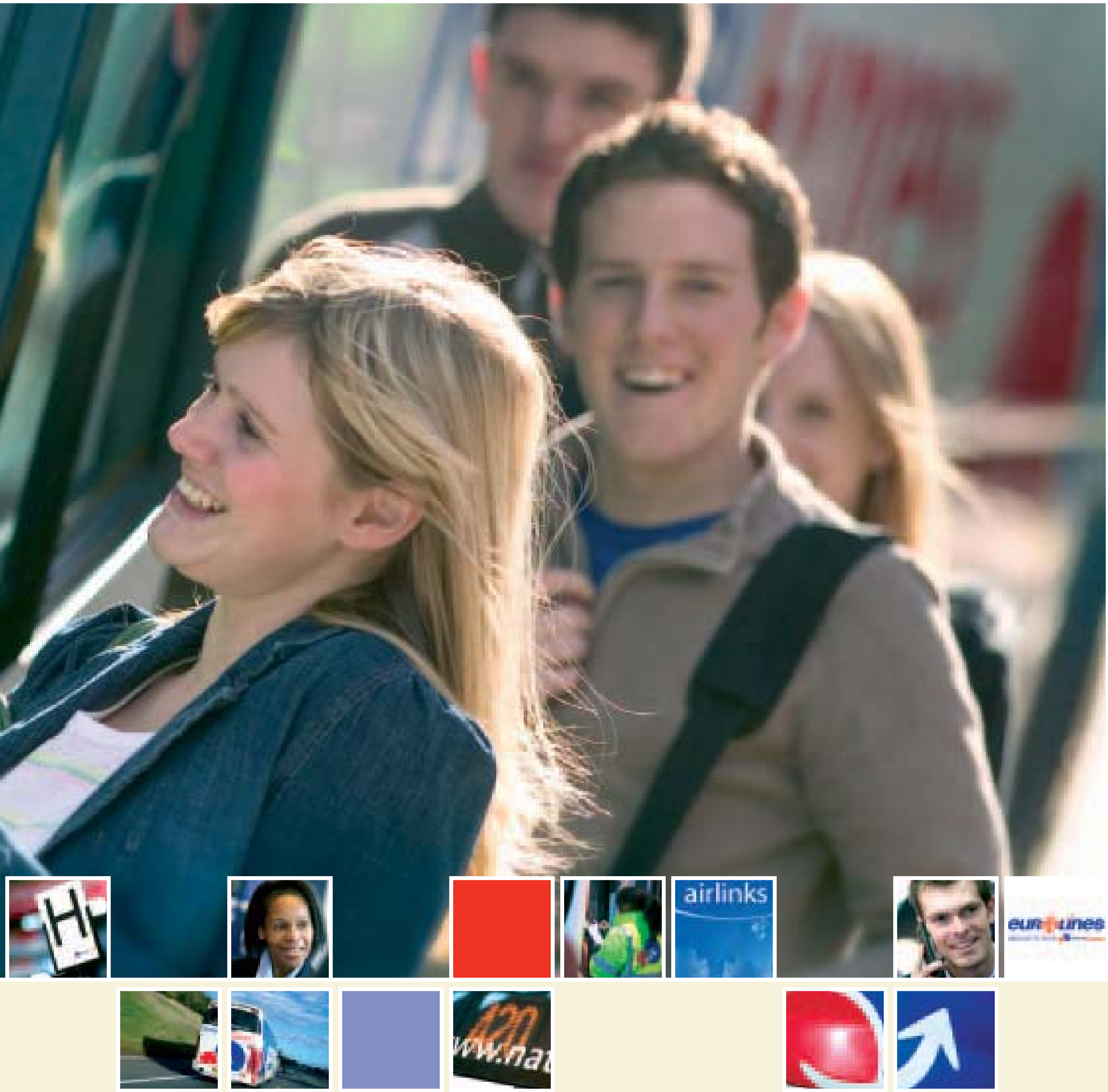
ing Saver Bus and the Premier 997

oduced to stimulate patronage growth.



"WE PROVIDE THE UK'S ONLY NATIONAL SCHEDULED COACH NETWORK."

Coaches... New dynamic state-of-the-ar



OUR £1 FUNFARES HAVE DRIVEN AN INCREASE IN PASSENGER NUMBERS

AIR CONDITIONING AND ON-BOARD ENTERTAINMENT ARE CHANGING THE FACE OF EXPRESS COACH SERVICES

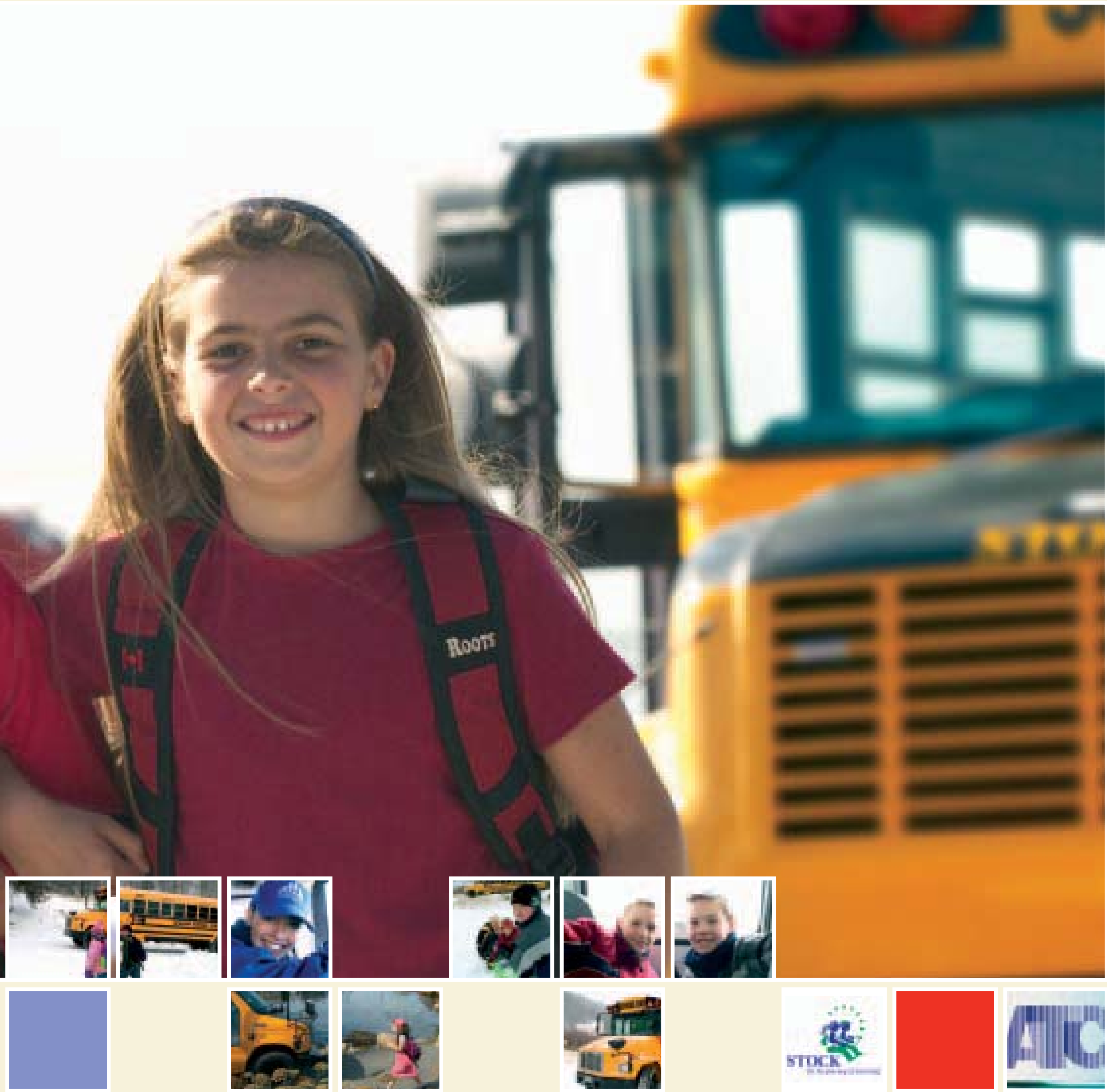
NEARLY 20% OF SALES ARE THROUGH THE INTERNET MAKING IT EASIER FOR OUR CUSTOMERS TO BUY TICKETS

fares across the network and

t coaches continue to drive growth.

"SAFETY AND PUNCTUALITY ARE THE CORNERSTONES OF SUCCESS IN THIS MARKET."

North America…



OUR YELLOW SCHOOL BUSES ARE A VITAL PART OF THE LOCAL COMMUNITY AND THE NORTH AMERICAN CULTURE

ATC PROVIDES INTEGRATED BUS SERVICES IN MAJOR CITIES SUCH AS LAS VEGAS AND SEATTLE

NORTH AMERICAN ACCIDENT FREQUENCY LEVELS HAVE FALLEN THIS YEAR

This year we experienced our best bidding season.

CHAIRMAN'S STATEMENT

David Ross
Chairman

NORMALISED GROUP OPERATING PROFIT INCREASED BY 17.9% TO £152.0 MILLION (2003: £128.9 MILLION RESTATED) ON TURNOVER OF £2.6 BILLION (2003: £2.6 BILLION RESTATED)

In my first year as Chairman, I am delighted to report that 2004 has been an excellent year for the National Express Group. We have achieved substantial growth in our earnings, good cash generation and a significant reduction in our debt. We have seen a strong performance across all our divisions in both the UK and North America. We have also exited a number of businesses which were non core to the Group's long term strategy. In view of the quality of these results and the strengthening of our balance sheet, the Board is recommending an 18% increase in our final dividend and we will seek to return value to shareholders through a share buyback programme of up to £100 million over the next twelve months, subject to market conditions.

RESULTS AND DIVIDEND

Normalised profit before tax was £130.5 million (2003: £99.8 million restated), after interest and the Group's share of losses from associated undertakings. Normalised diluted earnings per share were 71.8p (2003: 53.0p restated).

The Group experienced a strong operating cash flow of £187.5 million (2003: £139.7 million). We are particularly pleased with the reduction in our effective net debt position to £136.6 million at the year end (as defined on page 26).

Given the Board's confidence in the Group's future prospects, as well as its financial strength, we are recommending a final dividend of 20.65p per ordinary share (2003: 17.5p) an increase of 18%, to be paid on 6 May 2005 to shareholders on the register at 8 April 2005. Including the interim dividend, the proposed total dividend for the year is 30.0p (2003: 26.0p).

TRAINS DIVISION

The year was outstanding for our **trains division.** In February, we won the new Greater Anglia franchise which we rebranded 'one'. This is the first time that a single operator has been given sole use of a major London rail terminal. The integration of three major railways was completed on time, our franchise commitments over the first nine months were delivered and we improved overall operational performance. I am also pleased to report that further stability was brought to our trains division through the two-year extensions awarded for the Great Northern, Wessex Trains and Silverlink franchises, following the Central Trains extension during 2003.

We have been playing a leading role in the working groups set up by the Department for Transport ("DfT") to develop its plans for the railways following the publication of the White Paper, "The Future of Rail".

BUS DIVISION

During the year the focus within the **bus division** was to stimulate growth and promote greater social inclusion. We continue to press for greater bus priority schemes and to encourage local councils to work with us on transport plans which meet the needs of the local communities we serve. In February 2004, we entered the London bus market through the acquisition of Connex's bus operations in the capital and this business is trading in line with our expectations.

COACH DIVISION

National Express Coaches goes from strength to strength. Both revenue and profit growth have continued reflecting the high quality, value for money offering which we provide to our customers. Following on from last year's rebranding, the business continued to modernise its image, increasing its appeal to a broader market.

NORTH AMERICAN DIVISION

In **North America,** we saw further expansion of our school bus operations through the award of new contracts and the implementation of new routes. The initiatives undertaken to improve the performance of our public transit business have resulted in a significant increase in profits. However, the reported results have been impacted by the weakening of the dollar.

In October, we sold three Australian bus businesses for £26.4 million and in January 2005 our involvement in Australian public transport came to an end.

At Eurostar, settlement was reached with Network Rail over the historic application of performance regimes over the period 2001 – 2003. This resulted in a one-off credit of £5 million reducing our associate losses this year.

We know there is a strong correlation between the morale of our employees and the quality of customer service. We regularly seek the views of our employees and develop action plans based on their views. We have undertaken extensive research amongst 10,000 UK customers who have provided valuable information to help us develop our businesses. This research will enable us to measure customer satisfaction on a regular basis. Our commitment to improve service quality for our customers has again been reflected in the opening of our second Customer Service Academy in Birmingham. We are planning to open a third training facility in Stratford, East London in 2005.

SAFETY The safety and security of our customers and employees is of paramount importance to us. At National Express Group, we place great importance on our safety culture and we strive continuously to ensure that our systems and processes meet the highest standards.

EMPLOYEES I would like to take this opportunity to thank all our employees for their efforts during the year, including those ScotRail and Australian bus employees who left the Group. We wish them well for the future. I would also like to welcome all those people who joined us this year, in particular our new teams at Travel London, 'one' and our new employees in Canada.

THE BOARD Following the retirement of Michael Davies, I was delighted to be appointed Chairman of the Group in March. The Board has since appointed two new non-executives.

Sir Andrew Foster joined the Board on 1 August. Sir Andrew has had an extensive career in the public sector serving as Chief Executive of the Audit Commission for England and Wales between 1992 and 2003 and prior to that Deputy Chief Executive of the NHS. Tim Score, Chief Financial Officer of ARM Holdings PLC, joined the Board on 21 February 2005. Tim is a chartered accountant and has previously held senior financial roles at BTR plc, LucasVarity plc, William Baird plc and Rebus Group Limited.

I believe the professionalism and experience of Sir Andrew and Tim will further strengthen the Board and I welcome them to the Group.

CURRENT TRADING AND OUTLOOK

These results are ahead of market expectations following a very strong financial and operational performance in 2004.

I am pleased to report our business has started the year well and is on target to achieve further growth in 2005.

We remain committed to enhancing shareholder value. This will be achieved through using our strong balance sheet to fund both organic and acquisitive growth, our progressive dividend policy and a share buyback programme.

The Board looks forward with confidence to the year ahead.

We remain committed to enhancing shareholder value. The Board looks forward with confidence to the year ahead.

CHIEF EXECUTIVE'S REPORT

Phil White
Chief Executive

WE BELIEVE THAT THROUGH EFFECTIVE PARTNERSHIPS BETWEEN THE PUBLIC AND PRIVATE SECTOR, WE CAN ACHIEVE SIGNIFICANT IMPROVEMENTS IN THE QUALITY OF SERVICE TO OUR CUSTOMERS.

- WE WERE AWARDED 'ONE', A NEW RAIL FRANCHISE
- WE ENTERED THE LONDON BUS MARKET
- WE REPOSITIONED OUR COACH BUSINESS
- WE EXPERIENCED OUR BEST BID SEASON EVER IN NORTH AMERICA

2004 was a year of real progress for the Group. I am pleased that on the back of excellent operational performance within each of our divisions we delivered strong financial results.

People commute, shop and go to school with us, travelling both long and short distances. We join up people and places, making journeys easy and enjoyable by taking the stress out of travelling. We aim to do this by making travel easy and simple for them, being open and honest about our performance, working together with our various stakeholders and taking the lead in bringing new ideas and technology to both our business and the industry for the benefit of our customers.

2004 saw a number of important developments in our business. We were awarded 'one', a new rail franchise which is one of the largest rail businesses in the country. We also successfully entered the London bus market. Our coach business continued to develop its product offering. In North America, we increased our market share, experienced our best bid season ever and improved the profitability of our public transit business.

Change is an ever constant feature of the public transport world, whether it be technology, economic, social, regulatory, political or company driven. We continue to adapt our business to reflect these developments with the support of our people.

FOCUSING ON OUR EMPLOYEES

Through our customer and employee research we know that there is a direct correlation between the morale of our employees and the quality of service we provide. Therefore, key customer service and employee morale performance indicators have been built into our operational targets.

In Autumn 2003, we undertook an employee survey across our UK businesses. This highlighted that areas for improvement related to communication, safety and security and training and development. On the back of this, a range of initiatives was introduced such as improved two-way communication channels, greater access to senior management, suggestion forums and improved training and development for employees. We have introduced a new induction process focusing on the vision and values to be applied across all of our businesses and a reward and recognition scheme which recognises outstanding endeavour by our people. A further employee survey will take place in March 2005 amongst all our employees worldwide.

We invest in our people to help them gain a clear understanding of our business objectives whilst also giving them an opportunity to develop their careers. All our UK businesses are focused on gaining the Investors in People accreditation. We continue to focus on providing skills training to our frontline employees through our Customer Service

Academies. During the year we opened a new facility in Birmingham for Central Trains employees, delivering operational, vocational, developmental and key skills training. We will be opening a further facility in London for our 'one' franchise in 2005. Within our bus division over 57% of drivers now have achieved NVQ II accreditation with 75% of engineering employees also holding NVQs or an equivalent qualification. In our coach division our DASHboard initiative, launched during the year, is helping drivers to develop their skills. In North America the Durham and ATC Universities continue to provide a formalised programme of training for employees.

We are pleased with the quality of candidates that have joined the Group's graduate training scheme, now in its fourth year. Furthermore through our leadership development programme we have identified over 100 managers from across our businesses who we are looking to develop for the future. Through our succession planning forum we are able to ensure that we develop our managers for the future.

We believe our investment in our people today will help secure the Group's long term success.

FOCUSING ON OUR CUSTOMERS

We constantly seek to improve the quality of our services. In the first half of 2004, we undertook customer feedback relating to our UK bus and train operations. This independent quantitative and qualitative research was undertaken amongst 10,000 bus and rail customers over a period of three months. The results of this research confirmed that punctuality, reliability and frequency of services is key. Moving forward we have a solid foundation to develop a customer service model for our businesses, providing a consistent standard to which we should perform. We believe customer satisfaction will be a major contributor to the success of our business. This will involve quantitative, qualitative and "mystery shopping" research. From this we will be able to develop our business to reflect the needs of our customers.

FOCUSING ON STAKEHOLDERS

All of our businesses work closely with our stakeholders including central Government, passenger transport authorities and city councils to provide quality services to the communities we serve.

During this year we were pleased to sign a Concordat with Dundee City Council. This Concordat followed on the back of the signing in December 2003 of the Coventry Concordat with Coventry City Council. These agreements ensure that all parties are committed to working together to deliver better services.

At Travel West Midlands, we work closely with Centro, the West Midlands passenger transport executive, and the seven local West Midlands authorities. We continue to introduce new low-floor easy-access buses and improved customer information. We continue to lobby for further buses priority measures.

Although there is much that bus operators can deliver on their own, ultimate success depends on good working relationships between the private sector and its stakeholders – in our case both central government and local authorities. Our passengers are constantly seeking improved service reliability which in some cases we have already achieved through Quality Partnerships. It is important that these early successes are developed further and that local authorities have the courage and commitment to deliver more car restraint and more road space for public transport, as has been the case in London.

Our award winning partnership between Travel West Midlands and the West Midlands Police has continued to move forward with a greater number of initiatives underway to tackle crime. We have seen a significant reduction in crime on our buses during 2004. In addition this year a similar partnership was developed between Travel Dundee and Tayside Police.

Over the past two years we have worked closely with Transport for London on the redevelopment of the Walworth bus depot which was opened in February 2005 by Ken Livingstone, Mayor of London.

In rail we are working closely with both national, regional and local stakeholders, including the rail passenger councils and user groups. We are active participants in the "Community Railways" initiative to create local rail services which reflect regional characteristics.

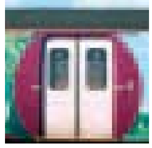
In North America our key stakeholders are school boards as well as national, federal and state bodies. Programmes to ensure contact with these key parties are undertaken regularly across both our student transport and public transit divisions.

We believe that our commitment to all these areas is key if our business is to develop for the future. We will continue to invest in all aspects of the business ensuring that public transport can become the preferred mode of transport for the customer.

I would like to take this opportunity to thank all our people for contributing to a successful 2004.

We believe our investment in our people and our services will secure the Group's long term success.

David Franks
Chief Executive,
NX Trains Division



Trains

WE OPERATE C2C, CENTRAL TRAINS, GATWICK EXPRESS, MIDLAND MAINLINE, 'ONE' INCLUDING THE STANSTED EXPRESS, SILVERLINK, GREAT NORTHERN AND WESSEX TRAINS FRANCHISES. THE DIVISION CURRENTLY EMPLOYS 11,500 PEOPLE.

- STRONG PASSENGER GROWTH OF 5%
- STRONG IMPROVEMENT IN OPERATIONAL PERFORMANCE
- 10% YEAR-ON-YEAR IMPROVEMENT IN SPAD RECORD

"We have focused on improving performance which has resulted in significant improvements, particularly at Midland Mainline."

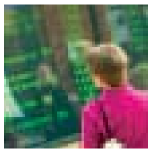
Turnover for the period was £1,705.2 million (2003: £1,702.2 million restated) with normalised operating profit of £58.5 million (2003: £33.2 million restated). These results were achieved through improved trading across the trains division, the commencement of the new 'one' franchise and two-year extensions granted on four of our franchises.

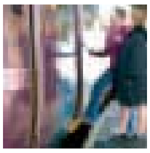
We achieved passenger growth of 5% on a like-for-like basis on the back of strong operational performance. We are pleased that in the Strategic Rail Authority's ("SRA") last National Rail Trends survey, which covered the period from July – September 2004, 'one' and Midland Mainline ("MML") were the top long distance operators and c2c, Wagn and 'one' came in the top four London and South East train operating companies. Currently the majority of our trains portfolio is performing above pre-Hatfield levels with c2c and MML operating at their best levels ever.

On the back of our improvement in performance, in the summer we launched a free rail ticket promotion, the Getaway Giveaway, to encourage more people to travel on rail. We gave away seven million free tickets, delivering both increased awareness of the benefits of rail travel and generating additional demand on the network during the off peak.

Following the launch of the new Greater Anglia franchise, 'one', our immediate priority was to achieve a seamless transition for our customers and to restructure the operation into 'one' business. This franchise is one of the largest and most complex in the country and therefore we were particularly pleased that this reorganisation was achieved on time, alongside improved operational performance. In December, we introduced our revised Anglia Railway and Greater Eastern timetables which provide a greater number of direct connections to London from the Greater Anglia region. We have upgraded the fleet on the Norwich to London route and we have introduced a new Passengers' Charter offering a simpler compensation regime.

MML performance was good despite the Channel Tunnel Rail Link blockade which took effect in September. On the back of the Route Utilisation Strategy ("RUS") issued in March 2004, the SRA has concluded that the proposed London to Leeds services will not be required over the long term. We are in discussion with the SRA concerning the impact of this on the franchise. In December, the Secretary of State for Transport gave his approval for the new East Midlands Parkway station, located between Derby and Loughborough.





In February, we signed a two-year extension for the Great Northern franchise. This franchise achieved third place in the latest SRA London and South East performance league table. We were pleased to complete negotiations for a two-year extension to our Silverlink franchise in September and we continue to work closely with Transport for London ("TfL") on the future of Silverlink Metro. During the year c2c achieved excellent operational performance, moving to the top of the London and south east performance league table.

The performance of Gatwick Express improved on the back of increased growth at the airport and new ticket arrangements with low cost airlines. Gatwick Express continues to be a loss making franchise. In September 2004, the SRA published its RUS for the Brighton Main Line and we are currently in discussions with them over the future of this franchise.

We signed a two-year franchise extension for Wessex Trains in February 2004. Wessex experienced encouraging revenue growth, partly attributable to an increase in revenue protection and the introduction of ticket vending machines around key commuter routes.

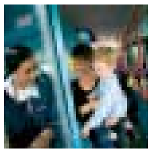
Central Trains has improved its performance in terms of both employee and fleet availability but we continue to work with Network Rail to increase the overall quality of the service. In July, a new £1 million Customer Service Academy was opened in the West Midlands. As part of the Rail Review, the SRA plans to disaggregate the Central Trains franchise and consolidate its services into other franchises. We have submitted proposals to the Department for Transport and the SRA setting out how we could assist in this exercise.

We regularly review the incidence and severity of SPADs (signals passed at danger), a key performance indicator within our train operations. We achieved a 10% year-on-year improvement in our SPAD record over the period.

We are working with the SRA and DfT on the rail remapping process following the Government Rail Review and believe that rail refranchising provides further opportunities for growth. We have recently submitted to the SRA our Accreditation Questionnaires for both the Greater Western and Thameslink/GN franchises.

Our trains business is well placed to benefit from the remapping and refranchising process.

Brian Jackson
Chief Executive,
NX Bus Division


Buses

THE BUS DIVISION OPERATES OVER 2,100 BUSES AND EMPLOYS 6,300 PEOPLE IN THE WEST MIDLANDS, DUNDEE AND LONDON. WE ALSO OPERATE THE MIDLAND METRO, THE LIGHT RAIL SERVICE IN THE WEST MIDLANDS.

Turnover for the period was £239.0 million (2003: £211.9 million) and normalised operating profit was £44.2 million (2003: £47.5 million restated). These results are in line with expectations following the revisions to the passenger transport authority's concessionary fare scheme in West Midlands which changed the provisions for new entrants to the scheme.

In the West Midlands, we continue to seek ways to stimulate the market. Our Saver Bus initiative, which offers competitive one-price fares on one of Birmingham's key inner city routes, has proved very popular, and latest trends show double digit growth in passenger numbers. This service aims to promote greater social inclusion through increased travel opportunities in one of Birmingham's most deprived areas. At the beginning of this year we launched the Premier 997 service between Walsall and Birmingham which provides a limited stop service targeted at attracting commuters. This new service includes features such as multi-media CCTV technology. It has been well received.

We have also simplified our fares structure, making it easier for our customers to use our services.

We introduced 170 new low-floor easy-access buses into the Travel West Midlands ("TWM") fleet. TWM now has the largest low-floor fleet outside London with over 70% of the fleet offering easy-access.

We have improved the selection and recruitment of staff, tapping into new opportunities arising from the opening up of the European Union. This has resulted in over 100 new drivers being recruited from Poland. 57% of our TWM drivers are now accredited with a NVQ level II and a further 17% are working towards the qualification.

We were pleased to sign a Concordat with Dundee City Council for the continued investment in bus services. By November, the whole of the Travel Dundee fleet was low-floor easy-access buses with 100% CCTV.

In February, we entered the London bus market. Since then we have renewed existing contracts on improved terms and won additional new contracts. We now operate from three bus depots, including Walworth which was developed during 2003/4 in partnership with TfL. This depot still has capacity for an extra 60 buses, allowing us to bid for further contracts in the coming year.

We have also invested further in the safety of our employees and passengers through the roll-out of CCTV and expansion of the Operation Safer Travel initiative.

During the coming year we will stimulate growth in the market whilst developing closer working relationships with local authorities to improve the quality of our bus services through the roll-out of bus priority schemes.

→ OUR SAVER BUS ACHIEVED DOUBLE DIGIT GROWTH

→ 100% OF THE TRAVEL DUNDEE FLEET IS LOW-FLOOR EASY-ACCESS

→ 57% OF OUR TWM DRIVERS ARE NOW NVQ LEVEL II ACCREDITED

We continue to stimulate growth in the market whilst developing closer working relationships with local authorities.

Denis Wormwell
Chief Executive,
NX Coach Division

Coaches

THE COACH DIVISION PROVIDES BRITAIN'S ONLY SCHEDULED NATIONAL COACH NETWORK AND SERVES MORE THAN 1,000 DESTINATIONS. THE DIVISION EMPLOYS 1,900 PEOPLE

Turnover for the year was £192.4 million (2003: £186.4 million restated) with a normalised operating profit of £18.8 million (2003: £15.9 million restated). Coach passenger numbers during the year was up 6% through the continued use of yield management pricing, fare innovations and changes in our service offering.

We are rolling-out dynamic pricing across the network. Funfares have now been extended to 28 towns and cities, enabling customers to travel for as little as £1 each way. Our "Go anywhere fares" allow long distance travel anywhere in the UK for a flat £9 fare. In our first full year of offering "routesixty" concessionary fares to the over 60s, we have carried over 3 million customers. In addition, a new youth coachcard, the NX2 card, was launched, giving all customers aged 16 – 26 the opportunity to obtain up to a 30% discount on coach travel.

Our focus on moving towards more direct sales continues. Nearly 20% of all sales are now on-line. Early in November we launched a new improved website which is easier and faster to access and also provides better travel information including maps, tourist guides and weather reports.

During the year we carried out a detailed route analysis to develop further the key routes in our network. In September we launched a new half hourly London to Birmingham service. This showcase route has seen the introduction of a number of additional features including state-of-the-art coaches, incorporating leather seating, extra leg room, air conditioning and on-board entertainment. A revised 24 hr timetable for the service has been introduced, offering a half hourly operation throughout the day and hourly during the night. Coach passenger numbers on this route have grown by over 15% following the relaunch. We have now extended this concept onto routes connecting London to the South West.

We have recently launched our own on-board TV coach entertainment channel, called nxtv, which is to be further rolled out on 100 vehicles. It provides news, sports and entertainment, all of which are regularly updated via wireless communication technology throughout the day.

We continue to improve the efficiency of the operation through investing in better management systems. In the next six months we will launch Coachcom, a portable data terminal, which provides better management information as well as enabling the driver to receive valuable traffic updates and customer information whilst in transit. New m-tickets have also been introduced enabling the texting of confirmed coach bookings to customer mobile phones.

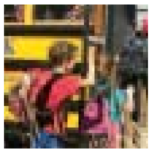
We continue to work with the DfT and coach manufacturers on vehicles which are more accessible for the less able, in accordance with European DDA legislation. We will be introducing a wheelchair accessible vehicle into the network in 2005.

To support our airport services we are working closely with BAA on the redevelopment of our Heathrow airport coach facility.

On 22 February 2005 we sold our airports contract business at Heathrow.

- PASSENGER NUMBERS UP 6%
- FUNFARES EXTENDED TO 28 TOWNS AND CITIES
- COACH PASSENGER NUMBERS HAVE GROWN BY 15% ON OUR NEW LONDON TO BIRMINGHAM SERVICE

OPERATING REVIEW



Brian Stock
Chief Executive Officer, North American Division

North America

THE NORTH AMERICAN DIVISION CONSISTS OF STUDENT TRANSPORTATION, PUBLIC TRANSIT OPERATIONS AND STEWART AIRPORT IN NEW YORK STATE. THE DIVISION EMPLOYS 20,500 EMPLOYEES, WITH 2,500 IN CANADA.

Turnover in the student transportation division for the year was £208.5 million (2003: £228.1 million) and normalised operating profit was £29.6 million (2003: £32.4 million). In US dollars, turnover was $383.7 million (2003: $374.1 million) and normalised operating profit $54.5 million (2003: $53.1 million).

At Durham School Services we retained a very high proportion of our contracts that came up for renewal whilst maintaining operating margins, despite a competitive bid season. We won new contracts in California, Connecticut and Kansas and a conversion opportunity was gained in Texas. We continue to improve our operating efficiency through better asset and cost management. Improvements in safety management and systems achieved significant reductions in the frequencies of accidents and personal injury incidents. In Canada, Stock traded well and added extra routes.

Our student bus division continues to focus on better utilisation of the fleet through greater exploitation of the charter and field trip market. We also continue to reduce operating costs through greater leverage of our national purchasing buying power.

Turnover in the public transit for the year was £156.1 million (2003: £172.0 million) and normalised operating profit was £7.3 million (2003: £4.6 million). In US dollars, turnover was $287.2 million (2003: $282.1 million) and normalised operating profit $13.4 million (2003: $7.6 million). This improved performance was achieved on the back of increased margins through better contract performance and a significant reduction in frequency of accidents. In addition insurance costs reduced, greatly assisted by the roll-out of Drive-Cam technology which accurately records the sequence of events when an accident takes place.

We continue to focus on costs through national purchasing schemes. We were pleased to introduce a new Bus Rapid Transit system into Las Vegas during the year. This new "bullet bus" uses an optical guidance system and interacts with bus priority traffic systems providing fast transit through the city.

- DURHAM SCHOOL SERVICES RETAINED A VERY HIGH PROPORTION OF CONTRACTS IN THE BID SEASON
- WE FOCUSED ON BETTER UTILISATION OF THE FLEET
- WE FOCUS ON COST IMPROVEMENTS THROUGH NATIONAL PURCHASING SCHEMES

We experienced a strong bid season in student transportation and improved our trading in ATC.

Making a real contribution to people's lives

WE PROVIDE TRANSPORT SERVICES AND SOLUTIONS. BY THE VERY NATURE OF WHAT WE DO, WE ARE ADDING TO THE QUALITY OF LIFE OF THE COMMUNITIES WE SERVE BY PROVIDING MOBILITY AND DELIVERING SOCIAL, ECONOMIC AND ENVIRONMENTAL BENEFITS.

During 2004 we continued to offer transport services which are integral to the communities which we serve.

Our 2004 Corporate Responsibility Report, which is published alongside our Annual Report and Accounts, explains our progress on the social, ethical, environmental, employee and community challenges that face our business. We are pleased that our CR 2004 has been reviewed and appraised by one of the transport industry's leading non-government agencies, Transport 2000, details of which can be found on the Group's website – www.nationalexpressgroup.com

During the year we extended our reporting across our UK businesses and for the first time have included our North American operations in the report.

We believe that corporate responsibility reporting is about what we do and how we do it. Through our operations and constant dialogue with our stakeholders we are able to develop our business.

During 2004 we continued to improve the quality of our safety data. In our trains division we focused on reducing the number of signals passed at danger ("SPAD"). We were pleased that a 10% improvement in SPADs was achieved during the period.

Within our operations we are focused on improving the quality of our services. Through extensive customer research we are aware of the key customer satisfaction drivers and are developing propositions which meet those requirements. We know that punctuality and reliability of services, regardless of mode, are paramount. We saw a significant focus on this area across our operations during 2004. We believe through investment in our services we can develop our operations for the future and improve the attractiveness of public transport.

On the back of the Disability Discrimination Act we continue to incorporate many DDA compliant features into our facilities and work closely with suppliers to achieve this.

At the end of 2003, we set ourselves some challenging environmental targets and were pleased we achieved most of them. Specifically we saw a 6% reduction in energy consumption at depots and large facilities. This year we were selected to participate in the Government's Carbon Trust carbon management programme to review how a change in government policy in carbon trading could impact on our operations. Details of this review are available within our CR Report.

Our people are the face of our operations. Over 85% of our employees are drivers or customer facing employees. They are close to our customers and aware of the opportunities and challenges within our business. We recognise that we need to invest in our people. Contact with our employees is undertaken primarily at a local level however the Group continues to monitor employee morale on a regular basis.

As part of our involvement with communities, all our operations engage with local stakeholders and provide support where practical. This can include financial donations, support in kind, transport services or simply additional resources.

FINANCIAL REVIEW

Adam Walker
Finance Director

THIS IS A REALLY STRONG SET OF RESULTS. NORMALISED EARNINGS GROWTH OF 35% COUPLED WITH A SUBSTANTIAL REDUCTION IN NET DEBT GIVES THE GROUP A STRONG PLATFORM FOR THE FUTURE AND THE BOARD REAL CONFIDENCE IN OUR PROSPECTS FOR 2005 AND BEYOND.

YEAR AT A GLANCE

We have achieved a strong set of results, increasing profit on ordinary activities before tax by 17% to £63.1 m (2003: £54.1m restated), driven by an 11% increase in operating profit from continuing operations to £89.7m (2003: £80.6m restated). Basic earnings per share improved to 32.6p (2003: 31.9p restated).

For the remainder of this report we will refer to normalised results, which we feel reflect the performance of the business more appropriately. Normalised results are defined as the statutory result before the following as appropriate: profit on the sale of businesses and charges for goodwill amortisation, goodwill impairment, tangible fixed asset impairments, exceptional charges and tax relief on certain exceptional items and North American goodwill amortisation.

Normalised group operating profit was up by 18% to £152.0m (2003: £128.9m restated), on turnover of £2,560.2m (2003: £2,565.7m restated) resulting in an increased normalised operating margin of 5.9% (2003: 5.0% restated). Normalised profit before tax increased by 31% to £130.5m (2003: £99.8m restated) driving up normalised diluted earnings per share to 71.8p (2003: 53.0p restated) an increase of 35%. Cash flow remained strong with effective net debt* reducing by £171.2m to £136.6m. Full year dividend per share increased by 15% to 30.0p (2003: 26.0p).

* Effective net debt at 31 December 2003 excluded the £18.7m of cash deposits secured as a bond in respect of future rolling stock maintenance at the ScotRail. This cash deposit was transferred with the ScotRail franchise in 2004.

DIVISIONAL REVIEW

TRAINS Normalised operating profit increased to £58.5m (2003: £33.2m restated) on constant turnover of £1,705.2m (2003: £1,702.2m restated) resulting in improved normalised margins of 3.4% (2003: 2.0% restated). Rail passenger numbers were up 5% on a like-for-like basis across our portfolio of TOCs.

Five of our trains franchises operated under new financial terms in 2004 as a result of extensions agreed with the SRA. This provided greater stability to our earnings and cash inflow for a further two years.

We commenced operation of the new 'one' franchise on 1 April 2004 and we are pleased with the progress to date. The integration of the three separate head office and finance functions at 'one' has been completed satisfactorily in the year.

Midland Mainline had a busy year with its London to Manchester services (operated during the West Coast Mainline blockade) extended until September which coincided with the commencement of the Thameslink blockade at St Pancras which saw us sharing the platforms at the interim station.

Gatwick Express had a better year although remains loss-making because of the franchise premium paid to the SRA. We ceased to operate ScotRail on 17 October 2004.

BUSES Turnover before acquisitions increased by 2% to £216.2m (2002: £211.9m) with operating profit of £43.9m (2003: £47.5m restated). Traffic flow issues in the centre of Birmingham following the redevelopment of the Bull Ring have disrupted our efforts to grow revenue. We continue to work with Centro as we seek to increase the number of bus priority measures. In addition, a change in the methodology applied to the concessionary fare scheme has reduced the continuing operating margin to 20.3% (2003: 22.4% restated). Our effective hedging policy in 2004 mitigated the impact of rising fuel prices.

The acquisition of Travel London in February 2004 contributed operating profit of £0.3m on turnover of £22.8m. The low margin on the acquired business reflects the inherited loss making contracts, which are fully funded by cash acquired with the business. The integration of Travel London into the Bus division has progressed smoothly.

COACHES Our Coach operations delivered another year of strong performance, increasing normalised operating profit by 18% to £18.8m (2003: £15.9m restated). A 6% increase in passenger numbers, driven by improvements in our fares offering backed by strong marketing initiatives, produced a £6.0m increase in turnover to £192.4m (2003: £186.4m restated). The normalised operating margin improved to 9.8%

NORTH AMERICA

	Turnover 2004 £m	Turnover 2003 £m	Normalised operating profit 2004 £m	Normalised operating profit 2003 £m
Student Transportation	**208.5**	228.1	**29.6**	32.4
Public Transit	**156.1**	172.0	**7.3**	4.6
	364.6	400.1	**36.9**	37.0
	$m	$m	**$m**	$m
Student Transportation	**383.7**	374.1	**54.5**	53.1
Public Transit	**287.2**	282.1	**13.4**	7.6
	670.9	656.2	**67.9**	60.7

Average US dollar exchange rate of 1.84 (2003: 1.64).

(2003: 8.5% restated) reflecting strong cost controls, a record number of internet sales with lower distribution costs and continuing investment in management systems, which by providing improved route by route profitability analysis has enabled us to develop the network further.

NORTH AMERICA In local currency, normalised operating profit increased by $7.2m, on a $14.7m increase in turnover, improving our normalised margins to 10.1% (2003: 9.2%). The weakening dollar reduced turnover by £39.9m year on year and operating profit by £3.8m.

Turnover in our Student Transportation business increased by 3% through the benefit of new routes operated. Normalised operating margin remained consistent at 14.2% (2003: 14.2%). The 2004 US bid environment was strongly price competitive but we are pleased with our performance in both retaining 62 contracts with revenue of $110m and winning new business with revenue of $22m. Stock Transportation continued to perform well. We increased the proportion of charter work as well as gaining additional routes in the stable evergreen Canadian market.

The normalised operating margin of our Public Transit business continued to improve to 4.7% (2003: 2.7% and 2002: 0.9%). Cost reduction and efficiency initiatives over the past two years have increased profitability and our industry recognised customer service levels have led to a high retention rate of key contracts.

AUSTRALIA Three of the businesses were sold for gross consideration of £26.4m in October 2004. At the year end we have carried out an impairment review on the remaining Australian assets.

ASSOCIATES

We hold a 33% investment in Altram LRT Limited (Altram) and a 40% investment in Inter-Capital and Regional Rail Limited (ICRRL).

Altram has operated the Midland Metro since June 1999. Our share of the operating loss for 2004 was £0.2m (2003: £0.5m). We have continued discussions with our fellow shareholders at Altram and Centro regarding a restructuring which may lead to the Group taking full ownership.

ICRRL is contracted to manage the operations of Eurostar UK to 2010. Our share of the operating loss for the year was £3.2m (2003: £3.6m), which represented a second half profit of £1.0m. The second half benefited from a settlement with Network Rail relating to the historic application of performance regimes. We continue to seek an exit from Eurostar which we believe is in the best interests of shareholders. The cash outflow of £3.1m comprises the Group's share of funding for the 2003 losses.

INTEREST

Net interest payable decreased to £18.1m (2003: £25.0m), principally reflecting a lower level of net debt in the year when compared to 2003. In addition, the weakening of the US dollar reduced the cost of servicing our US dollar denominated financing. Normalised operating profit before depreciation (EBITDA) was £209.1m (2003: £189.1m restated) and EBITDA interest cover improved to 11.6 times (2003: 7.6 times restated).

GOODWILL AMORTISATION AND IMPAIRMENT

The annual goodwill amortisation charge increased to £52.7m (2003: £45.7m). The amortisation charge for the year on the goodwill arising on the acquisition of Prism Rail PLC in December 2000 has been increased by £9.0m to ensure that the capitalised value of goodwill in the future will be supportable by the remaining franchises. This has been offset by a lower amortisation charge for US goodwill as a result of the weakening US dollar.

An impairment charge of £9.5m (2003: £nil) has been made on the goodwill arising on the acquisition of Australia Bus. Following a review of the carrying value of the remaining assets in Australia an additional impairment write down of £6.1m has been made.

EXCEPTIONAL ITEMS

Exceptional items totalled £7.9m (2003: £nil restated), of which £7.2m was incurred in relation to the UK Trains division. The integration of the three legacy TOCs into the 'one' franchise resulted in restructuring and redundancy charges. The Group also incurred redundancy, property and pension charges following the merger of Qjump with the Trainline.com. Redundancy costs were incurred at Maintrain as a result of the decision to cease tendering for external work and focus on improving service to Central Trains and Midland Mainline. The balance comprises the cost of reorganisations at UK Bus (£0.4m) and North America (£0.3m).

TAXATION

The tax charge on normalised profit before tax of £130.5m (2003: £99.8m restated) was £28.6m (2003: £22.6m restated), which represents an effective rate of 21.9% (2003: 22.6% restated). Effective tax rates on overseas earnings maintain a low overall rate.

FINANCIAL REVIEW

The total tax charge includes one off credits of £2.3m arising from a review of group tax liabilities as a result of agreeing prior years' computations. It also includes tax relief on certain North American goodwill amortisation and UK exceptional costs.

CASH FLOW

Our focus on operating cash flow produced another excellent result. We again demonstrated our ability to convert operating profits into cash by generating £181.4m (2003: £152.0m restated) of operating cash flow before one-offs, and £187.5m (2003: £139.7m) after exceptional items and cash flows associated with changes to our TOC franchise portfolio.

This result has been driven by a strong performance in UK Trains where the cash inflow of £103.9m includes the one-off benefit of £10m from the build up of season ticket income from the 'one' franchise in the last quarter and £9m from the timing of subsidy receipts for the ScotRail franchise. The cash implications of the entry and exit of these franchises are included in 'franchise revisions' (discussed below). There were working capital timing gains of approximately £25m which are expected to reverse in 2005. These include performance payments and profit share monies owed to the SRA.

The working capital outflow in UK Bus came from a VAT timing difference. In UK Coaches the excellent cash flow performance underlines the strength of the business model. The working capital outflow in North America represents a partial reversal of 2003's strong inflow, and has been driven by the prompt settlement of insurance claims provided in previous years and slightly slower receivable collections.

Net capital expenditure of £66.5m (2003: £43.1m) includes £24.1m (2003: £9.1m) in UK Buses, £17.4m (2003: £8.4m) in UK Trains, and £18.3m (2003: £17.0m) in North American school buses. This expenditure includes £16.2m (2003: £8.0m) of additions purchased under finance lease comprising £0.2m (2003: £0.1m) in UK Buses, £0.3m (2003: £0.3m) in UK Coaches, £2.9m (2003: £1.0m) in UK Trains, £12.7m (2003: £6.6m) in North America and £0.1m (2003: £nil) in Central functions. Approximately £8m of capital expenditure incurred in the year will be paid for in early 2005.

The increase in capital expenditure in UK Buses reflects the increased vehicle purchases in UK Buses of 186 (2003: 74) both at Travel West Midlands and at Travel London following the awarding of new routes. An additional 28 (2003: 83) vehicles were funded by operating lease in the division. The capital expenditure in UK Buses is net of an £8.2m inflow from a property disposal in Birmingham, completed at the end of December. The increase in UK Trains reflects an increased spend on franchise commitments (including the 'one' franchise). In North America we purchased 771 (2003: 701) school buses, of which 230 (2003: 127) were for new routes and contracts.

The net £11.3m of cash receipts in relation to the change in UK Trains franchises include an inflow of £29.9m from 'one' and outflows of £15.7m from ScotRail and £2.9m incurred as part of the exit from Wales and Borders.

Net interest paid of £20.3m (comprising the cash outflow of £18.5m adjusted for loan fee amortisation of £1.8m) reduced in the year following the reduction in Group net debt. The receipt of tax rebates in respect of prior years resulted in a significant reduction in tax payments.

Therefore, we generated £164.0m (2003: £93.5m) in free cash flow which, after the effect of acquisitions, disposals, investments, shares issued and dividends generated a net funds inflow of £153.0m (2003: £16.8m).

OPERATING CASH FLOW

	UK Bus £m	UK Coaches £m	UK Trains £m	North American Bus £m	Australia Buses £m	Central functions £m	Total £m
Normalised operating profit	44.2	18.8	58.5	36.9	2.1	(8.5)	152.0
Depreciation	10.4	6.1	21.9	21.4	3.5	0.9	64.2
Amortisation of fixed asset grants	–	–	(6.5)	–	–	–	(6.5)
Profit on disposal	(0.3)	0.2	(0.3)	(0.2)	–	–	(0.6)
EBITDA	**54.3**	**25.1**	**73.6**	**58.1**	**5.6**	**(7.6)**	**209.1**
Working capital movement	(8.7)	3.6	47.7	(9.7)	1.9	7.1	41.9
Eurostar	–	–	–	–	–	(3.1)	(3.1)
Net cash inflow from operations	**45.6**	**28.7**	**121.3**	**48.4**	**7.5**	**(3.6)**	**247.9**
Net capital expenditure	(24.1)	(4.0)	(17.4)	(22.4)	1.5	(0.1)	(66.5)
Operating cash flow before one-offs	**21.5**	**24.7**	**103.9**	**26.0**	**9.0**	**(3.7)**	**181.4**
Other							
– Exceptional items							(5.2)
– Franchise changes							11.3
Operating cash flow							**187.5**

Operating cash flow represents "Net cash inflow from operating activities" plus "Receipts from the sale of tangible assets" less "Finance lease additions" and "Payments to acquire tangible assets" as set out in note 33c and the cash flow statement

RECONCILIATION OF NET DEBT

	2004 £m	2003 £m
Operating cash flow	187.5	139.7
Net interest	(20.3)	(23.9)
Taxation	(3.2)	(22.3)
Free cash flow	**164.0**	**93.5**
Financial investments & shares	2.6	10.6
Acquisitions & disposals	22.8	(54.1)
Dividends	(36.4)	(33.2)
Net funds flow	**153.0**	**16.8**
Foreign exchange	18.2	10.0
Funds flow post exchange	171.2	26.8
Opening effective net debt	(307.8)	(334.6)
Closing effective net debt	**(136.6)**	**(307.8)**

Acquisitions and disposals include £26.4m from the sale of three Australian Bus subsidiaries in October 2004. The 2003 outflow includes £49.8m to indemnify the providers of performance bonds and to cover accrued exit costs in respect of our Australian Trains division which was exited in December 2002. The net inflow from acquisitions of £22.8m comprises the cash flow from acquisitions and disposals of £31.1m, offset by the £8.5m of finance leases and loans acquired and disposed.

DIVIDEND

An interim dividend of 9.35p per share was paid in October 2004 and a final dividend of 20.65p per share will be paid in May 2005, bringing the total dividend for the year to 30.0p. This is a 15% increase in total dividends declared compared to 2003. This dividend is covered 2.5 times (2003: 2.2 times restated) by normalised profits after tax.

PENSIONS

The Group's principal defined benefit pension schemes are all in the UK. The most recent triennial actuarial valuations were carried out at 31 March 2001 and 31 March 2002 for the two Bus schemes, 5 April 2001 for Coaches and 31 December 2001 for the Train schemes. These valuations showed funding levels of 107% to 119% on the Bus schemes, 67% on the Coach scheme and 89% to 108% on the Train schemes. Approximately 1,600 (25%) Bus division employees are members of the two schemes, which have been closed for some years, and some 450 members of staff are members of the Coach division scheme which was closed in June 2002. New employees in the Bus and Coach division are offered membership of defined contribution pension schemes. In the Trains division approximately 11,000 employees are members of the Train schemes. Our North American employees, where relevant, receive pension benefits akin to a defined contribution scheme.

We continue to provide full disclosure, set out in note 30 to the accounts, of the FRS 17 position of the defined benefit schemes in the group which includes the rail pension schemes (RPS), where our main obligation is to pay the contributions agreed with the scheme actuary over the life of our franchise.

Overall, the FRS 17 deficits have grown as the increased values of the financial assets, reflecting the improvements in global equities, have been offset by increased liabilities arising from decreases in the discount rate and an increase in the longevity assumptions. In the coach scheme the deficit increased to £11.0m (2003: £4.7m), mainly as a result of increased liabilities of £6m arising from increased longevity assumptions. In the Bus schemes the deficit has reduced slightly to £36.2m (2003: £38.7m). We expect to increase the Group's contribution to the Bus schemes during 2005 when the results of the next actuarial valuation are available. In the long term Train franchises the deficit increased by £19.1m to £37.0m mainly with the inclusion of a £14.6m deficit from the new 'one' franchise. In the short term Train franchises (expiring in 2006) the deficit reduced by £4.4m to £48.5m as a result of £29.1m of deficit being handed over to new franchises almost offset by an actuarial loss of £24.2m. We report the RPS results in full compliance with FRS 17 although we have now experienced three changes of TOC ownership where the pension deficit has transferred to the new owner.

POST BALANCE SHEET EVENTS

At year end, the Group's remaining bus operations in Australia, operating under the trading names of Westbus, Glenorie and Blue Ribbon, and the UK Coach operator Westbus UK, were subsidiary companies of Bosnjak Holding Pty Limited (BHPL). BHPL is a 57% subsidiary of National Bus Company (NBC) Pty Limited whose ultimate parent is National Express Group PLC.

On 31 January 2005, BHPL went into voluntary administration as the company had been unable to renegotiate its loan with NBC.

ACCOUNTING POLICIES

UK GAAP We continue to apply the transitional arrangements of FRS 17 "Retirement Benefits" and will move directly to the International Accounting Standard equivalent (IAS 19) in 2005 following the Accounting Standards Board's decision to defer full adoption of FRS17.

UITF 38 "Accounting for ESOP trusts" has been adopted resulting in own shares held as fixed asset investments at 31 December 2003 being deducted in the calculation of both shareholders' funds and the company's distributable reserves at 1 January 2004.

In accordance with FRS18, 'Accounting Policies' the Group's accounting policies are reviewed regularly and changed when a new policy becomes more appropriate. Under the previous revenue accounting policy, the Group accounted for tickets sold in advance and for return journeys on a cash basis, with the exception of season tickets in the UK Trains division which were recognised evenly over the life of the season ticket. Following improvements in the Group's information systems we are now able to reliably measure the deferred revenue adjustment required in relation to these tickets, and therefore a change in accounting policy is appropriate. As discussed in note 1 to the accounts, the effect is not material.

As reported in the Interim 2004 results, the costs incurred in bidding for franchises in our UK Trains division are now classified as operating costs and the costs and assets incurred and utilised in operating the Group management function are now disclosed separately as Central functions. See note 2 to the accounts for further details.

FINANCIAL REVIEW

IFRS The Council of the European Union announced in June 2002 that all listed companies would adopt International Financial Reporting Standards (IFRS), formerly known as International Accounting Standards (IAS), from 1 January 2005. The adoption of IFRS will be first reflected in the Group's financial statements for the half year ending 30 June 2005 and the year ending 31 December 2005.

The Group is well prepared to convert to IFRS and we will issue IFRS restated 2004 results on 3 May 2005. The main areas impacted are expected to be pensions, share based payments, goodwill, financial instruments, dividends and taxation. The detailed application of IAS19 to the rail pension schemes is still under discussion with both our transport peer sector companies and our auditors, Ernst & Young LLP, who are considering the issue with the other major accounting firms.

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. In November 2004 we refinanced our main credit facility. The new facility, which expires in November 2009, contains the option to utilise up to £125m for the issuance of letters of credit. While we centralise these facilities to minimise cost of funds, we also have access to uncommitted working capital facilities in the UK, USA and Canada to help maximise funding flexibility. Cash deposits and derivative instruments are transacted only with banks, which have as a minimum an "A" long-term credit rating. As at 31 December 2004, the Group had committed credit facilities of £552.5m of which £302.7m were undrawn.

INTEREST RATES It is our policy to maintain an appropriate balance between fixed and floating interest rates on borrowings in order to provide certainty as to the level of our interest expense in the short term and to reduce the year on year impact of interest rate fluctuations over the medium term. Interest on the Group's debt is based on LIBOR and, to achieve the above objectives, we have entered into a series of interest rate swaps. The net effect of these transactions was that as at 31 December 2004, the Group was hedged against interest rate movements on £187.8m of gross debt for an average of 4.6 years. Due to our reducing net debt we have terminated one $200m interest rate swap since the year end. The effect of this is to reduce the level of fixed rate debt to £83.6m with an average life of 5.3 years. Based on the year end debt each 1% increase in interest rates would cost the Group approximately £1.0m.

CURRENCY RATE RISK Our investments in overseas operations, which are primarily in the USA and Canada, expose us to translation risk on net assets and on earnings denominated in foreign currency. The geographic spread of operations is illustrated by the chart opposite. 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 2004, the Group had hedged 81% of its investment in US dollar denominated net assets, 53% of its investment in Australian dollar denominated net assets and 97% of its investment in Canadian dollar denominated net assets.

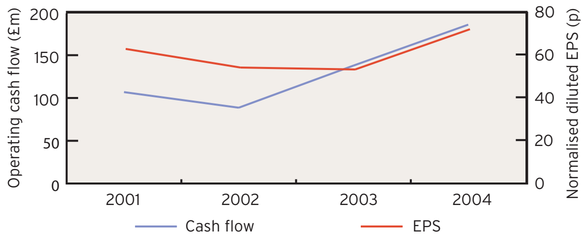
The average exchange rates for the year for the US dollar were US$1.84 (2003: US$1.64), for the Australian dollar were A$2.48 (2003: A$2.53) and for the Canadian dollar were C$2.38 (2003: C$2.31). Each 1% weakening of the US dollar and the Canadian dollar exchange rates would reduce the Group's operating profit by approximately £0.3m and £0.1m respectively. A 1% weakening in the Australian dollar exchange rate would not alter the Group's operating profit by a material amount.

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

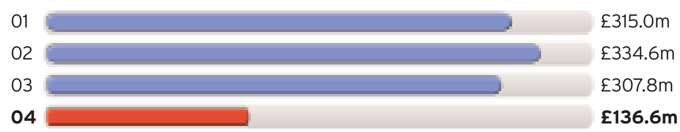
COMMODITY PRICES We are exposed to commodity price risk as a result of fuel usage. It is our policy to hedge this exposure in order to provide certainty as to the level of fuel costs in the short term and to reduce the year on year impact of price fluctuations over the medium term. This is achieved by entering into fuel swaps and purchase contracts. The Group has hedged approximately 100% of its 2005 expected usage in its UK bus and coach and North American bus operations.

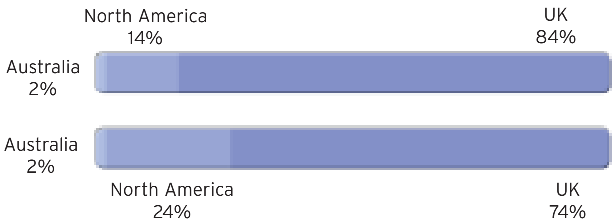
Adam Walker
Finance Director

Strong conversion of profits into cash



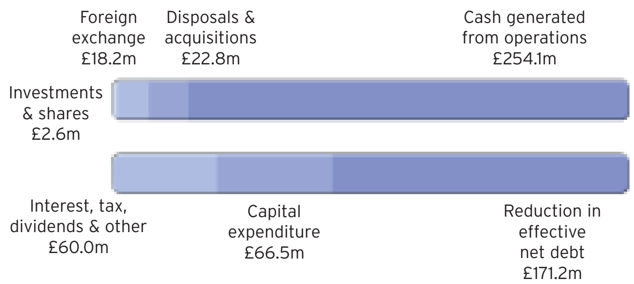
Significant reduction in effective net debt





Turnover by geographic market

Normalised operating profit by geographic market

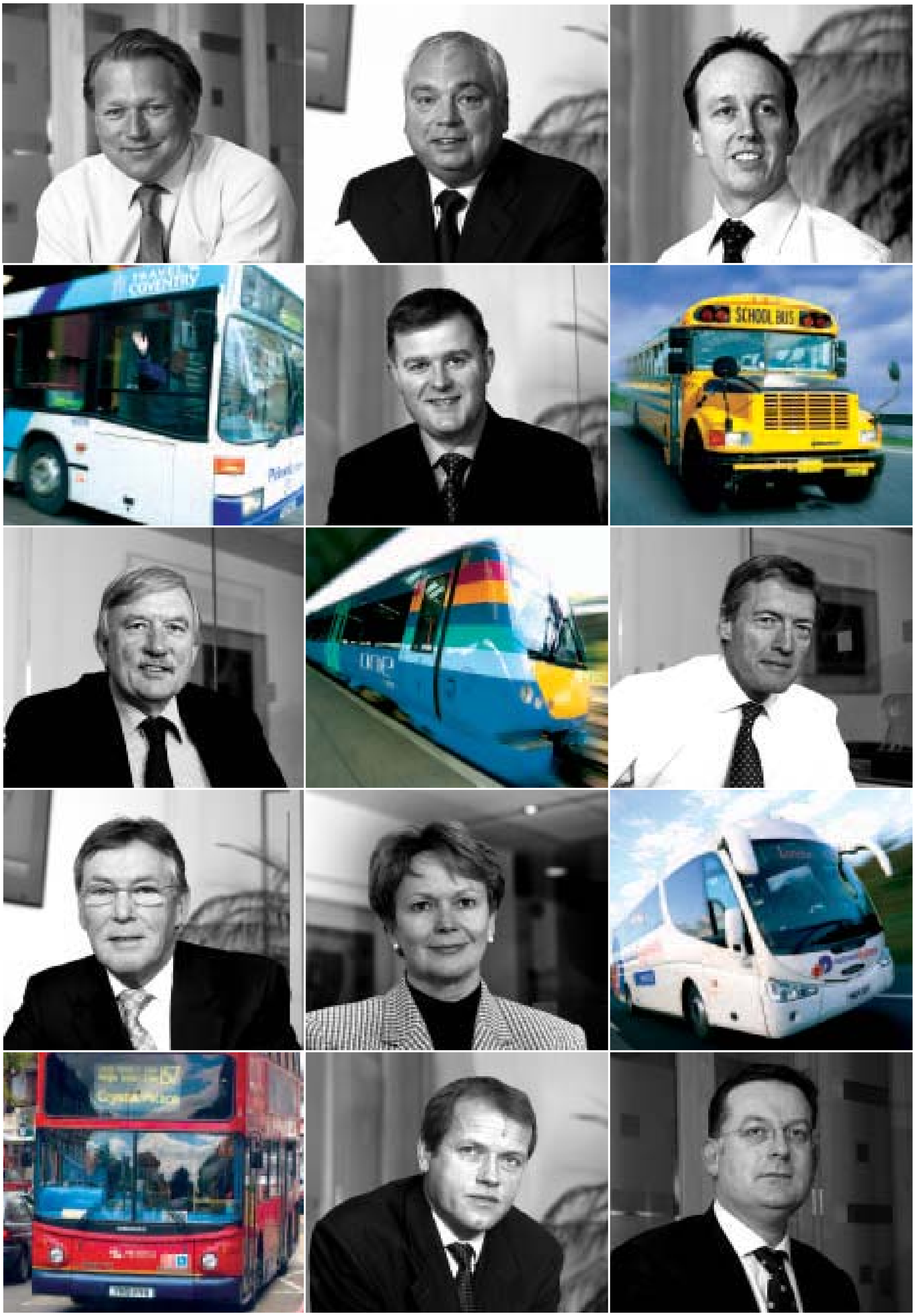


Source and application of funds statement

Financial Highlights of 2004

- TURNOVER OF £2.6 BILLION (2003: £2.6 BILLION RESTATED)
- NORMALISED OPERATING PROFIT UP 18% TO £152.0 MILLION (2003: £128.9 MILLION RESTATED)
- NORMALISED PROFIT BEFORE TAX UP 31% TO £130.5 MILLION (2003: £99.8 MILLION RESTATED)
- PROFIT BEFORE TAX UP 17% TO £63.1 MILLION (2003: £54.1 MILLION RESTATED)
- NORMALISED DILUTED EARNINGS PER SHARE UP 35% TO 71.8 PENCE (2003: 53.0 PENCE RESTATED)
- FINAL DIVIDEND INCREASED BY 18% TO 20.65 PENCE PER SHARE (2003: 17.5 PENCE PER SHARE), MAKING A TOTAL DIVIDEND FOR THE YEAR OF 30.0 PENCE PER SHARE (2003: 26.0 PENCE PER SHARE)
- STRONG OPERATING CASHFLOW OF £187.5 MILLION (2003: £139.7 MILLION)
- EFFECTIVE NET DEBT SIGNIFICANTLY REDUCED TO £136.6 MILLION (2003: £307.8 MILLION)
- SHARE BUYBACK PROGRAMME OF UP TO £100 MILLION TO BE INITIATED

BOARD OF DIRECTORS AND COMPANY SECRETARY



From left to right and top to bottom:

David Ross Chairman David Ross joined the Board in February 2001 as a Non Executive Director and became Chairman in May 2004. He is Deputy Chairman of The Carphone Warehouse Group PLC, where he is responsible for strategic development. He is also a Non Executive Director of Big Yellow Group PLC and Trinity Mirror PLC and is a member of the English Sports Council. He is a chartered accountant. Aged 39.

Phil White CBE Chief Executive Phil White has extensive experience of the transport business over many years. He is a chartered accountant and worked for South and West Yorkshire Passenger Transport Executive and Yorkshire Rider in various senior finance roles. In July 1994 he was appointed Group Finance Director of West Midlands Travel Limited becoming Managing Director in November 1995. He was appointed to the Board of National Express Group in January 1996 and became the Group's Chief Executive in January 1997. Aged 55.

Ray O'Toole Chief Operating Officer Ray O'Toole joined the Board in November 1999 as Chief Operating Officer. He has 30 years' operational experience in transport. He spent the early part of his career in various engineering management positions at Greater Manchester Passenger Transport Executive. He joined National Express from FirstGroup plc, where he was responsible for its operations in Yorkshire and the North West as both Divisional Director and Group Engineering Director. Aged 49.

Adam Walker Finance Director Adam Walker joined the Board in March 2003, as Finance Director. He joined the Group in October 2001 as Corporate Development Director working closely with the Group's operational subsidiaries on developing their financial strategies. Prior to joining the Group he was Director of Corporate Finance at Arthur Andersen and an Associate Director at NatWest Markets. He is a chartered accountant. Aged 37.

Sir Andrew Foster Non Executive Director Sir Andrew was appointed to the Board in August 2004. He has had an extensive career in the public sector having served as Chief Executive of the Audit Commission for England and Wales between 1992 and 2003. Before this he was Deputy Chief Executive of the NHS and is currently Deputy Chairman of the Royal Bank of Canada Europe Limited and a Non Executive Director of the Sports Council, Nestor Health Care, PruHealth and Liberata IT Outsourcing. Aged 60.

Tim Stevenson OBE Non Executive Director Tim Stevenson joined the Board in February 2001 as the Senior Independent Non Executive Director. He had a 25-year career at Burmah Castrol PLC, retiring as Chief Executive in August 2000. He is Chairman of Travis Perkins plc. Tim is also a Non Executive Director at Tribal Group PLC and Chair of Governors of Oxford Brookes University. He is a qualified barrister. Aged 56.

Barry Gibson Non Executive Director Barry Gibson joined the Board in November 1999. He served on the Board at BAA plc as Group Retailing Director. Until October 2001 he was the Group Chief Executive of Littlewoods Organisation plc. He is also a Non Executive Director of William Hill PLC, Homeserve PLC and Somerfield PLC. Aged 53.

Sue Lyons OBE Non Executive Director Sue Lyons joined the Board in May 2001. Her career has principally been with Rolls Royce in engineering and manufacturing. She left Rolls Royce to join Precision Castparts Corp. as Managing Director in 1986. In 1989 Sue returned to Rolls Royce and from 1998 to 2001 held the position of Managing Director, Defence (Europe). In 1999 she was awarded the European Woman of Achievement Award – Business Category. Sue is a Non Executive Director of Wagon plc and AWG Plc. Aged 52.

Tim Score Non Executive Director Tim Score was appointed to the Board on 21 February 2005. He is Chief Financial Officer at ARM Holdings PLC. Before joining ARM he worked as Finance Director of Rebus Group Limited which he joined in 1999. Between 1997 and 1999, he was Group Finance Director of William Baird plc, which he joined from LucasVarity plc. He is a qualified Chartered Accountant. Aged 44.

Tony McDonald Company Secretary Tony McDonald was appointed Company Secretary in May 2000. Prior to joining the Group he held senior legal positions with the in-house legal teams at Guardian Royal Exchange and BP and in private practice with Slaughter and May. He is a qualified solicitor. Aged 44.

DIVISIONAL HEADS

David Franks Chief Executive, Trains Division David Franks joined the Group in January 2003 as Trains Divisional Director (North). He was appointed as Chief Executive of the Trains Division in February 2004. David has over 30 years' experience in the rail industry and immediately prior to joining National Express he was Managing Director of South Central at the GoAhead Group. Aged 47

Brian Jackson Chief Executive, Bus Division Brian joined the Group in May 2000 as Chief Executive, Bus Division. Brian has had over 35 years' experience within the bus industry and joined the company from Arriva where he was their southern Regional Director. Prior to this he held a number of senior positions, including Managing Director, at Yorkshire Bus Group. He is a council member/director of the Confederation of Passenger Transport and a previous board member of the Passenger Transport Forum for Employee Development. Aged 55

Denis Wormwell Chief Executive, Coach Division Denis Wormwell joined the Group as Chief Executive, Coach Division in January 2002. Prior to joining the Group, Denis spent many years within the holiday industry both overseas and in the UK building successful leisure brands such as Club 18-30 and JMC. He joined the company from Thomas Cook Group where he was Sales and UK Service Delivery Director. Aged 43

Brian Stock Chief Executive Officer North America Brian joined the Group in 2002 through the acquisition of Stock Transportation. He has overseen the North American student bus operations since March 2003 and was appointed as Chief Executive of the Group's North American operations in October 2004. Brian has had over 24 years in the bus industry. Prior to joining the Group, Brian was President of Stock Transportation and was responsible for guiding the business to become the fifth largest school bus company in North America. Aged 45

ACCOUNTS CONTENTS

DIRECTORS' REPORT

The Directors are pleased to present their Annual Report and the audited accounts for the year ended 31 December 2004.

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, Chief Executive's Report and the Operating and Financial Reviews set out on pages 16 to 31.

RESULTS AND DIVIDENDS

The profit on ordinary activities before tax for the year ended 31 December 2004 was £63.1m (2003: £54.1m restated) and a retained profit of £3.1m (2003: £7.6m restated) was transferred to reserves.

The Directors recommend a final net dividend of 20.65p per share which, together with the interim net dividend of 9.35p per share paid on 1 October 2004, gives a total net dividend for the year of 30.0p per share (2003: 26.0p). If approved by shareholders, the final dividend will be paid on 6 May 2005 to shareholders on the register at 8 April 2005.

DIRECTORS

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

Michael Davies (resigned 5 May 2004)
Phil White
Larry Durham (resigned 25 February 2004)
Sir Andrew Foster (appointed 1 August 2004)
Barry Gibson
Sue Lyons
Ray O'Toole
David Ross
Tim Stevenson
Adam Walker

Michael Davies retired at the 2004 Annual General Meeting as Chairman and as a Director of the Company after 11 years service. David Ross was appointed Chairman as his successor. Sue Lyons and Barry Gibson will retire by rotation at the Annual General Meeting and, being eligible, will offer themselves for re-election. Sir Andrew Foster and Tim Score will stand for election at the Annual General Meeting following their appointments to the Board on 1 August 2004 and 21 February 2005 respectively. Larry Durham resigned as a Director of the Company on 25 February 2004.

The names and brief biographies of the current Directors appear on pages 32 and 33. 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 42 to 48.

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 improve operational performance. The Group is committed to providing equality of opportunity to employees and potential employees. This applies to appropriate training, career development and promotion for all employees, regardless of physical ability, gender, sexual orientation, religion or ethnic origin.

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

EMPLOYEE INVOLVEMENT

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

Following the Group's first externally conducted Employee Survey carried out in October 2003 a number of action plans were established and carried through in 2004 to address issues raised within each business. There will be a further employee survey in 2005.

ENVIRONMENTAL POLICY

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

CHARITABLE AND POLITICAL CONTRIBUTIONS

Charitable donations made during the year totalled £328,000 (2003: £210,000). 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 2004 were 26 days (2003: 27 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.

DIRECTORS' REPORT

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 23 February 2005:

Barclays PLC	17,096,063	12.28%*
Standard Life Investments Limited	6,881,176	5.03%*
WMT Employees Shareholding Trustees Limited	6,660,378	4.96%*
Legal & General Group Plc	5,255,451	3.78%*

* Percentages as at date of notification.

ANNUAL GENERAL MEETING

The Annual General Meeting will be held on 3 May 2005. Shareholders will be asked to approve three items of special business, details of which are given in the Notice of Annual General Meeting accompanying this report.

PURCHASE OF OWN SHARES

The Company was granted authority at the Annual General Meeting in 2004 to purchase its own shares up to an aggregate value of 10% of the issued nominal capital. This authority expires at this year's Annual General Meeting and a resolution will be proposed for its renewal. The authority was not used in 2004 but a limited share buy back programme has been implemented in 2005 in order to utilise the Company's positive cash flow and return cash to shareholders. The authority to be renewed in 2005 will be used to continue the buyback programme during the year.

GOING CONCERN

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

By order of the Board

Tony McDonald
Secretary
24 February 2005

CORPORATE GOVERNANCE

THE BOARD AND ITS PRINCIPAL COMMITTEES

Details of the Board and its principal committees are set out below. Attendance at meetings by individual directors during 2004 is shown next to the Director's name. All of the Committees are authorised to obtain legal or other professional advice as necessary, to secure the attendance of external advisers at their meetings and to seek information required from any employee of the Group in order to perform its duties. The full terms of reference of the Committees are available on the Company's website at **www.nationalexpressgroup.com**.

The Board of Directors

Twelve meetings were held during 2004.

Michael Davies (Chairman) (to 5 May 2004) (6)
David Ross (Chairman) (from 5 May 2004) (12)
Sir Andrew Foster (Non Executive Director) (3)+
Barry Gibson (Non Executive Director) (11)
Sue Lyons (Non Executive Director) (12)
Tim Score (Non Executive Director) (0)+
Tim Stevenson (Senior Independent Director) (12)
Phil White (Chief Executive) (12)
Larry Durham (Chief Executive Officer) (2)*
Ray O'Toole (Chief Operating Officer) (12)
Adam Walker (Finance Director) (12)

Company Secretary: Tony McDonald (also acts as Secretary to the Board Committees)

+ Sir Andrew Foster and Tim Score were appointed to the Board on 1 August 2004 and 21 February 2005 respectively.
* Larry Durham resigned on 25 February 2004.

There is a formal schedule of matters reserved for the Board's attention which includes the review and approval of Group strategy and policies, major business acquisitions or disposals, major capital projects, Group budgets and material contracts entered into other than in the normal course of business.

Audit Committee

Four meetings were held during 2004.

Tim Stevenson (Chairman) (4)
Sir Andrew Foster (appointed to Committee 1 August 2004) (1)
Barry Gibson (4)
David Ross (resigned from Committee 5 May 2004) (1)
Tim Score (appointed to committee 21 February 2005) (0)

The Committee oversees the process for selecting the external auditor, assesses the continuing independence of the external auditor and recommends approval of the audit fee to the Board. It will ensure that provision of non audit services does not impair the external auditor's independence or objectivity. It will discuss with the external auditor the nature and scope of the audit and any issues or concerns arising from the audit process. The Committee reviews the internal audit programme, considers major findings of the internal audit investigations and reviews management's financial reporting and risk management. The Committee reviews the half-year and annual financial statements and the effectiveness of the Group's internal control and risk management systems.

Remuneration Committee

Four meetings were held during 2004.

Barry Gibson (Chairman) (4)
Sue Lyons (4)
Tim Stevenson (4)

The Committee is responsible for determining broad policy for the remuneration of the Executive Directors (including the Chief Executive), the divisional Chief Executives, the Chairman of the Company and the Company Secretary. Within the terms of the agreed policy the Committee will determine the total individual remuneration package of each Executive Director including, where appropriate, bonuses, incentive payments, pension arrangements and share incentive plans. The Committee will select, appoint and set the terms of reference for any remuneration consultants who advise the Committee. The Committee will ensure that contractual terms on termination, and any payments made, are fair to the individual and the Company, that failure is not rewarded and the duty to mitigate loss is, where appropriate, fully recognised.

Nomination Committee

Four meetings were held during 2004.

Michael Davies (resigned 5 May 2004) (2)
David Ross (Chairman) (appointed to committee 23 June 2004) (2)
Sir Andrew Foster (appointed to committee 15 December 2004 (1)
Sue Lyons (4) (Chairman to 23 June 2004)
Tim Stevenson (resigned from committee 15 December 2004) (4)

The Committee is responsible for identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise. It will give full consideration to succession planning, and keep under review the leadership needs of the organisation, both executive and non executive. The Committee will review annually the time required from a Non Executive Director and use performance evaluation to assess whether the Non Executive is spending enough time to fulfil their duties.

Safety Committee

Four meetings were held during 2004.

Sue Lyons (Chairman) (4)
Michael Davies (resigned 5 May 2004) (1)
Sir Andrew Foster (appointed to committee 1 August 2004) (1)
Barry Gibson (3)
David Ross (4)
Tim Score (appointed to committee 21 February 2005) (0)
Tim Stevenson (4)

The Committee reviews the Group's safety practices, procedures and safety record and has widened its remit to include environmental matters.

CORPORATE GOVERNANCE

The Board supports the highest standards of corporate governance and ethical practices within all its operations. The Board has endorsed a set of principles which establish the framework for how its businesses operate. Key to these is working in an open and honest manner.

The Financial Reporting Council approved a revised Combined Code on corporate governance effective for financial reporting periods starting on or after 1 November 2003. The Company has adopted the revised Combined Code and continues to review its corporate governance practices on an ongoing basis.

STATEMENT OF COMPLIANCE WITH THE CODE OF BEST PRACTICE

The Board has reviewed the Group's compliance with Section 1 of the Combined Code on Corporate Governance as 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 apart from:

- the annual evaluation of the board, its committees and individual directors;
- the appraisal of the Chairman's performance by the Non Executive Directors.

Following the appointment of a new Chairman during the year the Board determined that it was appropriate to postpone the above two items until 2005 and the process for this is now underway.

- From 5 May 2004, when David Ross resigned from the Audit Committee, the Audit Committee did not have a member with recent and relevant financial experience until the appointment of Tim Score to the Committee in February 2005.

APPLYING THE PRINCIPLES OF GOOD GOVERNANCE

The Board of Directors, Chairman and Chief Executive

The Directors believe it is essential for the Group to be led and controlled by an effective Board that provides entrepreneurial leadership within a framework of sound controls. The Board is responsible for setting the Group's strategic aims, its values and standards and ensuring the necessary financial and human resources are in place to achieve its goals.

The Board consists of the Chairman, three Executive and five Non Executive Directors. The offices of Chairman and Chief Executive are held separately and the division of responsibilities between the Chairman and Chief Executive is shown below.

Main responsibilities of the Chairman include:

- chairing and managing the business of the Board;
- together with the Chief Executive, leading the Board in developing the strategy of the business and ensuring this is effectively implemented by the executive management team;
- ensuring that there is effective dialogue with investors concerning mutual understanding of objectives;
- in conjunction with the Nomination Committee, taking responsibility for the composition and replenishment of the Board; and
- periodically reviewing with the Board its working practices and performance.

Main responsibilities of the Chief Executive include:

- the development and implementation of management strategy;
- the day to day management of the Group;
- managing the executive management team; and
- fostering relationships with key stakeholders.

Tim Stevenson is the Senior Independent Director. The Board considers all the Non Executive Directors to be independent. The Non Executives bring a variety of different experiences and considerable knowledge to assist with Board decisions. 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 33.

The Board meets at least eight times during the year. During 2004 the Board held an off-site strategy meeting and visited businesses in the United States. There is a formal schedule of matters reserved for the Board's decision, the main terms of which are shown on page 37 together with the attendance record of the Directors. During the year the Chairman met with the Non Executives without the Executive Directors present to allow informal discussions on a variety of issues.

The Executive Directors are responsible for the day-to-day management of the Group's businesses, implementation of its strategy, policies and budgets and its financial performance. Executive management meetings, involving the Executive Directors and senior management from the divisions are held weekly to discuss current issues.

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

COMMITTEES OF THE BOARD

The Board has established a number of committees with defined terms of reference and receives reports of their proceedings. The principal committees are the Remuneration Committee, the Nomination Committee, the Audit Committee and the Safety Committee. The members of each committee, attendance and main duties are shown on page 37.

APPOINTMENTS TO THE BOARD

The Nomination Committee leads the process for Board appointments and makes recommendations to the Board. The Committee will prepare a description of the role and requirements for any particular appointment based on its evaluation of the Board as a whole.

The terms and conditions of appointment of the Non Executive Directors are available for inspection at the Company's registered office during normal business hours and at the Annual General Meeting of the Company. The Non Executive Directors disclose to the Board their other significant commitments.

External advisers are appointed when recruiting Board members; they use as a basis for their search a description of the role and capabilities required for a particular appointment proposed by the Nomination Committee.

THE WORK OF THE NOMINATION COMMITTEE

Before making a recommendation for an appointment to the Board the Nomination Committee will:

- prepare a job specification and a description of the capabilities required for a particular post;
- consider the current composition of the Board and mix of skills and experience; and
- where appropriate, and in particular where a vacancy for a Non Executive Director arises, use an external search consultancy and/or open advertising.

During the year the appointment of the new Chairman was finalised. The Committee appointed an external consultancy to conduct a search and a short list of three external and two internal candidates were considered for the post. Following a review of the candidates and consultation with the Company's major shareholders, David Ross was put forward to the Board for approval and he became Chairman in May 2004.

Two new Non Executive Directors have also recently been appointed to the Board. The Committee concluded that there was a need for Non Executive Directors with a knowledge of the Regulatory environment in which the Group's businesses operate and with recent relevant financial experience. External consultants were used and following a review of possible candidates Sir Andrew Foster and Tim Score were appointed to the Board in August 2004 and February 2005 respectively.

INFORMATION AND PROFESSIONAL DEVELOPMENT

Reports from the Executive Directors, which include in-depth financial information, are circulated to Board members prior to every Board meeting. Senior management and advisers give presentations to the Board on significant matters during the year.

Under the direction of the Chairman, the Company Secretary is responsible for ensuring the Board procedures are followed and applicable rules and regulations are complied with and advises the Board on governance matters. All Directors have access to the advice and services of the Company Secretary and the appointment or removal of the Company Secretary is a matter for the Board as a whole. There is a procedure in place for any Director to take independent professional advice where considered necessary.

On appointment, Directors are offered an appropriate training course and are thereafter encouraged to keep abreast of matters affecting their duties as a Director and to attend training courses relevant to their role. A formal induction process is in place for new Directors the aims of which are to:

- build an understanding of the nature of the Company, its business and the markets in which it operates;
- establish a link with the Group's employees;
- build an understanding of the Group's main relationships including stakeholders and customers.

The induction process includes:

- a series of meetings with Directors and senior management tailored to the individual's needs, including site visits and meetings with divisional Chief Executives;
- provision of key information on Group policies and procedures;
- an appropriate Director's training course;
- an opportunity, if requested by the individual or shareholders, for the Director to meet with major shareholders/fund managers.

PERFORMANCE EVALUATION

Following the appointment of a new Chairman during the year and the resulting changes to the committee and Board composition, the annual performance evaluations of the Board, individual Non Executive Directors and committees, other than the audit committee, were postponed. A process for performance evaluation has been agreed and will take place early in 2005. The performance of the Executive Directors is evaluated as part of their annual remuneration review.

RE-ELECTION

In accordance with the Company's Articles of Association all Directors submit themselves for election at the Annual General Meeting following their appointment and thereafter by rotation at least once every three years. Non Executive Directors are appointed for specific terms, subject to re-election. Non Executive Directors will only be put forward for re-election if, following performance evaluation, the Board believes the Director's performance continues to be effective and demonstrates commitment to the role.

REMUNERATION AND SERVICE CONTRACTS

The report on Directors' remuneration, including details of remuneration policy and service contracts, is set out on pages 42 to 48.

ACCOUNTABILITY AND AUDIT

Statements of the respective responsibilities of the Directors and Auditors are set out on pages 41 and 49.

Internal Control

The Board's responsibilities

The Board has overall responsibility for the Group's system of internal control and for reviewing its effectiveness. The Board maintains full control and direction over appropriate strategic, financial, operational and compliance issues and has put in place an organisational structure with formally defined lines of responsibility, delegated authorities and clear operating processes. The systems that the Board has established are designed to safeguard both the shareholders' investment and the assets of the Group, and are described below.

Key elements of the control framework

Strategic and financial planning – an annual budgeting and strategic planning process has been established whereby each division and constituent operating companies assesses its competitive position and goals, taking account of the strategic risks faced. This strategy is translated into a financial plan with clear milestones and performance indicators.

Performance management – the performance of each division and operating company against its plan is closely monitored by a formal monthly reporting process and by the attendance of the Executive Directors at monthly divisional board meetings.

Annual Fitness Check Process – a self assessment review takes place at each operating company to assess the integrity of the balance sheet and to challenge the effective operation of key financial and information systems controls within each material accounting cycle. This process is led by divisional finance directors and is closely monitored by group finance and validated by the internal audit department.

Capital investment – a clear process is in place for the approval of capital expenditure, which includes detailed appraisal of the benefits of the proposed investment and any associated key risks. Material capital expenditure requires Board approval.

Health and Safety – Health and safety standards and benchmarks have been established in all our businesses and the performance of operating companies in meeting these standards is closely monitored.

Risk management reporting process – each division and operating company evaluates its internal control environment and key risks, and the results are cascaded through management levels and the Audit Committee before being presented to the Board. This process is reviewed on a regular basis to ensure the validity and relevance of the key risks reported and presented to the Board on a twice yearly basis, unless exceptional issues arise. The review covers strategic, financial, compliance and risk management controls. These procedures are mandated and designed to manage the risk in order to ensure that the operations achieve their business objectives.

Internal audit – the internal control system is independently monitored and supported by an outsourced internal audit function. The internal audit function 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.

Board level reporting on internal control – during the year the Audit Committee has reviewed regular reports from the internal audit department, the external auditors and executive management on matters relating to internal control, financial reporting and risk management. The Audit Committee provides the Board with an independent assessment of the Group's financial position, accounting affairs and control systems. In addition, the Board receives regular reports on how specific risks that are assessed as material to the Group are being managed.

Review of internal control effectiveness

The system of internal control and risk management, described above, has been in place for the year under review and up to the date of approval of this Annual Report. 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 effectiveness of this system has been regularly reviewed by the Directors. The internal control procedures in place accord with the Guidance for Directors on the Combined Code published by the Institute of Chartered Accountants in England and Wales.

Audit Committee and Auditors

The members of the Audit Committee, attendance and main duties are shown on page 37.

THE WORK OF THE AUDIT COMMITTEE

The Committee meets at least three times a year and receives papers for consideration in advance of the meeting. The papers reflect the agenda prepared by the Secretary in conjunction with the Committee Chairman. There are a number of standing items considered during the year such as consideration of the internal and external audit reports, review of the preliminary and interim announcements, and review of the Annual Report and Accounts.

Other items that were considered and discussed during the year included the performance review of the external auditor, update on the conversion to International Financial Reporting Standards, plans to evaluate the effectiveness of internal audit, key accounting issues and the external auditor's fees.

At the invitation of the Committee, and as appropriate to the matters under discussion, meetings may be attended by the Executive Directors and by internal and external auditors. Full minutes are kept by the Secretary of the matters considered and decisions taken by the Committee. Outside of the meeting process the Committee Chairman has regular contact with the Executive Directors, other committee members and the auditors on a variety of topics.

The Audit Committee assesses and reviews on a regular basis the independence of the external auditors. As part of their determination the Committee considers a report by the external auditors on the firm's independence which is required in order to carry out their professional duties and responsibilities as auditors. The majority of non audit work undertaken by the external auditors during the year relates to three items. These were tax advisory services, advice on the implementation of International Financial Reporting Standards and forensic accounting advice on the Hatfield insurance claim. All of these items the Committee believes would be impractical and costly to provide through another party. Any significant non audit work proposed to be undertaken by the external auditors, apart from tax advisory services, must be approved by the Committee in advance. The Committee takes into account factors such as the nature of the work, cost and service levels when considering allocating non audit work to the external auditor.

CORPORATE GOVERNANCE

Following a review by the Board of 'whistle blowing' arrangements a new Group policy was issued during the year to ensure a consistent approach across the Group.

RELATIONS WITH SHAREHOLDERS

Dialogue with Institutional Shareholders

The Company maintains regular dialogue with its institutional shareholders and fund managers through a variety of meetings and presentations throughout the year. Presentations are given by the Executive Directors following the full year and half year results to institutional investors, analysts and brokers which the Non Executive Directors may attend. In addition, the Company's brokers provide confidential feedback to the Company on the views of the major institutions following the interim and final results. During 2004 the biennial independent review was undertaken which asked for feedback on financial performance and management from the Company's major investors.

During the year written responses are given to correspondence received from shareholders and all shareholders receive copies of the Annual Report and Accounts and Interim Report. The Company has introduced an electronic communications facility to enable shareholders to receive documentation such as the Annual Report and Accounts electronically and also to cast their votes by proxy electronically. The Company has also introduced an electronic proxy appointment service for CREST members.

The Company's website, www.nationalexpressgroup.com, houses wide ranging information about the Group, including the final and interim announcements, Annual Report and Accounts, press releases, share price data and links to subsidiary company websites. The site was upgraded in February 2004 to meet the requirements of the Disability Discrimination Act.

The Annual General Meeting

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 meeting on different aspects of the Group's activities. All of the Company's directors are present at the meeting. Proxy votes, including the number of abstentions, are displayed on the resolutions following the result on a display of hands. Notice of the Annual General Meeting and related papers are sent to shareholders at least 20 working days before the meeting.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

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

REPORT ON DIRECTORS' REMUNERATION

This report has been approved by the Board and the Remuneration Committee. The report will be put to shareholders at the 2005 Annual General Meeting for consideration and approval.

REMUNERATION COMMITTEE

The members of the Remuneration Committee throughout the year, all of whom were independent, (the Committee) and their attendance at meetings are shown on page 37. The Committee is responsible for determining the remuneration and conditions of employment of the Executive Directors, the Chairman, the Company Secretary and the Divisional Chief Executives. In addition the Committee reviews the salaries of a group of senior operational and head office management.

The Committee has appointed independent remuneration consultants, New Bridge Street Consultants LLP (NBSC), to advise on all aspects of senior executive remuneration. The terms of appointment of NBSC are available on the Company's website. NBSC has no other connection with the Group other than in the provision of advice on executive and employee remuneration. The Chief Executive provides guidance to the Committee on remuneration packages for senior executives employed by the Group (but not in respect of his own remuneration).

The Committee's recommendations in 2004 were all accepted and implemented by the Board.

REMUNERATION OF NON EXECUTIVE DIRECTORS

The fees of the Non Executive Directors are set by the Board as a whole following an annual review. The review takes account of fees paid for similar positions in the market, together with any additional responsibilities undertaken by the Director, such as acting as Chairman to one of the Board committees or Senior Independent Director. Non Executive Directors are not eligible to receive pension entitlements or bonuses and may not participate in share option schemes. For 2004 the basic fee for acting as a Non Executive Director was £35,000 a year. An additional fee of £5,000 was paid for chairing one of the Board Committees. Tim Stevenson received an extra fee of £5,000 for acting as Senior Independent Director. The Chairman, David Ross, has elected to take all of his fees as National Express shares.

REMUNERATION POLICY FOR EXECUTIVE DIRECTORS

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

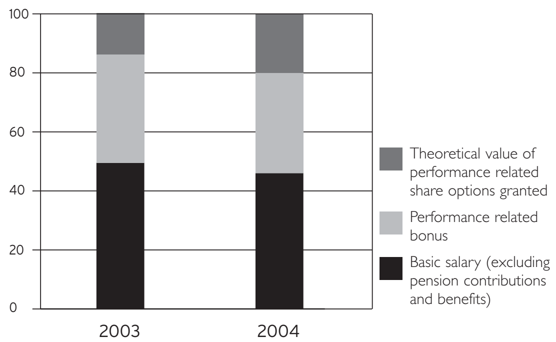
- to provide a competitive remuneration package to attract and retain quality individuals;
- to align remuneration to drive the overall objectives of the business;
- to align the interests of management with the interests of shareholders; and
- to provide the foundation for overall reward and remuneration beyond the specific roles governed by the Remuneration Committee

The objective of this policy is aligned with the recommendation of the Combined Code on Directors' Remuneration. That is to provide a level of remuneration "to attract, retain and motivate directors of the quality required to run the company successfully, but avoid paying more than is necessary for this purpose. A significant proportion of Executive Directors' remuneration should be structured so as to link rewards to corporate and individual performance."

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

ELEMENTS OF REMUNERATION

A substantial proportion of the Executive Directors' pay is performance related. The split for 2003 and 2004 was as follows:



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

A detailed breakdown of Directors' remuneration appears on pages 46 and 47. In summary, the components are:

(i) Basic salary

The salary of individual Executive Directors is reviewed at 1 January each year. Account is taken of the performance of the individual concerned, together with any change in responsibilities that may have occurred and the rates for similar roles in a comparator group of companies. The comparator group for the 2004 financial year was made up of three distinct groups of companies. These were a group of FTSE All Share Transport companies with a median market capitalisation of £900m, a group of companies drawn from the FTSE 250 generally with a market capitalisation range from £500m to £1,500m. For 2005 the same policy and comparator groups will be used.

(ii) Performance-related bonus

A discretionary bonus scheme is in operation for the Executive Directors. Payments for 2004 were based on the Group's profit before tax, goodwill and exceptional items with the extent to which budget is exceeded being the factor that determined the level of bonus awarded. For 2004, the Committee set the maximum bonus payable at 75% of basic salary for achieving 113.6% of budget. Between 100% of budget and 113.6% the amount of bonus payable was on a straight-line basis with a 25% bonus payable for achieving budget. No bonus was payable if budget was not achieved.

Payments for the 2005 bonus scheme will be based on profit before tax, goodwill and exceptional items. The maximum bonus payable is 60% of basic salary for achieving 112% of budget. Between 100% of budget and 112% the amount of bonus payable will be on a straight-line basis with a 25% bonus payable for achieving budget. An additional bonus of up to 15% of basic salary will be payable dependent upon the Group meeting certain customer service objectives.

(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.

UK Directors

Phil White is a member of the WM Pension Scheme. This is an approved money purchase scheme. The pension received on retirement will depend on the total contributions paid, the investment return and the cost of buying an annuity. Ray O'Toole and Adam Walker are members of the National Express Group Staff Pension Plan which is a defined benefit scheme. The benefits from approved pension plans are subject to Inland Revenue limits. Benefits agreed with the Directors which exceed these limits are provided through unfunded unapproved arrangements for Ray O'Toole and Adam Walker and a funded unapproved arrangement for Phil White. Only basic salary is pensionable. Life assurance of four times basic annual salary is provided. Spouse's pensions are provided in accordance with the terms of the appropriate scheme.

Former Director

Larry Durham participated in the Supplemental Executive Retirement Plan of Durham School Services L.P. This is a non-qualified arrangement provided for certain key executives. The Company contributed 10% of base salary and bonus. This was in accordance with Larry Durham's existing terms and conditions before his appointment to the Board and in line with standard US practice. Larry Durham was provided with cover of $5.67 million under life policies in the event of his death.

(v) Share options and incentive schemes

(a) Executive share options.

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

Options are granted under the Executive Share Option Plan (the Plan) approved by shareholders in 2002. An option granted by the Plan is normally exercisable between three and ten years following its grant, but only if the specified performance condition has been satisfied. There are a limited set of circumstances, such as leaving employment due to injury, disability or redundancy, when performance conditions will not apply to the exercise of an option.

The following performance conditions were approved by shareholders at the 2004 Annual General Meeting and apply to options granted from 2004 onwards.

Tier of option grant	Value of option grant as a percentage of salary	Compound normalised EPS growth target per annum
1	Up to 50%	RPI plus 4%
2	51-100%	RPI plus 5%
3	101-150%	RPI plus 6%
4	151-200%	RPI plus 10%

Straight-line vesting of options will occur if normalised EPS growth falls between the above targets. To the extent that the performance condition is not met in full over years 0-3 the option will lapse and there will be no re-testing.

The Committee will review the performance conditions attaching to grants under the Plan on an annual basis and will consult with institutional investors in the event that it determines that such performance conditions should be amended for future grants.

Performance conditions attached to earlier option grants are shown on page 48.

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

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

(b) Proposed long term incentive arrangements

The Committee reviews the incentive arrangements offered to Directors on an annual basis to ensure they remain in line with emerging best practice in corporate governance and appropriate to the needs of the business. As a result of this year's review the Committee has recommended the implementation of new long term incentive arrangements to replace the existing annual award of share options. The Committee considered that the annual award of share options was no longer meeting its goals of retention and incentivisation. The new arrangements, which will operate as one long term incentive plan (LTIP), will consist of an annual award of performance shares and an annual award of matching shares linked to an executive's personal investment in National Express shares. A wide ranging consultation process has taken place with the Company's major shareholders and investor protection bodies (including the ABI and RREV) and shareholder approval will be sought for the proposed scheme at the 2005 Annual General Meeting. If approval is forthcoming the LTIP will provide the sole form of long term incentive for the Executive Directors in the next year. Brief details of the scheme are provided below.

Performance Shares
Senior executives will be eligible to receive a conditional award of shares up to an equivalent value of 1 × their annual basic salary. The shares will be conditional on the performance conditions set out below.

Matching Shares
Senior executives will also be eligible to receive awards of matching shares that will be based on a personal investment in National Express Group shares. Investments will be funded either through a personal investment (for example using an annual bonus award) or through pledging of shares already held. The maximum investment/pledge will be set by the Committee for each level of participating executive but will be no higher than 30% of gross salary per annum.

Matching awards will be based on the ratio of 200 shares for every 60 shares purchased. This is a two for one ratio on a gross of income tax basis. Matching share awards will also be conditional on the performance conditions set out below.

Performance Conditions
Half of any award will be subject to the growth in the National Express Group's normalised diluted earnings per share (EPS) (ie before exceptional items and amortisation of goodwill). The amount by which EPS exceeds 'CPI' will determine the proportion of the awards that will vest. CPI is a combination of US Consumer Price Index (inflation) and UK Consumer Price Index (inflation). The remaining half of the award will be subject to the relative shareholder return of the Company (TSR) compared against a bespoke peer group.

The TSR target will compare National Express Group's TSR against a group of approximately 30 companies chosen from the FTSE All Share Transport Index. The companies comprising the comparator group have been chosen on the basis of their comparability to National Express Group (based on their size and scope of business operations).

Both elements of the performance condition will be tested over a three year period without the ability to retest the performance condition.

EPS and TSR were chosen for the LTIP as the most appropriate measures of National Express's long term performance since EPS remains an important growth measure and driver and TSR improves shareholder alignment and is consistent with Company objectives of providing long term returns to shareholders.

Further details may be found in the notes to the Notice of the Annual General Meeting.

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

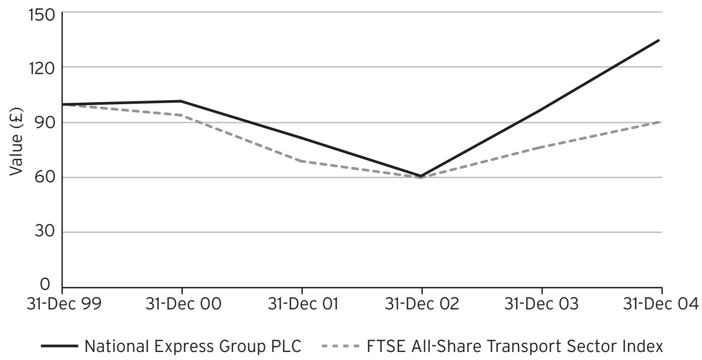
Performance criteria
The Committee believes that budgeted profit and/or earnings per share (EPS) growth as performance measures for the discretionary bonus scheme and executive share option schemes provide a transparent and accessible method of gauging the performance of the Company. The Company calculates performance against these performance measures by reference to the profit or earnings per share figures appearing in the Company's audited accounts, which the Company believes to be the most transparent and objective measure of the Company's profit or earnings per share. The definition of 'Normalised EPS' in respect of those plans where the performance period includes the transition to the new International Accounting Standards is under review. The Committee, advised by the Audit Committee and the external auditor, will agree decisions regarding the management of the transition and will make any necessary adjustments to ensure that comparisons continue to be made on a fair, consistent and reasonable basis. The Committee also monitors the Group's Total Shareholder Return (TSR) against both the Transport All-Share Index as a measure against its peer group and the FTSE Mid 250 Index, representing a broad equity market index of which the Company is a constituent member. For 2005 the Company will use TSR as a second performance measure for the long term incentives of Executive Directors as outlined above.

REPORT ON DIRECTORS' REMUNERATION

The following graphs show a comparison of National Express Group PLC total cumulative shareholder performance against the median achieved by the Transport All-Share Index and the FTSE Mid 250 Index. These graphs have been selected because the Company is a constituent of each index and the Committee, therefore, feels that these are the most appropriate indices to present the Company's relative performance.

TOTAL SHAREHOLDER RETURN VERSUS FTSE ALL SHARE TRANSPORT INDEX
Graph 1

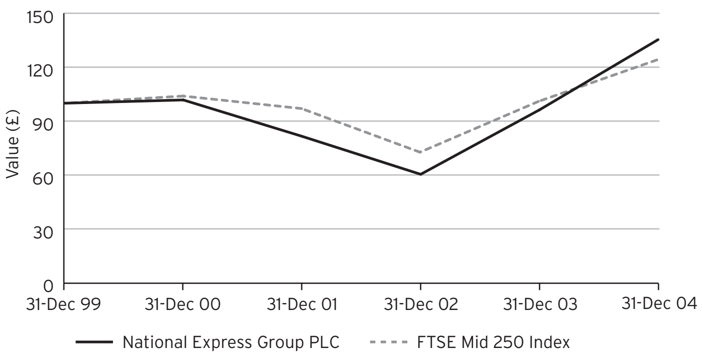
Source Datastream



Graph 1 looks at the value, by the end of 2004, of £100 invested in National Express Group PLC on 31 December 1999 compared with £100 invested in the FTSE All-Share Transport Sector Index. The other points plotted are the values at intervening financial year-ends.

TOTAL SHAREHOLDER RETURN VERSUS FTSE MID 250 INDEX
Graph 2

Source Datastream



Graph 2 looks at the value, by the end of 2004, of £100 invested in National Express Group PLC on 31 December 1999 compared with the value of £100 invested in the FTSE Mid 250 Index. The other points plotted are the values at intervening financial year-ends.

DIRECTORS' SERVICE CONTRACTS

UK Directors

The service contract of Phil White is dated 21 May 2003 and the service contracts of Ray O'Toole and Adam Walker are dated 11 September 2003. These contracts are terminable on 12 months' notice from the Company and six months' notice from the Director, thereby reflecting market practice and the balance that should be struck between providing contractual protection to the Directors that is fair and the interests of shareholders. The service contracts contain a provision, exercisable at the option of the Company, to pay an amount on early termination of employment equal, in the case of Ray O'Toole and Adam Walker, to one year's salary and in the case of Phil White, one year's salary and benefits. The Company will use the payment in lieu of notice provisions when the speed, certainty and protection of restrictive covenants afforded by such clauses are thought to be in the best interests of the Company and the circumstances surrounding the departure of the relevant director justify their use. The service contracts of Ray O'Toole and Adam Walker have a further provision that, where the Company initiates a termination, other than for cause, within six months of a change of control taking place the Company will exercise its option to make a payment in lieu of notice of an amount equal to the salary and benefits that the Director would have received during the notice period. In any event the Committee's policy is that payments to Directors on termination should reflect the circumstances that prevail at the time, also taking account of the Director's duty to mitigate if appropriate.

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

Former Director

Larry Durham was appointed to the Board on 4 March 2003 and retired from the Board on 25 February 2004. He had an existing fixed term service contract dated 13 August 1999 amended on 14 June 2001 which expired on 13 August 2004. This contract was negotiated in 1999 as part of the acquisition by the Company of Durham Transportation Inc. If the contract was terminated, other than for cause, Mr Durham was entitled to an amount equal to the salary and benefits due up to the expiry date of the contract term.

Non Executive Directors

The Non Executive Directors do not have service contracts with the Company but are appointed for fixed three-year terms. All Directors are required to stand at least once every three years for re-appointment by shareholders. The appointment dates of the Non Executive Directors are:

Sir Andrew Foster – 1 August 2004
Barry Gibson – 17 November 1999
Sue Lyons – 23 May 2001
David Ross – 1 February 2001 (Chairman)
Tim Score – 21 February 2005 (not a Director during 2004)
Tim Stevenson – 1 February 2001

Senior Executive Remuneration

The Remuneration Committee determines the salaries of the divisional Chief Executives and reviews the salaries of a group of senior executives. The salaries of this group of employees by band are as follows:

Salary Band	Number of Executives
£150,001 – £200,000	9
£100,001 – £150,000	26
£50,000 – £100,000	59

REPORT ON DIRECTORS' REMUNERATION

INFORMATION SUBJECT TO AUDIT: DIRECTORS' REMUNERATION

DIRECTORS' EMOLUMENTS	Salary/fees £000	Performance related bonus £000	Benefits[1] £000	**Total 2004 £000**	Total 2003[2] £000
Executive Directors					
Phil White	450	318	223	**991**	1,000
Ray O'Toole	315	222	23	**560**	586
Adam Walker	260	183	25	**468**	360
Non Executive Directors					
David Ross[3] (Chairman)	112	–	–	**112**	35
Sir Andrew Foster (appointed 1 August 2004)	15			**15**	–
Barry Gibson	40	–	–	**40**	35
Sue Lyons	40	–	–	**40**	35
Tim Stevenson	45	–	–	**45**	40
Former Non Executive Director					
Michael Davies (resigned 5 May 2004)	52	–	–	**52**	135
Former Executive Director					
Larry Durham[4] (resigned 25 February 2004)	£48	–	£1	**£49**	£557
	$89	–	$1	**$90**	$915

1 Benefits in kind include a company car, fuel and health insurance and pension contributions payable above the earnings cap to Phil White of £184,073
2 Directors' total remuneration in 2003 have been restated to exclude pension contributions which are shown below
3 David Ross has elected to take his Chairman's fees as National Express Group shares.
4 Larry Durham received his remuneration in US dollars. For comparison purposes amounts shown in US dollars and pounds sterling are converted at a rate of £1 = $1.84 for 2004.

Former Director

Larry Durham retired from the Group on 25 February 2004. He received his salary and benefits to 12 August 2004 in accordance with the terms of his fixed term service contract which expired on 13 August 2004. This amounted to $267,000. He also received in August 2004, in accordance with his contractual entitlements, a payment of $346,548 which was settlement of his Supplemental Executive Retirement Plan, title to his car which had a book value of $26,695 and outstanding vacation pay of $48,333. From 13 August 2004 to 28 February 2005 Larry Durham acted as a consultant for the Group for which he received a monthly fee of $48,333. On retirement Larry was entitled to exercise 93,417 share options granted to him under the rules of the 1996 Executive Share Option Scheme. A further 163,773 share options granted under the 2002 Executive Share Option Plan lapsed on his leaving the Group as, in the opinion of the Remuneration Committee, the performance conditions had not been met.

Pensions

Pension benefits earned by Directors in the year to 31 December 2004 were:

	Age	NRA+	Accrued benefit at 1 Jan 2004 £000	Increase in period (net of indexation) £000	Transfer value of increase in period £000	Accrued benefit at 31 Dec 2004 £000	Transfer value at 1 Jan 2004 £000	Transfer value at 31 Dec 2004 £000	Movement in transfer value during period less director's contributions £000	Employer contribution to defined contribution plan £000
Ray O'Toole	49	60	13.9	6.6	72.0	20.9	–	229.3	77.7	–
Adam Walker	37	60	8.6	7.1	43.9	15.9	46.4	98.7	37.1	–
Phil White	55	62	–	–	–	–	–	–	–	41
Former Director										
Larry Durham	61	65	–	–	–	–	–	–	–	$9
										£5

\+ Normal retirement age

DIRECTORS' SHAREHOLDINGS

DIRECTORS' INTERESTS AND TRANSACTIONS

The beneficial interests of the Directors in office as at 31 December 2004 are shown below:

DIRECTORS' SHAREHOLDINGS	At 31 December 2004	At 31 December 2003*
Executive Directors		
Ray O'Toole	**14,500**	11,500
Adam Walker	**5,300**	4,300
Phil White	**165,408**	165,408
Non Executive Directors		
Sir Andrew Foster (appointed 1 August 2004)	**–**	–
Barry Gibson	**3,000**	3,000
Sue Lyons	**2,072**	2,072
David Ross	**603,393**	574
Tim Stevenson	**5,773**	5,773
Former Executive Director		
Larry Durham (resigned 25 February 2004)	**3,000**	3,000

* As at 31 December 2003 or as at date of appointment if later.

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.

EXECUTIVE DIRECTORS

DIRECTORS' SHARE OPTIONS

	Note	At 1 Jan 2004	During year Granted	During year Exercised	During year Lapsed	At 31 Dec 2004*	Exercise price	Market price at date of exercise	Date from which exercisable	Expiry date
Phil White	(i)	12,870	–	–	–	**12,870**	540.0p	–	27.04.03	27.04.10
	(i)	83,478	–	–	83,478	**–**	862.5p	–	–	–
	(ii)	5,128	–	–	–	**5,128**	585.0p	–	05.07.05	05.07.12
	(iii)	97,436	–	–	–	**97,436**	585.0p	–	05.07.05	05.07.12
	(iii)	169,598	–	–	–	**169,958**	398.0p	–	18.03.06	18.03.13
	(iii)	–	132,159	–	–	**132,159**	681.0p	–	12.05.07	12.05.14
Ray O'Toole	(i)	8,415		–	–	**8,415**	540.0p	–	27.04.03	27.04.10
	(i)	57,971	–	–	57,971	**–**	862.5p	–	–	–
	(ii)	5,128	–	–	–	**5,128**	585.0p	–	05.07.05	05.07.12
	(iii)	62,820	–	–	–	**62,820**	585.0p	–	05.07.05	05.07.12
	(iii)	113,065	–	–	–	**113,065**	398.0p	–	18.03.06	18.03.13
	(iii)	–	92,511	–	–	**92,511**	681.0p	–	12.05.07	12.05.14
	(iv)	453	–	–	–	**453**	417.0p	–	01.12.05	01.06.06
Adam Walker	(ii)	5,128	–	–	–	**5,128**	585.0p	–	05.07.05	05.07.12
	(iii)	14,530	–	–	–	**14,530**	585.0p	–	05.07.05	05.07.12
	(iii)	75,377	–	–	–	**75,377**	398.0p	–	18.03.06	18.03.13
	(iii)	–	76,358	–	–	**76,358**	681.0p	–	12.05.07	12.05.14
Former Executive Director										
Larry Durham	(i)	30,000	–	–	–	**30,000**	793.0p	–	26.09.03	12.02.05
(resigned 25/2/04)	(i)	63,417	–	–	–	**63,417**	862.5p	–	19.04.04	12.02.05
	(iii)	50,708	–	–	50,708	**–**	585.0p	–	–	–
	(iii)	113,065	–	–	113,065	**–**	398.0p	–	–	–

Notes
(i) Options granted under the 1996 National Express Group Executive Share Option Scheme
(ii) Options granted under the 2002 National Express Group Executive Share Option Plan Part 1 Approved
(iii) Options granted under the 2002 National Express Group Executive Share Option Plan Part 2 Unapproved
(iv) Options granted under the 2002 National Express Group Savings Related Share Option Scheme.
* For Larry Durham as at date of resignation

REPORT ON DIRECTORS' REMUNERATION

The performance conditions attached to the grant of options to Executive Directors under the Plan in 2002 and 2003 were as follows:

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

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

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

Notes

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

(i) 6 shares held at 23 February 2005 by the National Express Group QUEST (QUEST), established for satisfying exercises under the Group's Sharesave Scheme. All employees (including Executive Directors) are potential beneficiaries under this Trust.

(ii) 1,145,546 shares held at 23 February 2005 by the National Express Group Employee Benefit Trust in respect of the Executive Share Option Plan and Sharesave Scheme.

The following changes occurred in the interests of the Directors in office between 31 December 2004 and 25 February 2005.

David Ross purchased 1,616 shares as a result of his election to receive his Chairman's fees as National Express Group shares increasing his total shareholding to 605,009.

Adam Walker purchased 4,400 shares bringing his total shareholding to 9,700.

Phil White exercised his option over 12,870 shares under the 1996 Executive Share Option Scheme which were then sold. His total shareholding remains at 165,408.

Ray O'Toole exercised his option over 8,415 shares under the 1996 Executive Share Option Scheme of which he retained 3,283 shares. Ray then purchased an additional 1,000 shares bringing his total shareholding to 18,783

The Register of Directors' Interests maintained by the Company contains full details of the Directors' holdings of shares and options over shares in the Company. None of the Directors exercised share options during the year.

The mid-market price of the Company's ordinary shares at 31 December 2004 was 825.5p (2003: 611p) and the range during the year ended 31 December 2004 was 595.0p to 826.5p.

By Order of the Board

J M B Gibson
Director and Chairman of the Remuneration Committee
24 February 2005

REPORT OF THE AUDITORS

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF NATIONAL EXPRESS GROUP PLC

We have audited the Group's accounts for the year ended 31 December 2004 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 34. These accounts have been prepared on the basis of the accounting policies set out therein. We have also audited the information in the Report on Directors' remuneration that is described as having been audited.

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

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

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

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

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 FRC Code specified for our review by the Listing Rules of the Financial Services Authority, 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 Chairman's statement, Chief Executive's statement, Review of operations, Finance Director's report, Corporate governance statement, the Directors' responsibilities for the accounts, the unaudited part of the Report on Directors' remuneration and the Directors' report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. Our responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

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

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

OPINION

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2004 and of the profit of the Group for the year then ended; and the accounts and the part of the Report on Directors' remuneration to be audited have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP
Registered Auditor
Address
24 February 2005

GROUP PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2004

	Note	Total before goodwill & exceptional items 2004 £m	Goodwill & exceptional items 2004 £m	Total 2004 £m	Total before goodwill & exceptional items 2003* £m	Goodwill & exceptional items 2003* £m	Total 2003* £m
Turnover							
– continuing operations		**2,475.3**	**–**	**2,475.3**	2,497.9	–	2,497.9
– acquisitions		**22.8**	**–**	**22.8**	–	–	–
– discontinued operations		**62.1**	**–**	**62.1**	67.8	–	67.8
Turnover	4	**2,560.2**	**–**	**2,560.2**	2,565.7	–	2,565.7
Other operating income	5	**8.8**	**–**	**8.8**	10.9	–	10.9
Other operating costs before goodwill and exceptional items		**(2,417.0)**	**–**	**(2,417.0)**	(2,447.7)	–	(2,447.7)
Goodwill amortisation and impairment	4	**–**	**(62.2)**	**(62.2)**	–	(45.7)	(45.7)
Tangible fixed asset impairment	4	**–**	**(6.1)**	**(6.1)**	–	–	–
Other exceptional items	4	**–**	**(7.9)**	**(7.9)**	–	–	–
Total operating costs	6	**(2,417.0)**	**(76.2)**	**(2,493.2)**	(2,447.7)	(45.7)	(2,493.4)
Group operating profit		**152.0**	**(76.2)**	**75.8**	128.9	(45.7)	83.2
– continuing operations		**149.2**	**(59.5)**	**89.7**	125.1	(44.5)	80.6
– acquisitions		**0.3**	**–**	**0.3**	–	–	–
– discontinued operations		**2.5**	**(16.7)**	**(14.2)**	3.8	(1.2)	2.6
Group operating profit	4	**152.0**	**(76.2)**	**75.8**	128.9	(45.7)	83.2
Share of operating losses of associates	4	**(3.4)**	**–**	**(3.4)**	(4.1)	–	(4.1)
Total operating profit		**148.6**	**(76.2)**	**72.4**	124.8	(45.7)	79.1
Loss on sale of properties		**–**	**(0.1)**	**(0.1)**	–	–	–
Profit on sale of businesses	17(b)	**–**	**8.9**	**8.9**	–	–	–
Profit on ordinary activities before interest		**148.6**	**(67.4)**	**81.2**	124.8	(45.7)	79.1
Net interest payable	9	**(18.1)**	**–**	**(18.1)**	(25.0)	–	(25.0)
Profit on ordinary activities before taxation		**130.5**	**(67.4)**	**63.1**	99.8	(45.7)	54.1
Tax on profit on ordinary activities	10	**(28.6)**	**6.3**	**(22.3)**	(22.6)	10.2	(12.4)
Profit after tax		**101.9**	**(61.1)**	**40.8**	77.2	(35.5)	41.7
Minority interest		**1.0**	**2.6**	**3.6**	1.0	–	1.0
Profit for the financial year		**102.9**	**(58.5)**	**44.4**	78.2	(35.5)	42.7
Dividends	12	**(41.3)**	**–**	**(41.3)**	(35.1)	–	(35.1)
Retained profit		**61.6**	**(58.5)**	**3.1**	43.1	(35.5)	7.6
Basic earnings per share	13			**32.6p**			31.9p
Normalised basic earnings per share	13	**72.9p**			54.6p		
Diluted earnings per share	13			**32.1p**			31.0p
Normalised diluted earnings per share	13	**71.8p**			53.0p		

* Restated for change in revenue recognition (see note 1) and classification (see note 2).

BALANCE SHEETS

At 31 December 2004

	Note	Group 2004 £m	Group 2003* £m	Company 2004 £m	Company 2003* £m
Fixed assets					
Intangible assets	14	**324.4**	404.6	**–**	–
Tangible assets	15	**380.3**	405.6	**1.5**	2.3
Investments and interests in associates	16	**10.5**	7.3	**518.5**	588.1
		715.2	817.5	**520.0**	590.4
Current assets					
Stock	18	**16.3**	17.3	**–**	–
Debtors	19	**328.5**	343.7	**419.3**	928.4
Cash at bank and in hand	20	**147.2**	97.0	**3.4**	2.5
		492.0	458.0	**422.7**	930.9
Creditors: amounts falling due within one year	21	**(610.6)**	(605.2)	**(380.2)**	(874.3)
Net current (liabilities)/assets		**(118.6)**	(147.2)	**42.5**	56.6
Total assets less current liabilities		**596.6**	670.3	**562.5**	647.0
Creditors: amounts falling due after more than one year	22	**(256.0)**	(347.3)	**(207.5)**	(304.6)
Provisions for liabilities and charges	24	**(76.1)**	(58.8)	**(1.7)**	(1.5)
Net assets		**264.5**	264.2	**353.3**	340.9
Capital and reserves					
Called up share capital	26	**7.0**	6.8	**7.0**	6.8
Share premium account	27	**47.5**	45.1	**47.5**	45.1
Other reserves	27	**10.3**	10.3	**(5.1)**	21.3
Revaluation reserve	27	**–**	0.8	**–**	–
Profit and loss account	27	**198.8**	196.5	**303.9**	267.7
Equity shareholders' funds		**263.6**	259.5	**353.3**	340.9
Equity minority interest		**0.9**	4.7	**–**	–
		264.5	264.2	**353.3**	340.9

* Restated for change in revenue recognition and accounting policy for own shares (see note 1).

P M White Chief Executive
A C Walker Finance Director
24 February 2005

GROUP STATEMENT OF CASH FLOWS

For the year ended 31 December 2004

	Note	2004 £m	2003 £m
Net cash inflow from operating activities	*33(a)*	**254.1**	182.8
Interest received		**13.1**	7.6
Interest paid		**(24.7)**	(26.7)
Interest element of finance lease rentals		**(6.9)**	(3.9)
Return on investments and servicing of finance		**(18.5)**	(23.0)
UK corporation tax paid		**(2.2)**	(22.2)
Overseas tax paid		**(1.0)**	(0.1)
Taxation		**(3.2)**	(22.3)
Payments to acquire tangible assets		**(69.2)**	(48.0)
Receipts from sale of tangible assets		**18.8**	12.9
Receipts from sales of shares to satisfy employee share scheme		**0.1**	2.1
Receipts in respect of other investments		**–**	8.1
Capital expenditure and financial investment		**(50.3)**	(24.9)
Receipts from the sale of businesses	*17*	**25.0**	0.8
Cash disposed of in businesses sold	*17*	**(0.3)**	–
Payments in respect of businesses sold/closed	*17*	**(1.5)**	(49.8)
Payments to acquire businesses	*17*	**(7.3)**	(4.7)
Cash acquired in businesses purchased	*17*	**19.9**	–
Deferred consideration for businesses (acquired)/disposed		**(4.5)**	(0.4)
Acquisitions and disposals		**31.3**	(54.1)
Equity dividends paid		**(36.4)**	(33.2)
Cash inflow before financing activities		**177.0**	25.3
Management of liquid resources			
Cash (paid in to)/withdrawn from short term deposits	*33(c)*	**(53.1)**	14.2
Financing			
Issue of share capital		**2.5**	0.4
Cash outflow from lease financing	*33(c)*	**(15.8)**	(13.8)
Repayment of loan notes	*33(c)*	**(0.9)**	(0.7)
Loans repaid	*33(c)*	**(93.1)**	(26.1)
Net cash outflow from financing		**(107.3)**	(40.2)
Increase/(decrease) in cash	*33(b)*	**16.6**	(0.7)

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31 December 2004

	Note	2004 £m	2003* £m
Profit for the financial year		**44.4**	42.7
Exchange differences on foreign currency net investments	27	**(27.3)**	(25.9)
Exchange differences on foreign currency borrowings	27	**29.8**	27.9
Tax on exchange differences on foreign currency net investments	27	**(4.1)**	0.8
Total recognised gains and losses relating to the period		**42.8**	45.5
Prior year adjustment for revenue recognition (see note 1)		**(4.2)**	
Total recognised gains and losses	27	**38.6**	

* Restated for change revenue recognition (see note 1).

NOTE OF GROUP HISTORICAL COST PROFITS AND LOSSES

For the year ended 31 December 2004

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 2004 and 31 December 2003.

RECONCILIATION OF MOVEMENTS IN GROUP EQUITY SHAREHOLDERS' FUNDS

For the year ended 31 December 2004

	Note	2004 £m	2003* £m
Profit for the financial year		**44.4**	42.7
Dividends	12	**(41.3)**	(35.1)
Exchange differences on foreign currency net investments	27	**(27.3)**	(25.9)
Exchange differences on foreign currency borrowings	27	**29.8**	27.9
Tax on exchange differences on foreign currency net investments	27	**(4.1)**	0.8
New share capital issued for cash		**2.5**	0.4
Net reduction in own shares		**0.1**	0.5
Net addition to shareholders' funds		**4.1**	11.3
Equity shareholders' funds at 1 January*		**259.5**	248.2
Equity shareholders' funds at 31 December		**263.6**	259.5

* Restated for change in revenue recognition and accounting policy for own shares (see note 1).

Shareholders' funds at 1 January 2004 were originally £268.9m before deducting prior year adjustments of £4.2m for a change in the revenue recognition accounting policy and £5.2m for a change in accounting policy for own shares.

NOTES TO THE ACCOUNTS

1 ACCOUNTING POLICIES

Basis of preparation

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards in the United Kingdom.

Change in accounting policies

Own shares

UITF38, "Accounting for ESOP Trusts", has been adopted with effect from 1 January 2004. The adjusted accounting policy is that shares held in respect of employee benefit trusts should be deducted from shareholders' funds. Prior to 1 January 2004 these shares were held as fixed asset investments. The prior year comparatives have been restated to comply with UITF 38, resulting in a reduction to the net book value of investments and reserves of £5.2m at 31 December 2003 and £5.7m at 1 January 2003.

Revenue recognition

In accordance with FRS18, "Accounting Policies" the Group's accounting policies are reviewed regularly and changed when a new policy becomes more appropriate. Under the previous revenue accounting policy, the Group accounted for tickets sold in advance and for return journeys on a cash basis, with the exception of season tickets in the UK Trains division which were recognised evenly over the life of the season ticket. Following improvements in the Group's information systems we are now able to reliably measure the deferred revenue adjustment required in relation to these tickets, and therefore a change in accounting policy is appropriate.

The prior year comparatives have been restated for the change in revenue recognition resulting in an additional £5.9m recognised as deferred income at 31 December 2003, and a £1.7m reduction in the corporation tax liability. After a reduction in turnover and operating profit of £0.4m, and a reduction in the tax charge of £0.1m, the net effect is to reduce the Group's profit after tax by £0.3m from £42.0m to £41.7m in the year to 31 December 2003. Basic earnings per share has been decreased by 0.2p to 31.9p. There was no impact on the prior year comparatives for the Company. The Group's profit after tax for the current year has been reduced by £0.5m as a result of this change in revenue recognition comprising a £0.7m reduction in turnover and operating profit and a £0.2m reduction in the tax charge. Net assets and reserves have been reduced by £4.2m at 31 December 2003 and £3.9m at 1 January 2003.

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. 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.

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

Turnover

Turnover of the Group comprises revenue from road passenger transport, train passenger services, airport operations and related activities in the UK, North America and Australia. Where appropriate, amounts are shown net of rebates and sales tax.

UK Trains turnover includes agreed amounts attributed to the train operating companies ("TOCs"), based principally on models of route usage, by Railway Settlement Plan Limited in respect of passenger receipts. In addition, franchise agreement receipts from the Strategic Rail Authority ("SRA") and local Passenger Transport Executives ("PTEs") within the West Midlands regions and Scotland are treated as turnover. Franchise agreement payments to the SRA are recognised in operating costs. UK Bus, UK Coach and Australia Bus turnover comprise amounts receivable generated from ticket sales. For UK Bus, UK Coach, UK Trains and Australia Bus, the attributable share of season ticket or travelcard income is deferred within creditors and released to the profit and loss account over the life of the relevant season ticket or travelcard. North American Bus revenue from local authorities and similar contracts is recognised as the services are provided.

NOTES TO THE ACCOUNTS

1 ACCOUNTING POLICIES (continued)

Goodwill

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

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

It is reviewed for impairment at the end of the first full financial year following acquisition and in other periods if events or changes in circumstances indicate that the current carrying value may not be recoverable. If a subsidiary, associate or business is subsequently sold or closed, any goodwill arising on acquisition that was written off directly to reserves or that has not been amortised through the profit and loss account is taken into account in determining the profit or loss on sale or closure.

Leased assets

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

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

Stock

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

Tangible fixed assets

Freehold land is 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
Infrastructure assets	–	10 to 14 years
Public service vehicles	–	2 to 15 years
Plant and equipment	–	3 to 10 years

The carrying value of fixed assets are reviewed for impairment if events or changes in circumstances indicate that the current carrying value may not be recoverable. The Group has followed the transitional provisions in FRS 15, "Tangible Fixed Assets", and will not revalue properties in the future, although as permitted by the standard, properties that have been revalued in the past have been retained at their existing book value. The last valuation was at 31 December 1995.

Government Grants

Government grants relating to tangible fixed assets are capitalised and released to the profit and loss account over the expected useful economic life of the assets concerned. Other grants are credited to the profit and loss account as the related expenditure is expensed.

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.

Deferred tax

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

NOTES TO THE ACCOUNTS

1 ACCOUNTING POLICIES (continued)

Pre-contract costs

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

Insurance

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

Foreign currencies

Group

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

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

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

2 CHANGE IN SEGMENTAL ANALYSIS CLASSIFICATION

A number of changes have been made to the Group's segmental analysis as follows:

(a) The costs incurred in bidding for franchises in our UK Trains division are now classified as operating costs. These costs were previously classified as operating exceptional items. The change in classification aligns our reporting with the majority of our sector peer group.

(b) Costs and assets incurred and utilised in operating the Group management function are now disclosed separately as Central functions. These were previously allocated across the Divisions. The change in classification is intended to align our external reporting with the Group's internal management reporting.

(c) Restatement of comparatives following the amendment to the revenue recognition accounting policy as set out in note 1.

(d) Removal of own shares from net assets following the adoption of UITF 38 as set out in note 1, and change to net assets following the change in the revenue recognition accounting policy as set out in note 1.

2 CHANGE IN SEGMENTAL ANALYSIS CLASSIFICATION (continued)

The segmental analysis as restated, and as reported, is as follows:

		Turnover		Operating profit before goodwill and exceptional items		Net assets/(liabilities)	
	Details above	2003 As restated £m	2003 As reported £m	2003 As restated £m	2003 As reported £m	2003 As restated £m	2003 As reported £m
UK Bus	(b)	211.9	211.9	47.5	47.2	45.6	46.3
UK Trains	(a), (b), (c)	1,702.2	1,702.4	33.2	32.0	(10.9)	(8.0)
UK Coach	(b), (c)	186.4	186.6	15.9	15.0	21.5	24.8
UK operations		2,100.5	2,100.9	96.6	94.2	56.2	63.1
North American Bus	(b)	400.1	400.1	37.0	37.0	442.8	449.9
Australian Bus	(b)	65.1	65.1	3.4	3.4	58.0	58.9
Central functions	(b)	–	–	(8.1)	–	9.0	–
		2,565.7	2,566.1	128.9	134.6	566.0	571.9
Goodwill amortisation				(45.7)	(45.7)		
Exceptional items – UK Train bid costs	(a)			–	(5.3)		
Group operating profit				83.2	83.6		
Unallocated net liabilities	(c), (d)					(306.5)	(303.0)
	(c), (d)					259.5	268.9
Equity minority interest						4.7	4.7
Net assets	(c), (d)					264.2	273.6

3 EXCHANGE RATES

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

	2004 Closing rate	**2004 Average rate**	2003 Closing rate	2003 Average rate
US dollar	**1.92**	**1.84**	1.79	1.64
Australian dollar	**2.45**	**2.48**	2.37	2.53
Canadian dollar	**2.31**	**2.38**	2.32	2.31

If the results for the year ended 31 December 2003 were retranslated at the average exchange rates for the year ended 31 December 2004, North America would have achieved an operating profit before goodwill and exceptional items of £33.5m on turnover of £360.5m, and Australian Bus an operating profit before goodwill and exceptional items of £3.5m on turnover of £66.5m.

NOTES TO THE ACCOUNTS

4 TURNOVER AND SEGMENTAL ANALYSIS

Due to the nature of the Group's businesses, the origin and destination of turnover is the same. During the year, franchise agreement receipts from the SRA and PTEs amounted to £497.0m (2003: £684.0m) in UK Trains.

Analysis by class of business		Turnover 2004 £m	Turnover 2003* £m	Operating profit before goodwill and exceptional items 2004 £m	Operating profit before goodwill and exceptional items 2003* £m	Net assets/(liabilities) 2004 £m	Net assets/(liabilities) 2003* £m
UK Bus	– continuing operations	**216.2**	211.9	**43.9**	47.5	**66.0**	45.6
	– acquisitions	**22.8**	–	**0.3**	–	**(15.6)**	–
		239.0	211.9	**44.2**	47.5	**50.4**	45.6
UK Trains		**1,705.2**	1,702.2	**58.5**	33.2	**(95.1)**	(10.9)
UK Coach	– continuing operations	**189.3**	183.7	**18.4**	15.5	**12.5**	19.1
	– discontinued operations	**3.1**	2.7	**0.4**	0.4	**2.2**	2.4
		192.4	186.4	**18.8**	15.9	**14.7**	21.5
UK operations		**2,136.6**	2,100.5	**121.5**	96.6	**(30.0)**	56.2
North American Bus		**364.6**	400.1	**36.9**	37.0	**407.4**	442.8
Australian Bus	– discontinued operations	**59.0**	65.1	**2.1**	3.4	**20.6**	58.0
Central functions		**–**	–	**(8.5)**	(8.1)	**2.4**	9.0
		2,560.2	2,565.7	**152.0**	128.9	**400.4**	566.0
Continuing operations		**2,475.3**	2,497.9	**149.2**	125.1	**393.2**	505.6
Acquisitions		**22.8**	–	**0.3**	–	**(15.6)**	–
Discontinued operations		**62.1**	67.8	**2.5**	3.8	**22.8**	60.4
		2,560.2	2,565.7	**152.0**	128.9	**400.4**	566.0
Goodwill amortisation				**(52.7)**	(45.7)		
Goodwill impairment				**(9.5)**	–		
Tangible fixed asset impairment				**(6.1)**	–		
Exceptional items (see table below)				**(7.9)**	–		
Group operating profit				**75.8**	83.2		
Share of operating losses of associates				**(3.4)**	(4.1)		
Total operating profit				**72.4**	79.1		
Loss on sale of properties				**(0.1)**	–		
Profit on sale of businesses				**8.9**	–		
Profit on ordinary activities before interest				**81.2**	79.1		
Unallocated net liabilities						**(136.8)**	(306.5)
						263.6	259.5
Equity minority interest						**0.9**	4.7
Net assets						**264.5**	264.2

* Restated for change in revenue recognition and accounting policy for own shares (see note 1) and classification (see note 2).

Goodwill amortisation of £52.7m (2003: £45.7m) is analysed as UK Trains £33.3m (2003: £24.3m), UK Coach £0.7m (2003: £0.9m), North American Bus £17.7m (2003: £19.4m) and Australian Bus £1.0m (2003: £1.1m). The goodwill and tangible fixed asset impairment charges for 2004 relate to the Bosnjak Group, comprising Westbus Pty Limited, Glenorie Bus Company Pty Limited and Westbus (UK) Limited.

Exceptional items are included within operating costs in note 6 and are analysed as follows:

	2004 £m	2003 £m
UK Bus – Reorganisation	**0.4**	–
UK Trains – Reorganisation	**7.2**	–
North America – Reorganisation	**0.3**	–
Total exceptional items	**7.9**	–

The exceptional costs in UK Trains were incurred at 'one' (integration of the three legacy TOC's resulted in restructuring and redundancy charges) Qjump (redundancy, property and pension charges following the merger) and Maintrain (redundancy costs incurred as a result of the decision to cease tendering for external work and focus on improving service to Central Trains and Midland Mainline). The balance of exceptional items comprises the cost of reorganisations at UK Bus (£0.4m) and North America (£0.3m).

Unallocated net liabilities comprise other investments, net borrowings (other than finance leases), deferred consideration payable, dividends payable and taxation.

5 OTHER OPERATING INCOME

	2004 £m	2003 £m
Rent receivable	8.8	10.9

Other operating income includes £0.3m (2003: £0.3m) from discontinued operations.

6 OPERATING COSTS

		2004 £m	2003* £m
Materials and consumables		112.7	124.1
Staff costs (including exceptional items of £2.5m)		861.3	842.9
Depreciation	– Owned assets	54.2	56.3
	– Leased assets	10.0	8.4
Amortisation of fixed asset grants		(6.5)	(3.0)
Operating lease charges	Rolling stock: capital element	199.2	167.9
	Rolling stock: non-capital element	90.1	81.7
	Public service vehicles	8.6	6.5
	Other	10.9	12.5
	– Plant and equipment	308.8	268.6
	Fixed track access	296.8	456.7
	Other	82.3	74.3
	– Land and buildings	379.1	531.0
Pre-contract bid costs: UK Trains		1.5	5.3
External charges (including exceptional items of £5.4m)		703.8	614.1
Operating costs before amortisation and impairment		2,424.9	2,447.7
Goodwill amortisation		52.7	45.7
Goodwill impairment		9.5	–
Tangible fixed asset impairment		6.1	–
Total operating costs		2,493.2	2,493.4

* Restated for change in classification (see note 2).

The train operating companies have contracts with Network Rail Infrastructure Limited for access to the railway infrastructure (tracks, stations and depots). The reduction in fixed track access charges arises from the Rail Regulator review. The train operating companies also have contracts under which rolling stock is leased. The capital element of the rolling stock lease charge is based on the purchase price, capital funded refurbishments and modifications, and the non-capital element of the lease charges includes heavy maintenance charges, risk and charges based on mileage.

Operating costs relating to acquired operations amount to £22.5 including materials and consumables £2.3m, staff costs £16.5m, depreciation £0.1m, operating lease charges £1.7m and external charges £1.9m.

Operating costs relating to discontinued operations amount to £59.9m (2003: £64.3m), including materials and consumables £3.1m (2003: £3.4m), staff costs £36.5m (2003: £39.2m), depreciation £3.7m (2003:£4.1m), operating lease charges £0.3m (2003: £0.3m) and external charges £16.3m (2003: £17.3m).

Operating costs include £41.7m (2003: £14.5m) of franchise agreement payments to the SRA.

Included within external charges are fees paid to our auditors in respect of audit services of £0.9m (2003: £0.7m). In addition, external charges include fees paid to our auditors in respect of non-audit services of £0.5m (2003: £0.3m) in the UK and £0.5m (2003: £0.4m) overseas; £0.5m (2003: £0.6m) of these non-audit fees were in respect of tax services. No fees (2003: £0.2m) were capitalised with respect to acquisitions. The audit fee in respect of the Company was £0.1m (2003: £0.1m).

7 STAFF COSTS

	2004 £m	2003 £m
Wages and salaries	763.4	756.3
Social security costs	61.1	59.5
Pension costs (see note 30)	36.8	27.1
	861.3	842.9

Included within wages and salaries are exceptional costs of £1.5m (2003: £nil), and included within pension costs are exceptional costs of £1.0m (2003: £nil).

7 STAFF COSTS (continued)

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

	2004	2003
Managerial and administrative	**4,061**	3,964
Operational	**39,592**	40,606
	43,653	44,570

8 DIRECTORS' EMOLUMENTS

	2004 £m	2003 £m
Fees	**0.3**	0.3
Basic salaries	**1.1**	1.2
Benefits	**0.3**	0.4
Performance related bonuses	**0.7**	0.9
Pensions contributions	**0.2**	0.2
	2.6	3.0

More detailed information concerning Directors' emoluments, shareholdings and options is shown in the Report on Directors' Remuneration on pages 42 to 48.

9 NET INTEREST PAYABLE

	2004 £m	2003 £m
Interest payable and similar charges:		
Bank loans and overdrafts	**(23.0)**	(26.7)
Other loans	**(0.5)**	(0.9)
Finance lease charges	**(6.9)**	(3.5)
	(30.4)	(31.1)
Interest receivable	**13.5**	7.6
Unwinding of discount on insurance provisions (see note 24)	**(1.2)**	(1.5)
Net interest payable	**(18.1)**	(25.0)

10 TAXATION

(a) Analysis of taxation charge in the year

	2004 £m	2003* £m
Current taxation:		
UK corporation tax	**24.3**	21.2
Prior years – UK	**(2.2)**	0.4
	22.1	21.6
Overseas taxation	**5.4**	5.1
Prior years – overseas	**(0.1)**	–
	27.4	26.7
Tax relief on goodwill and exceptional items:		
UK corporation tax: current	**(2.1)**	–
UK corporation tax: prior year adjustment	**–**	(6.0)
Overseas	**(4.2)**	(4.2)
Total current taxation	**21.1**	16.5
Deferred taxation (see note 24):		
Origination and reversal of timing differences	**1.2**	(4.1)
Tax on profit on ordinary activities	**22.3**	12.4

* Restated for change in revenue recognition (see note 1) and classification (see note 2).

There is no tax arising on the profit on sale of businesses. The exceptional prior year adjustment in 2003 consists of one off credits arising from a review of Group tax liabilities as a result of agreeing prior years' computations.

10 TAXATION (continued)

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

	2004 £m	2003* £m
Profit on ordinary activities before taxation	**63.1**	54.1
Notional charge at UK corporation tax rate of 30%	**18.9**	16.3
Non deductible exceptional expenditure	**0.2**	–
Non deductible goodwill amortisation	**15.4**	10.5
Utilisation of unrecognised tax losses	**(1.8)**	(0.7)
Prior year adjustments	**(2.3)**	(5.6)
Capital allowances in excess of depreciation	**(1.2)**	(3.0)
Effect of short term timing differences	**0.6**	(0.8)
Release of non taxable grants	**(1.7)**	–
Profit on sale of businesses	**(2.7)**	–
US financing deduction	**(4.7)**	–
Permanent disallowables	**0.4**	(0.2)
Current tax charge for the year	**21.1**	16.5

* Restated for change in revenue recognition (see note 1).

(c) Factors that may affect future tax charges

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

No provision has been made for deferred tax on gains recognised on the sale of property where potentially taxable gains have been rolled over into replacement assets. The total amount unprovided is £5.4m (2003: £5.4m). Such tax would become payable only if the property was sold without it being possible to claim further rollover relief and this is not expected to occur in the foreseeable future.

In the overseas subsidiaries, the potential deferred tax assets exceed the deferred tax liabilities. There is no recognition of the deferred tax asset in relation to the excess on the grounds that there is insufficient evidence to determine that it is recoverable. Deferred tax assets that the Group has not recognised in the accounts amount to £36.4m (2003: £24.8m).

11 PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT COMPANY

The profit attributable to shareholders of the parent company was £51.1m (2003: £77.3m).

12 DIVIDENDS

	2004 £m	2003 £m
Ordinary interim paid of 9.35p per share (2003: 8.5p)	**12.8**	11.5
Ordinary final proposed of 20.65p per share (2003: 17.5p)	**28.5**	23.6
	41.3	35.1

13 EARNINGS PER SHARE

	2004	2003*
Basic earnings per share	**32.6p**	31.9p
Normalised basic earnings per share	**72.9p**	54.6p
Diluted earnings per share	**32.1p**	31.0p
Normalised diluted earnings per share	**71.8p**	53.0p

* Restated for change in revenue recognition (see note 1) and classification (see note 2).

Basic earnings per share is calculated by dividing the profit for the financial year of £44.4m (2003: £42.7m) by the weighted average number of ordinary shares in issue in the year, excluding those held by employees' share ownership trusts which are treated as cancelled.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all potentially dilutive 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.

13 EARNINGS PER SHARE (continued)

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

	Number of shares 2004	Number of shares 2003
Basic weighted average shares	**136,166,921**	133,765,928
Adjustment for dilutive potential ordinary shares	**2,066,108**	3,951,354
Diluted weighted average shares	**138,233,029**	137,717,282

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

Normalised profits for the financial year are:

	2004 £m	2004 Basic eps pence	2004 Diluted eps pence	2003* £m	2003* Basic eps pence	2003* Diluted eps pence
Profit for the financial year	**44.4**	**32.6**	**32.1**	42.7	31.9	31.0
Goodwill amortisation	**52.7**	**38.7**	**38.1**	45.7	34.1	33.1
Goodwill impairment	**9.5**	**7.0**	**6.9**	–	–	–
Tangible fixed asset impairment (net of minority interest)	**3.5**	**2.6**	**2.5**	–	–	–
Exceptional operating costs	**7.9**	**5.8**	**5.7**	–	–	–
Profit on sale of businesses	**(8.9)**	**(6.5)**	**(6.4)**	–	–	–
Loss on sale of properties	**0.1**	**–**	**–**	–	–	–
Results from discontinued operations (net of minority interest)	**(3.6)**	**(2.6)**	**(2.5)**	(5.1)	(3.8)	(3.7)
Tax relief on goodwill and exceptional items	**(6.3)**	**(4.7)**	**(4.6)**	(10.2)	(7.6)	(7.4)
Normalised profits for the financial year	**99.3**	**72.9**	**71.8**	73.1	54.6	53.0

* Restated for change in revenue recognition (see note 1) and classification (see note 2).

14 INTANGIBLE ASSETS

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

Group	Goodwill £m
Cost:	
At 1 January 2004	571.3
Additions	5.4
Disposal of businesses	(14.6)
Exchange adjustment	(22.4)
At 31 December 2004	**539.7**
Amortisation:	
At 1 January 2004	166.7
Charge for the year (including impairment of £9.5m)	62.2
Disposal of businesses	(8.4)
Exchange adjustments	(5.2)
At 31 December 2004	**215.3**
Net book value:	
At 31 December 2004	**324.4**
At 31 December 2003	404.6

15 TANGIBLE ASSETS

Group	Freehold land and buildings £m	Long leasehold property £m	Short leasehold property £m	Infra-structure £m	Public service vehicles £m	Plant and equipment £m	Total £m
Cost or valuation:							
At 1 January 2004	45.3	46.6	31.1	1.8	335.8	109.1	569.7
Additions	3.2	0.7	3.6	–	52.2	27.0	86.7
Acquisition of businesses	–	–	–	–	7.9	–	7.9
Disposals	(4.1)	(9.2)	(1.4)	–	(9.9)	(17.8)	(42.4)
Disposal of businesses	(0.6)	–	(0.4)	–	(17.2)	(8.4)	(26.6)
Reclassification	(5.3)	(1.0)	6.2	–	–	0.1	–
Exchange adjustments	(0.8)	(1.9)	(0.1)	(0.1)	(14.8)	(1.0)	(18.7)
At 31 December 2004	**37.7**	**35.2**	**39.0**	**1.7**	**354.0**	**109.0**	**576.6**
Depreciation:							
At 1 January 2004	5.4	3.8	16.1	0.3	84.2	54.3	164.1
Charge for the year	1.3	1.2	3.6	0.1	34.2	23.8	64.2
Impairment	1.2	–	–	–	4.9	–	6.1
Disposals	(0.7)	–	(1.4)	–	(7.2)	(12.8)	(22.1)
Disposal of businesses	–	–	(0.2)	–	(3.7)	(4.4)	(8.3)
Reclassification	(0.9)	(0.1)	1.0	–	–	–	–
Exchange adjustments	(0.1)	(0.4)	–	–	(6.6)	(0.6)	(7.7)
At 31 December 2004	**6.2**	**4.5**	**19.1**	**0.4**	**105.8**	**60.3**	**196.3**
Net book value:							
At 31 December 2004	**31.5**	**30.7**	**19.9**	**1.3**	**248.2**	**48.7**	**380.3**
At 31 December 2003	39.9	42.8	15.0	1.5	251.6	54.8	405.6

The net book value of freehold land and buildings and long leasehold property includes £nil (2003: £9.1m) in respect of investment properties and £7.1m (2003: £7.3m) in respect of land which is not depreciated.

The revaluation reserve of £0.8m at 31 December 2003 comprised land and buildings at a valuation of £21.3m and a historical cost net book value of £20.5m.

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

	2004 £m	2003 £m
Public service vehicles	**62.5**	56.9
Plant and equipment	**1.8**	1.5
Net book value	**64.3**	58.4

NOTES TO THE ACCOUNTS

15 TANGIBLE ASSETS (continued)

Company	Short leasehold property £m	Plant and equipment £m	Total £m
Cost:			
At 1 January 2004	0.9	3.3	4.2
Additions	–	0.1	0.1
At 31 December 2004	**0.9**	**3.4**	**4.3**
Depreciation:			
At 1 January 2004	0.3	1.6	1.9
Charge for the year	0.1	0.8	0.9
At 31 December 2004	**0.4**	**2.4**	**2.8**
Net book value:			
At 31 December 2004	**0.5**	**1.0**	**1.5**
At 31 December 2003	0.6	1.7	2.3

16 INVESTMENTS AND INTERESTS IN ASSOCIATES

Group	Loan to associates £m	Interests in associates £m	Other investments £m	Own shares £m	Total £m
Cost or valuation:					
At 1 January 2004 as previously reported	0.3	5.6	12.8	5.5	24.2
Prior year adjustment (note 1)	–	–	–	(5.5)	(5.5)
	0.3	5.6	12.8	–	18.7
Additions (note 17)	–	–	3.2	–	3.2
At 31 December 2004	**0.3**	**5.6**	**16.0**	**–**	**21.9**
Share of post-acquisition reserves:					
At 1 January and 31 December 2004	**–**	**(5.6)**	**–**	**–**	**(5.6)**
Provisions:					
At 1 January 2004 as previously reported	–	–	(5.8)	(0.3)	(6.1)
Prior year adjustment	–	–	–	0.3	0.3
At 1 January and 31 December 2004	**–**	**–**	(5.8)	–	(5.8)
Net book value:					
At 31 December 2004	**0.3**	**–**	**10.2**	**–**	**10.5**
At 31 December 2003 as restated	0.3	–	7.0	–	7.3
At 31 December 2003 as previously reported	0.3	–	7.0	5.2	12.5

The Group's share of associates' post-acquisition reserves in excess of the cost of investment are included within provisions (see note 24).
The Group's investment in own shares is held by employee share scheme trusts.

(a) Interests in associates are as follows:

Name	County of registration	Total issued share capital £000	Proportion held %
Altram LRT Limited	England and Wales	16,500	33
Inter-Capital and Regional Rail Limited	England and Wales	1	40

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

16 INVESTMENTS AND INTERESTS IN ASSOCIATES (continued)

(b) The principal other investments are as follows:

Name	County of registration	Class of share	Proportion held %
London & Continental Railways (LCR)	England and Wales	Ordinary shares	21
Prepayment Cards Limited (PCL)	England and Wales	Ordinary shares	23.5
Trainline Holdings Limited (THL)	England and Wales	Ordinary shares	14
Union Railways (South) Limited (URS)	England and Wales	Preference shares	21

LCR, PCL, THL and URS have been accounted for as trade investments. In the opinion of the Directors, the Group does not exercise significant influence over LCR, PCL, THL or URS as required under the definitions in FRS 9, "Associates and joint ventures".

(c) Own shares are as follows:

Ordinary shares in the Company have been purchased by the Trustees of the National Express Employee Benefit Trust (the "Trust") and the Qualifying Employee Share Ownership Trust (the "QUEST") using an interest free loan 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 38 "Accounting for ESOP Trusts", the value of shares within the Trust and QUEST have been deducted from shareholders' funds with effect from 1 January 2004.

Details of own shares held are given in note 26.

Company	Investments in subsidiary undertakings £m	Other investments £m	Own shares £m	Total £m
Cost or valuation:				
At 1 January 2004 as previously reported	931.5	12.8	5.5	949.8
Prior year adjustment (note 1)	–	–	(5.5)	(5.5)
	931.5	12.8	–	944.3
Additions	109.6	–	–	109.6
Disposals	(116.2)	–	–	(116.2)
At 31 December 2004	**924.9**	**12.8**	**–**	**937.7**
Provisions:				
At 1 January 2004 as previously reported	(350.4)	(5.8)	(0.3)	(356.5)
Prior year adjustment	–	–	0.3	0.3
	(350.4)	(5.8)	–	(356.2)
Provisions for impairment	(63.0)	–	–	(63.0)
At 31 December 2004	**(413.4)**	**(5.8)**	**–**	**(419.2)**
Net book value:				
At 31 December 2004	**511.5**	**7.0**	**–**	**518.5**
At 31 December 2003 as restated	581.1	7.0	–	588.1
At 31 December 2003 as previously reported	581.1	7.0	5.2	593.3

The carrying value of the investments in subsidiary undertakings has been reviewed at 31 December 2004 by reference to their value in use to the Company. The review has resulted in an impairment of £63.0m to investments in subsidiary undertakings held by the Company. This particular value in use was calculated using future expected cash flow projections, discounted at 7% on a pre tax basis, and is not intended to reflect a realisable value on disposal.

16 INVESTMENTS AND INTERESTS IN ASSOCIATES (continued)

The companies listed below include all those which principally affect the result and net assets of the Group. A full list of subsidiary undertakings and associates will be annexed to the next Annual Return to Companies House. The principal country of operation in respect of all the companies below is the country in which they are incorporated.

National Express Group PLC is the beneficial owner of all the equity share capital, either itself or through subsidiary undertakings, of the companies below, with the exception of Westbus (UK) Limited, Glenorie Bus Company Pty Limited and Westbus Pty Limited in which it has a 57% (2003: 57%) shareholding.

Incorporated in England and Wales	
National Express Limited	Administration and marketing of express coach services in Great Britain
Eurolines (UK) Limited	Administration and marketing of express coach services to Europe
Airlinks Airport Services Limited	Operation of coach services within airports
Westbus (UK) Limited	Operation of coach services in Great Britain
Travel London Limited	Operation of bus services
West Midlands Travel Limited	Operation of bus services
c2c Rail Limited	Operation of train passenger services
Central Trains Limited	Operation of train passenger services
Gatwick Express Limited	Operation of train passenger services
London Eastern Railway Limited (trading as "one")	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
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

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

Incorporated in the USA	
Durham School Services LP	Operation of school bus services
ATC/Vancom, Inc.	Operation of bus services
SWF Airport Acquisition Inc.	Provision and management of airport facilities

Incorporated in Canada	
Stock Transportation Limited	Operation of school bus services
Shantz Enterprises Inc.	Operation of school bus services
Student Express Limited	Operation of school bus services

Incorporated in Australia	
Glenorie Bus Company 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

At year end, Westbus (UK) Limited, Glenorie Bus Company Pty Limited and Westbus Pty Limited were subsidiary companies of Bosnjak Holdings Pty Limited (BHPL). BHPL is a 57% subsidiary of National Bus Company (NBC) Pty Limited whose ultimate parent is National Express Group PLC. On 31 January 2005, BHPL went into voluntary administration as the company has been unable to renegotiate its loan with NBC.

17 ACQUISITIONS AND DISPOSALS DURING THE YEAR

(a) Acquisitions

The Group acquired the entire share capital of Connex Bus UK Limited (since renamed Travel London Limited), a bus operator in the UK, on 26 February 2004, the entire share capital of 1114448 Ontario Limited, the holding company of Student Express Limited, a school bus operator in North America on 8 July 2004 (together referred to as "Student Express"), and certain assets of M&O Bus Lines (Handicab) Limited on 16 August 2004, another school bus operator in North America.

Net assets at date of acquisition:

	Book Value Travel London £m	Book Value Student Express and M&O £m	Book Value Total £m	Fair Value Adjustments £m	**Fair Value Total £m**
Intangible fixed assets	0.3	–	0.3	(0.3)	**–**
Tangible fixed assets	0.8	3.4	4.2	3.7	**7.9**
Stock	0.2	–	0.2	–	**0.2**
Debtors	2.2	0.2	2.4	1.6	**4.0**
Cash at bank and in hand	19.1	0.8	19.9	–	**19.9**
Creditors: amounts falling due within one year	(3.3)	(0.8)	(4.1)	(2.5)	**(6.6)**
Creditors: amounts falling due after more than one year	(0.1)	(0.6)	(0.7)	(8.1)	**(8.8)**
Provisions	(19.3)	(0.7)	(20.0)	5.3	**(14.7)**
Net assets acquired	(0.1)	2.3	2.2	(0.3)	**1.9**
Goodwill on acquisition					**5.4**
Total consideration					**7.3**
Total consideration					**7.3**
Less: net cash acquired					**(19.9)**
Net cash inflow					**(12.6)**

The acquisition balance sheets have been adjusted to reflect provisional fair value adjustments.

For Travel London this comprises the elimination of goodwill in Connex Bus UK Limited's balance sheet (£0.3m), the recognition of finance lease assets for public service vehicles (£10.1m), the impairment of public service vehicles to reflect their net realisable value on the expiry of the onerous contracts acquired (£6.0m), the recognition of group relief receivable on that impairment (£1.9m), onerous contract adjustments net of deferred tax (£5.3m), and other sundry amendments to reduce debtors (£0.1m) and increase creditors (£0.5m).

For Student Express this comprises a downward revaluation of tangible fixed assets (£0.4m) and an adjustment to reduce debtors (£0.2m).

Consideration for the North American acquisitions was £7.1m, and acquisition costs for Travel London of £0.2m were incurred.

The Connex Bus UK Limited year end prior to acquisition was 31 December 2003. The profit after tax and minority interest for the year then ended was £4.5m and for the period from 1 January 2004 to acquisition was £0.4m.

The Student Express year end prior to acquisition was 31 August 2003. The profit after tax and minority interest for the year then ended was £0.5m and for the period from 31 August 2003 to acquisition was £0.6m.

During the year ended 31 December 2003, the Group acquired the entire share capital of Shantz Enterprises Inc, a school bus operator in North America. No revisions to the fair value adjustments made in the year ended 31 December 2003 have been made in the current year.

(b) Disposals

The Group sold National Bus Company (Victoria) Pty Limited, National Bus Company (Queensland) Pty Limited and Transport Management Group Pty Limited on 1 October 2004 for gross proceeds of £26.4m, before costs of £1.7m.

Qjump Limited was sold on 9 February 2004. In exchange for the net assets of Qjump Limited the Group received a 14% shareholding in Trainline Holdings Limited, and a £1.0m loan note from the same company. Additionally the Group has provided £1.5m to fund working capital since disposal which is included in other debtors.

17 ACQUISITIONS AND DISPOSALS DURING THE YEAR (continued)

(b) Disposals

Net assets disposed of:

	Australia Buses £m	Qjump £m	Total £m
Tangible fixed assets	14.2	4.1	**18.3**
Stock	0.3	–	**0.3**
Debtors	2.1	6.5	**8.6**
Cash at bank and in hand	0.3	–	**0.3**
Creditors	(7.3)	(7.3)	**(14.6)**
Provisions	–	(0.1)	**(0.1)**
Net assets disposed	9.6	3.2	**12.8**
Goodwill realised	6.2	–	**6.2**
Profit on sale of businesses	8.9	–	**8.9**
Net consideration	24.7	3.2	**27.9**
Net consideration	24.7	3.2	**27.9**
Less: investment in Trainline Holdings Limited (note 16)	–	(3.2)	**(3.2)**
Less: net cash disposed	(0.3)	–	**(0.3)**
Add: disposal costs accrued	0.3	–	**0.3**
Net cash inflow	24.7	–	**24.7**

The Australian bus companies disposed of in the year contributed £26.8m (2003: £33.8m) to the Group's turnover and £3.1m (2003: £4.0m) to the Group's operating profit. They also contributed £6.4m (2003: £5.1m) to the Group's net operating cash flow and paid out £0.1m (2003: £1.1m) in respect of capital expenditure. The turnover, operating result and cash flow of the Qjump business sold is not not disclosed, as the amounts are not material.

During the year ended 31 December 2003 the Group sold the Multisystems Consultancy Division for £0.8m resulting in no gain or loss on disposal. Cash payments of £49.8m were also paid in the year ended 31 December 2003 to indemnify the providers of the performance bonds and to cover other accrued exit costs on the Group's withdrawal from the Australian Trains division.

18 STOCK

Group	2004 £m	2003 £m
Raw materials and consumables	**16.3**	17.3

19 DEBTORS

	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
Trade debtors	**169.7**	175.3	**0.3**	0.3
Amounts due from subsidiary undertakings	**–**	–	**396.2**	894.9
Amounts due from associates	**12.5**	9.2	**–**	–
Corporation tax recoverable	**–**	–	**3.3**	13.5
Other debtors	**61.9**	75.4	**14.9**	18.2
Prepayments and accrued income	**84.4**	83.8	**4.6**	1.5
	328.5	343.7	**419.3**	928.4

Included within other debtors of the Group is £1.7m (2003: £2.8m) which is recoverable after more than one year. Included within prepayments of the Group is £12.3m (2003: £5.9m) and within prepayments of the Company is £4.6m (2003: £0.8m) which is recoverable after more than one year. £4.9m (2003: £5.2m) of the Group's prepayments recoverable after more than one year are in respect of pensions.

20 CASH AT BANK AND IN HAND

	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
Cash	**26.8**	33.2	**–**	–
Overnight deposits	**24.1**	2.3	**–**	–
Other short term deposits	**96.3**	61.5	**3.4**	2.5
	147.2	97.0	**3.4**	2.5

Included in cash at bank and in hand are restricted balances of £73.9m (2003: £62.7m) held by the train companies which cannot be distributed by means of a dividend or loaned to other Group companies. Within the restricted balances is £nil (2003: £18.7m) of cash deposits secured as a bond in respect of future rolling stock maintenance at ScotRail Railways Limited.

21 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group 2004 £m	Group 2003* £m	Company 2004 £m	Company 2003 £m
Loan notes	**7.5**	8.4	**0.1**	0.9
Bank loans	**8.0**	19.9	**8.0**	19.9
Bank overdrafts	**–**	0.2	**47.3**	36.1
Trade creditors	**175.1**	160.1	**0.2**	0.6
Amounts owed to associates	**0.1**	0.2	**–**	–
Amounts owed to subsidiary undertakings	**–**	–	**287.3**	776.9
Finance lease obligations	**16.3**	11.6	**0.1**	0.1
Corporation tax payable	**36.8**	16.7	**–**	0.4
Social security and other taxation	**17.4**	16.4	**–**	–
Accruals and deferred income	**216.2**	175.3	**5.5**	10.6
Other creditors	**104.7**	172.8	**3.2**	5.2
Proposed dividend	**28.5**	23.6	**28.5**	23.6
	610.6	605.2	**380.2**	874.3

* Restated for change in revenue recognition (see note 1).

Included in other creditors is £nil (2003: £18.7m) of cash deposits secured as a bond in respect of future rolling stock maintenance at ScotRail Railways Limited.

22 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
Bank loans	**207.5**	304.5	**207.5**	304.5
Finance lease obligations	**45.5**	41.5	**–**	0.1
Other creditors	**3.0**	1.3	**–**	–
	256.0	347.3	**207.5**	304.6

23 NET BORROWINGS

	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
Due within one year				
Loan notes	**7.5**	8.4	**0.1**	0.9
Bank loans	**8.0**	19.9	**8.0**	19.9
Bank overdrafts	**–**	0.2	**47.3**	36.1
Finance lease obligations	**16.3**	11.6	**0.1**	0.1
	31.8	40.1	**55.5**	57.0
Due within one to two years				
Finance lease obligations	**16.7**	12.2	**–**	–
Due within two to five years				
Bank loans	**207.5**	304.5	**207.5**	304.5
Finance lease obligations	**25.1**	27.7	**–**	0.1
	232.6	332.2	**207.5**	304.6
Due by instalment after five years				
Finance lease obligations	**3.7**	1.6	**–**	–
Total borrowings	**284.8**	386.1	**263.0**	361.6
Cash at bank and in hand (see note 20)	**(147.2)**	(97.0)	**(3.4)**	(2.5)
Other debt receivable	**(1.0)**	–	**–**	–
Net borrowings	**136.6**	289.1	**259.6**	359.1

Secured borrowings within the Group (representing finance leases) total £61.8m (2003: £53.1m).

24 PROVISIONS FOR LIABILITIES AND CHARGES

Group	Unfunded pension provision (a) £m	Insurance claims (b) £m	Deferred tax (c) £m	Associates (d) £m	Other (e) £m	Total £m
At 1 January 2004	0.8	42.8	6.8	8.4	–	58.8
Provided in the year	–	29.7	1.2	3.4	–	34.3
Acquisition of subsidiary undertakings	–	3.0	(4.1)	–	15.8	14.7
Disposal of subsidiary undertakings	–	–	(0.1)	–	–	(0.1)
Utilised in the year	(0.2)	(26.5)	–	–	(4.6)	(31.3)
Unwinding of discount	–	1.2	–	–	–	1.2
Exchange difference	–	(1.6)	0.1	–	–	(1.5)
At 31 December 2004	**0.6**	**48.6**	**3.9**	**11.8**	**11.2**	**76.1**

Company	Insurance claims (b) £m	Deferred tax (c) £m	Total £m
At 1 January 2004	1.4	0.1	1.5
Provided in the year	0.1	1.3	1.4
Utilised in the year	(1.1)	(0.1)	(1.2)
At 31 December 2004	**0.4**	**1.3**	**1.7**

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

(b) The insurance claims provision arises from estimated exposures at the year end, the majority of which will be utilised in the next six years, and principally comprises provisions for existing claims arising in the UK and North America.

(c) See note 25 for further details on deferred tax.

(d) The interests in net liabilities of associates comprises £1.0m (2003: £0.8m) for Altram LRT Limited and £10.8m (2003: £7.6m) for Inter-Capital and Regional Rail Limited. See note 16 for more details.

(e) An onerous contract provision of £15.8m was assumed on the acquisition of Travel London Limited. This was prefunded by the vendor on acquisition and £4.6m has been utilised up to 31 December 2004.

25 DEFERRED TAXATION

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

	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
Accelerated capital allowances	**32.4**	31.4	**–**	0.1
Other timing differences	**(15.5)**	(14.1)	**1.3**	–
Tax effect of losses carried forward	**(13.0)**	(10.5)	**–**	–
Net liability	**3.9**	6.8	**1.3**	0.1

26 CALLED-UP SHARE CAPITAL

	2004 £m	2003 £m
At 31 December :		
Authorised:		
146,650,000 (2003: 146,650,000) ordinary shares of 5p each	**7.3**	7.3
Issued called-up and fully paid:		
139,153,158 (2003: 136,850,910) ordinary shares of 5p each	**7.0**	6.8

Movement in ordinary shares during the year

	£m	Number of shares
At 1 January 2004	6.8	136,850,910
Exercise of share options	–	509,656
West Midlands Travel Limited ("WMT") appropriation	0.2	1,792,592
At 31 December 2004	**7.0**	**139,153,158**

(a) Option schemes

At 31 December 2004 options to purchase ordinary shares had been granted to and not exercised by participants of National Express Group PLC ("NX") share option schemes as follows:

	Number of shares 2004	Number of shares 2003
Executive Share Option Scheme	**5,454,394**	5,566,966
Savings Related Share Option Scheme	**1,580,826**	2,074,985
WMT Share Option Scheme 1991		
(holders of WMT options who accepted the NX Replacement Option Offer)	**–**	1,620
WMT Long Service Option Scheme (available to WMT employees who served 25 years)	**559,081**	594,914

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

At the year end, the Trust held 1,743,544 shares (2003: 1,765,419 shares) on behalf of three NX share schemes. The market value of these shares at that date was £14.4m (2003: £10.8m). The dividends payable on these shares have been waived. At 31 December 2004, the shares held under these schemes were as follows:

	Number of shares 2004	Number of shares 2003
WMT Long Service Option Scheme	**582,998**	619,873
Savings Related Share Option Scheme	**1,145,546**	1,145,546
Deferred Annual Share Bonus Plan	**15,000**	–

Details of the exercise prices and conditions of exercise of NX option schemes are contained in the Report on Directors' Remuneration on pages 42 to 48.

26 CALLED-UP SHARE CAPITAL (continued)

(c) WMT: Approved Profit Sharing Schemes (the "APSS") and Share Incentive Plan (the "SIP")

The APSS and SIP exist for the benefit of WMT employees. The Trustee of the APSS and SIP has the right to acquire WMT shares and to convert them into NX 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 206,411 (2003: 1,999,003) NX shares held for the benefit of the Trustee which remained unissued. It is anticipated that these shares will be fully issued by the end of 2005. Dividends on shares held in the SIP forfeited shares account are waived.

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.

(d) Qualifying Employee Share Ownership Trust (the "QUEST")

At the year end the QUEST held 6 shares (2003: 90,849 shares) on behalf of NX share schemes. The market value of these shares at that date was £nil (2003: £0.6m). During the year, options over 90,843 (2003: 460,694) shares were exercised by employees. All rights to dividends on the 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.

27 RESERVES

Group	Share premium £m	Share capital to be issued £m	Reval -uation reserve £m	Own shares £m	Merger reserve £m	Profit and loss account £m	Total £m
At 1 January 2004 as previously reported	45.1	0.1	0.8	–	15.4	200.7	262.1
Prior year adjustments (note 1)	–	–	–	(5.2)	–	(4.2)	(9.4)
	45.1	0.1	0.8	(5.2)	15.4	196.5	252.7
Shares issued during the year	2.4	(0.1)	–	–	–	–	2.3
Own shares released to satisfy employee share schemes	–	–	–	0.1	–	–	0.1
Transfers	–	–	(0.8)	–	–	0.8	–
Exchange differences on foreign currency net investments	–	–	–	–	–	(27.3)	(27.3)
Exchange differences on foreign currency borrowings	–	–	–	–	–	29.8	29.8
Tax on exchange differences on foreign currency net investments	–	–	–	–	–	(4.1)	(4.1)
Retained profit for the year	–	–	–	–	–	3.1	3.1
At 31 December 2004	**47.5**	**–**	**–**	**(5.1)**	**15.4**	**198.8**	**256.6**

As at 31 December 2004, 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 £281.4m (2003: £281.4m).

Company	Share premium £m	Share capital to be issued £m	Own shares £m	Capital reserve £m	Profit and loss account £m	Total £m
At 1 January 2004 as previously reported	45.1	0.1	–	26.4	267.7	339.3
Prior year adjustment (note 1)	–	–	(5.2)	–	–	(5.2)
	45.1	0.1	(5.2)	26.4	267.7	334.1
Shares issued during the year	2.4	(0.1)	–	–	–	2.3
Own shares released to satisfy employee share schemes	–	–	0.1	–	–	0.1
Transfers	–	–	–	(26.4)	26.4	–
Retained profit for the year	–	–	–	–	9.8	9.8
At 31 December 2004	**47.5**	**–**	**(5.1)**	**–**	**303.9**	**346.3**

The profit and loss reserve for the Company includes £5.1m (2003: £93.2m restated) that is non-distributable on account of own shares held.

28 CAPITAL COMMITMENTS

Group	2004 £m	2003 £m
Contracted	**5.3**	28.2
Authorised but not contracted	**2.1**	2.5

29 OTHER FINANCIAL COMMITMENTS

The train operating companies ("TOCs") have contracts with Network Rail Infrastructure Limited for access to the railway infrastructure (tracks, stations and depots). They also have contracts under which rolling stock is leased. Commitments for payments in the next year under these contracts are shown below:

UK Trains division commitments		Land and buildings 2004 £m	Land and buildings 2003 £m	Rolling stock 2004 £m	Rolling stock 2003 £m
Commitments which expire:					
Within one year:	Fixed track access	**–**	255.3	**–**	–
	Other	**–**	28.2	**0.1**	162.7
		–	283.5	**0.1**	162.7
Between two and five years:	Fixed track access	**136.5**	78.6	**–**	–
	Other	**43.4**	14.6	**155.4**	65.2
		179.9	93.2	**155.4**	65.2
Over five years:	Fixed track access	**83.3**	87.4	**–**	–
	Other	**26.0**	18.3	**118.5**	64.3
		109.3	105.7	**118.5**	64.3
		289.2	482.4	**274.0**	292.2

The table above reflects the commitments shown up to the current franchise end dates unless an extension or new franchise agreement has been signed. It represents a full year of commitment for all TOC's (including the Great Northern Silverlink, Central Trains and Wessex extensions). The commitments at 31 December 2004 are based on charges advised by the Rail Regulator for the period starting 1 April 2004. The reduction in fixed track access commitments arise from the Rail Regulator review.

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

Other divisions' commitments	Land and buildings 2004 £m	Land and buildings 2003 £m	Public service vehicles 2004 £m	Public service vehicles 2003 £m	Other 2004 £m	Other 2003 £m
Commitments which expire:						
Within one year	**4.0**	1.2	**0.2**	0.5	**0.7**	0.1
Between two and five years	**6.7**	3.6	**6.7**	3.3	**0.6**	0.3
Over five years	**2.1**	1.5	**2.1**	4.3	**–**	–
	12.8	6.3	**9.0**	8.1	**1.3**	0.4

The total commitments for the Group inclusive of new franchises and extensions are land and buildings £302.0m (2003: £488.7m), split within one year £4.0m (2003: £284.7m), between two to five years £186.6m (2003: £96.8m), and over five years £111.4m (2003: £107.2m) and plant and machinery £284.3m (2003: £300.7m), split within one year £1.0m (2003: £163.3m), between two to five years £162.7m (2003: £68.8m) and over five years £120.6m (2003: £68.6m).

Company	Land and buildings 2004 £m	Land and buildings 2003 £m
Operating leases which expire:		
Over five years	**0.5**	0.4
	0.5	0.4

30 RETIREMENT BENEFITS

Under the transitional arrangements for the implementation of FRS 17, "Retirement Benefits", the Group continues to account for pensions in accordance with SSAP 24, although the additional disclosures required by FRS 17 are provided below. The pension charge for the year amounted to £36.8m (2003: £27.1m) of which £4.4m (2003: £4.6m) related to overseas schemes. Outstanding contributions at the year end amounted to £4.9m (2003: £3.5m). Prepaid amounts at the year end amounted to £7.1m (2003: £7.5m).

(a) UK Bus, UK Coach and UK Trains schemes

The UK Bus and UK Coach divisions operate both funded defined benefit schemes and a defined contribution schemes. The majority of employees of the UK Train companies are members of the appropriate shared-cost section of the Railways Pension Scheme ("RPS"), a funded defined benefit scheme. The assets of all schemes are held separately from those of the Group. Contributions to the schemes are determined by independent professionally qualified actuaries.

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

Date of actuarial valuation	UK Bus – Tayside 31 March 2002	UK Bus – Travel West Midlands 31 March 2001	UK Coach 5 April 2001	UK Trains* (Long term) 31 December 2001	UK Trains* (short term) 31 December 2001
Actuarial method used	Attained age	Attained age	Projected unit	Projected unit	Projected unit
Rate of investment returns per annum	5.4%	5.6% – 6.5%	5.5%–6.5%	5.5% – 6.3%	5.5% – 6.3%
Increase in earnings per annum	4.1%	4.0%	4.3%	4.0%	4.0%
Scheme assets taken at market value	£36.2m	£352.1m	£13.8m	£284.2m	£277.5m
Funding level	107%	119%	67%	89% – 108%	94% – 98%

* UK Trains comprises franchises operated at 31 December 2004

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

(b) North American Bus and Australian Bus divisions

Subsidiaries in North America and Australia contribute to a number of defined contribution plans. See note 24 for details of provisions relating to unfunded pension liabilities in North America.

(c) FRS 17, "Retirement Benefits"

This is the fourth year that disclosures have been made for the Group under the transitional arrangements of FRS 17.

The additional disclosures required by FRS 17 during the transitional period for the UK Bus, UK Coach and UK Trains divisions' defined benefit schemes are set out below. They are based on the most recent actuarial valuations disclosed above, which have been updated by independent professionally qualified actuaries to take account of the requirements of FRS 17.

The main financial assumptions underlying the valuations are:

	UK Bus 2004	**UK Coach 2004**	**UK Trains 2004**	UK Bus 2003	UK Coach 2003	UK Trains 2003	UK Bus 2002	UK Coach 2002	UK Trains 2002
Rate of increase in salaries	3.7%	3.7%	4.2%	3.6%	3.6%	4.1%	3.3%	3.3%	3.8%
Rate of increase of pensions	2.7%	2.7%	2.7%	2.6%	2.6%	2.6%	2.3%	2.7%	2.3%
Discount rate	5.5%	5.5%	5.5%	5.6%	5.6%	5.6%	5.8%	5.8%	5.8%
Inflation assumption	2.7%	2.7%	2.7%	2.6%	2.6%	2.6%	2.3%	2.3%	2.3%

30 RETIREMENT BENEFITS (continued)

The four UK Train franchises (Central Trains Limited, Wales & West Passenger Trains Limited, West Anglia Great Northern Railway Limited and Silverlink Train Services Limited) which expire in 2006, ScotRail Railways Limited which expired on 16 October 2004 and Cardiff Railway Company Limited which expired on 7 December 2003 are shown separately as short term in the disclosures below.

Had the Group adopted FRS 17 early, the amounts that would have been charged to the Group profit and loss account for the years ended 31 December 2004 and 2003 and Group statement of total recognised gains and losses for the years ended 31 December 2004, 2003 and 2002 are set out below:

Group profit and loss account	UK Bus 2004 £m	UK Coach 2004 £m	UK Trains (long term) 2004 £m	UK Trains (short term) 2004 £m	Total 2004 £m
Amounts charged to operating profit:					
Current service cost	(5.3)	(1.4)	(12.5)	(22.0)	(41.2)
Franchise (entry)/exit	–	–	(14.1)	28.6	14.5
(Charge)/credit to operating profit	(5.3)	(1.4)	(26.6)	6.6	(26.7)
Amounts credited/(charged) to finance income					
Expected return on pension scheme assets	21.5	1.7	11.3	21.8	56.3
Interest on pension liabilities	(19.1)	(1.6)	(9.4)	(16.9)	(47.0)
Net credit to finance income	2.4	0.1	1.9	4.9	9.3
Total (charge)/credit to profit and loss account	(2.9)	(1.3)	(24.7)	11.5	(17.4)

	UK Bus 2003 £m	UK Coach 2003 £m	UK Trains (long term) 2003 £m	UK Trains (short term) 2003 £m	Total 2003 £m
Amounts charged to operating profit:					
Current service cost	(5.1)	(1.2)	(6.1)	(24.3)	(36.7)
Past service cost	(0.1)	–	–	–	(0.1)
Franchise exit	–	–	–	10.9	10.9
Charge to operating profit	(5.2)	(1.2)	(6.1)	(13.4)	(25.9)
Amounts credited/(charged) to finance income:					
Expected return on pension scheme assets	20.3	1.2	5.3	21.6	48.4
Interest on pension liabilities	(18.0)	(1.3)	(4.4)	(18.1)	(41.8)
Net credit/(charge) to finance income	2.3	(0.1)	0.9	3.5	6.6
Total charge to profit and loss account	(2.9)	(1.3)	(5.2)	(9.9)	(19.3)

Group statement of total recognised gains and losses

	% scheme assets/(liabilities)								
	UK Bus 2004	UK Coach 2004	UK Trains (long term) 2004	UK Trains (short term) 2004	UK Bus 2004 £m	UK Coach 2004 £m	UK Trains (long term) 2004 £m	UK Trains (short term) 2004 £m	Total 2004 £m
Actual return less expected return on pension scheme assets	2.9%	2.4%	1.7%	1.7%	9.8	0.7	5.3	5.6	21.4
Experience (losses)/gains arising on the pension scheme liabilities	(6.7%)	1.0%	0.9%	4.5%	24.9	(0.4)	(2.9)	(17.0)	4.6
Changes in assumptions relating to the present value of the scheme liabilities	7.9%	18.9%	1.9%	3.4%	(29.5)	(7.5)	(6.6)	(12.8)	(56.4)
Actuarial (loss)/gain	(1.4%)	18.1%	1.2%	6.4%	5.2	(7.2)	(4.2)	(24.2)	(30.4)

30 RETIREMENT BENEFITS (continued)

Group statement of total recognised gains and losses

	% scheme assets/(liabilities) UK Bus 2003	UK Coach 2003	UK Trains (long term) 2003	UK Trains (short term) 2003	UK Bus 2003 £m	UK Coach 2003 £m	UK Trains (long term) 2003 £m	UK Trains (short term) 2003 £m	Total 2003 £m
Actual return less expected return on pension scheme assets	2.7%	5.3%	6.0%	7.3%	8.3	1.2	7.8	36.0	53.3
Experience (losses) arising on the pension scheme liabilities	0.1%	–	3.4%	1.6%	(0.5)	–	(5.0)	(8.9)	(14.4)
Changes in assumptions relating to the present value of the scheme liabilities	7.2%	8.0%	6.5%	7.0%	(25.1)	(2.2)	(9.6)	(38.5)	(75.4)
Actuarial loss	5.0%	3.6%	4.6%	2.1%	(17.3)	(1.0)	(6.8)	(11.4)	(36.5)

Group statement of total recognised gains and losses

	% scheme assets/(liabilities) UK Bus 2002	UK Coach 2002	UK Trains (long term) 2002	UK Trains (short term) 2002	UK Bus 2002 £m	UK Coach 2002 £m	UK Trains (long term) 2002 £m	UK Trains (short term) 2002 £m	Total 2002 £m
Actual return less expected return on pension scheme assets	(23.9%)	(29.0%)	(19.4%)	(12.0%)	(70.7)	(3.8)	(20.6)	(54.2)	(149.3)
Experience gains/(losses) arising on the pension scheme liabilities	(1.4%)	(0.9%)	–	3.1%	4.4	0.2	(0.5)	(15.2)	(11.1)
Changes in assumptions relating to the present value of the scheme liabilities	(2.2%)	(1.8%)	–	–	7.0	0.4	–	–	7.4
Actuarial loss	18.8%	14.2%	18.2%	13.9%	(59.3)	(3.2)	(21.1)	(69.4)	(153.0)

Movement in the deficit in the year

	UK Bus £m	UK Coach £m	UK Trains (long term) £m	UK Trains (short term) £m	Total £m
Deficit in schemes at 1 January 2004	(38.7)	(4.7)	(17.9)	(52.9)	(114.2)
Current service cost	(5.3)	(1.4)	(12.5)	(22.0)	(41.2)
Cash contributions	0.2	2.2	9.8	17.1	29.3
Finance income	2.4	0.1	1.9	4.9	9.3
Franchise (entry)/exit	–	–	(14.1)	28.6	14.5
Actuarial gain/(loss) recognised in statement of total recognised gains and losses	5.2	(7.2)	(4.2)	(24.2)	(30.4)
Deficit in schemes at 31 December 2004	**(36.2)**	**(11.0)**	**(37.0)**	**(48.5)**	**(132.7)**

30 RETIREMENT BENEFITS (continued)

	UK Bus £m	UK Coach £m	UK Trains (long term) £m	UK Trains (short term) £m	Total £m
Deficit in schemes at 1 January 2003	(18.7)	(9.5)	(9.6)	(44.2)	(82.0)
Current service cost	(5.1)	(1.2)	(6.1)	(24.3)	(36.7)
Past service cost	(0.1)	–	–	–	(0.1)
Cash contributions	0.2	7.1	3.7	12.6	23.6
Finance income/(charge)	2.3	(0.1)	0.9	3.5	6.6
Franchise exit	–	–	–	10.9	10.9
Actuarial loss recognised in statement of total recognised gains and losses	(17.3)	(1.0)	(6.8)	(11.4)	(36.5)
Deficit in schemes at 31 December 2003	(38.7)	(4.7)	(17.9)	(52.9)	(114.2)

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

	Rate of return 2004	UK Bus 2004 £m	UK Coach 2004 £m	UK Trains (long term) 2004 £m	UK Trains (short term) 2004 £m	Total 2004 £m
Equities	8.5%	215.7	14.1	228.5	257.3	715.6
Bonds	4.9%	113.6	14.6	35.6	32.3	196.1
Property	6.7%	3.6	–	23.7	26.3	53.6
Other	4.0%	5.1	–	15.1	15.6	35.8
Total fair value of assets		338.0	28.7	302.9	331.5	1,001.1

	Rate of return 2003	UK Bus 2003 £m	UK Coach 2003 £m	UK Trains (long term) 2003 £m	UK Trains (short term) 2003 £m	Total 2003 £m
Equities	8.5%	190.7	12.4	108.2	412.2	723.5
Bonds	4.8%	108.5	10.4	12.9	49.2	181.0
Property	6.8%	3.2	–	8.2	33.2	44.6
Other	4.0%	6.4	–	0.6	0.9	7.9
Total fair value of assets		308.8	22.8	129.9	495.5	957.0

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

The following amounts were measured in accordance with the requirement of FRS 17.

	UK Bus 2004 £m	**UK Coach 2004 £m**	**UK Trains (long term) 2004 £m**	**UK Trains (short term) 2004 £m**	**Total 2004 £m**
Total fair value of assets	**338.0**	**28.7**	**302.9**	**331.5**	**1,001.1**
Present fair value of scheme liabilities	**(374.2)**	**(39.7)**	**(339.9)**	**(380.0)**	**(1,133.8)**
Deficit in the schemes	**(36.2)**	**(11.0)**	**(37.0)**	**(48.5)**	**(132.7)**
Related deferred tax asset	**10.9**	**3.3**	**11.1**	**14.6**	**39.9**
Net pension liability	**(25.3)**	**(7.7)**	**(25.9)**	**(33.9)**	**(92.8)**

NOTES TO THE ACCOUNTS

30 RETIREMENT BENEFITS (continued)

	UK Bus 2003 £m	UK Coach 2003 £m	UK Trains (long term) 2003 £m	UK Trains (short term) 2003 £m	Total 2003 £m
Total fair value of assets	308.8	22.8	129.9	495.5	957.0
Present fair value of scheme liabilities	(347.5)	(27.5)	(147.8)	(548.4)	(1,071.2)
Deficit in the schemes	(38.7)	(4.7)	(17.9)	(52.9)	(114.2)
Related deferred tax asset	11.6	1.4	5.4	15.9	34.3
Net pension liability	(27.1)	(3.3)	(12.5)	(37.0)	(79.9)

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

	2004 £m	2003* £m
Net assets per Group balance sheet	**264.5**	264.2
Remove SSAP 24 assets of defined benefit schemes (net of deferred tax)	**(3.9)**	(3.5)
Defined benefit scheme pension liability under FRS 17 (net of deferred tax)	**(92.8)**	(79.9)
Net assets including pension liability under FRS 17	**167.8**	180.8

	2004 £m	2003* £m
Profit and loss reserve per Group balance sheet	**198.8**	196.5
Remove SSAP 24 assets of defined benefit schemes (net of deferred tax)	**(3.9)**	(3.5)
Pension liability under FRS 17 (net of deferred tax)	**(92.8)**	(79.9)
Profit and loss reserve including pension liability under FRS 17	**102.1**	113.1

* Restated for change in revenue recognition and accounting policy for own shares (see note 1)

31 RELATED PARTY TRANSACTIONS

In respect of services provided, the Group received £7.3m (2003: £6.6m) from Altram LRT Limited ("Altram"), an associate. Included in debtors due from associates is £4.5m (2003: £4.4m) due from Altram and a loan due from Inter-Capital and Regional Rail Limited which increased in the year to £8.0m (2003: £4.8m). Creditors due to associates are £0.1m (2003: £0.2m) due to Altram. Included in investments is a loan of £0.3m (2003: £0.3m) to Altram. Included in other debtors is a £1.0m (2003: £nil) convertible loan note due from Trainline Holdings Limited and a £1.5m (2003: £nil) loan to fund working capital.

Brian Stock was appointed as Chief Executive of the Group's North American operations in October 2004. Stock Transportation Limited, a school bus operator in North America, was acquired in July 2002. As part of the Sale and Purchase Agreement, the Group entered into leases for eight properties at market rents and on standard terms and conditions. The rental payments of £0.2m (2003: £0.2m) are made to Stock Properties Limited and Stock Realty Limited, of which Brian Stock is a related party.

32 CONTINGENT LIABILITIES

(a) Uncalled share capital and guarantees

The Company has amounts of uncalled share capital relating to three (2003: three) of its subsidiary undertakings. The amounts uncalled total £12.8m (2003: £12.8m) and are unlikely to be called in the near future. The Company has also guaranteed credit facilities totalling £91.0m (2003: £83.0m) of certain subsidiary undertakings.

(b) Bonds and letters of credit

In the ordinary course of business, the Group is required to issue counter-indemnities in support of its operations. As at 31 December 2004, there were UK Train performance bonds of £38.5m (2003: £51.0m) and UK Train season ticket bonds of £90.3m (2003: £51.8m). The £3.7m performance bond in respect of Wales & Borders and the £10.5m performance bond in respect of ScotRail which were in place at 1 January 2004 expired on 7 June 2004 and 31 October 2004 respectively. The £5.0m performance bond in respect of London Eastern Railway Limited (trading as 'one') commenced on 23 January 2004 and was increased to £5.6m on 24 March 2004. The Group has other performance bonds which include the £14.2m (2003: £13.8m) performance bond in respect of Inter-Capital and Regional Rail Limited, performance bonds in respect of businesses in the United States of America of £39.3m (2003: £36.6m). Letters of credit have been issued to support insurance retentions of £72.7m (2003: £70.6m) and other amounts of £2.6m (2003: £8.8m).

33 CASH FLOW STATEMENT

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

	Continuing operations 2004 £m	Discontinued Operations 2004 £m	Total 2004 £m	Continuing operations 2003* £m	Discontinued Operations 2003* £m	Total 2003* £m
Group operating profit	**90.0**	**(14.2)**	**75.8**	80.6	2.6	83.2
Depreciation of tangible assets	**60.5**	**3.7**	**64.2**	60.6	4.1	64.7
Tangible fixed asset impairment	**–**	**6.1**	**6.1**	–	–	–
Amortisation of fixed asset grants	**(6.5)**	**–**	**(6.5)**	(3.0)	–	(3.0)
Profit on disposal of fixed assets	**(0.6)**	**–**	**(0.6)**	(1.2)	(0.3)	(1.5)
Goodwill amortisation	**51.6**	**1.1**	**52.7**	44.5	1.2	45.7
Goodwill impairment	**–**	**9.5**	**9.5**	–	–	–
Decrease in stocks	**0.8**	**(0.1)**	**0.7**	1.9	0.1	2.0
Decrease in debtors	**17.1**	**2.1**	**19.2**	16.9	0.7	17.6
Increase/(decrease) in creditors	**34.9**	**(0.3)**	**34.6**	(33.3)	(0.5)	(33.8)
(Decrease)/increase in provisions	**(1.6)**	**–**	**(1.6)**	8.0	(0.1)	7.9
Net cash inflow from operating activities	**246.2**	**7.9**	**254.1**	175.0	7.8	182.8

* Restated for change in revenue recognition (see note 1).

The net cash flows from operating activities include outflows of £5.2m (2003: £nil) from continuing operations which related to exceptional costs.

(b) Reconciliation of net cash flow to changes in net debt (note 33(c))

	2004 £m	2003 £m
Increase/(decrease) in cash in the year	**16.6**	(0.7)
Cash outflow from movement in debt and lease financing	**109.8**	40.6
Cash outflow/(inflow) from movement in liquid resources	**53.1**	(14.2)
Change in net debt resulting from cash flows	**179.5**	25.7
Change in net debt resulting from non cash flows	**(27.0)**	19.8
Movement in net debt in the year	**152.5**	45.5
Net debt at 1 January	**(289.1)**	(334.6)
Net debt at 31 December	**(136.6)**	(289.1)

(c) Analysis of changes in net debt

	At 1 January 2004 £m	Cash flow £m	Acquisitions/ disposals £m	Exchange Differences £m	Other movements £m	At 31 December 2004 £m
Cash	33.2	(5.4)	–	(1.0)	–	**26.8**
Overnight deposits	2.3	21.8	–	–	–	**24.1**
Bank overdrafts	(0.2)	0.2	–	–	–	**–**
Net cash	35.3	16.6	–	(1.0)	–	**50.9**
Liquid resources – other short term deposits	61.5	53.1	–	0.4	(18.7)	**96.3**
Other debt receivable	–	–	1.0	–	–	**1.0**
Debt due within one year:						
Loan notes	(8.4)	0.9	–	–	–	**(7.5)**
Bank loans	(19.9)	13.7	–	–	(1.8)	**(8.0)**
	(28.3)	14.6	–	–	(1.8)	**(15.5)**
Debt due after one year:						
Bank loans	(304.5)	79.4	–	17.6	–	**(207.5)**
Finance lease obligations	(53.1)	15.8	(9.5)	1.2	(16.2)	**(61.8)**
Net debt	(289.1)	179.5	(8.5)	18.2	(36.7)	**(136.6)**

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

Other non cash movements in net debt represent finance lease additions of £16.2m (2003: £8.0m), £1.8m (2003: £0.9m) amortisation of loan arrangement fees, and £18.7m outflow (2003: £18.7m inflow) of cash deposits which were secured as a bond in respect of future rolling stock maintenance at ScotRail Railways Limited.

NOTES TO THE ACCOUNTS

34 DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

Treasury policy and the use of financial instruments are discussed in the Finance Director's report on page 30.

Short-term debtors and creditors have been excluded from the disclosures below, other than 34(e) on currency exposures.

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

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

	Borrowings at floating rates 2004 £m	Borrowings at fixed rates 2004 £m	Total borrowings 2004 £m	Financial liabilities on which no interest is paid 2004 £m	Total 2004 £m	Weighted average fixed interest rate 2004 %	Weighted average period for which rate is fixed 2004 Years	Weighted average period until maturity for financial liabilities on which no interest is paid 2004 Years
Sterling	**44.9**	**11.2**	**56.1**	**17.7**	**73.8**	**5.1**	**2.8**	**1.5**
US dollars	**51.1**	**173.9**	**225.0**	**2.1**	**227.1**	**6.9**	**4.8**	**3.5**
Australian dollars	**–**	**2.7**	**2.7**	**0.3**	**3.0**	**7.6**	**1.2**	**1.5**
Canadian dollars	**1.0**	**–**	**1.0**	**–**	**1.0**	**–**	**–**	**–**
	97.0	**187.8**	**284.8**	**20.1**	**304.9**	**6.8**	**4.6**	**1.9**

	Borrowings at floating rates 2003 £m	Borrowings at fixed rates 2003 £m	Total borrowings 2003 £m	Financial liabilities on which no interest is paid 2003 £m	Total 2003 £m	Weighted average fixed interest rate 2003 %	Weighted average period for which rate is fixed 2003 Years	Weighted average period until maturity for financial liabilities on which no interest is paid 2003 Years
Sterling	95.9	1.6	97.5	8.9	106.4	7.8	2.4	1.5
US dollars	55.9	175.2	231.1	–	231.1	7.2	5.7	–
Australian dollars	–	57.5	57.5	–	57.5	6.7	1.7	–
	151.8	234.3	386.1	8.9	395.0	7.3	5.1	1.5

Included within the US dollar fixed rate financial liabilities is an interest rate swap for £104.2m (US$200m), currently fixed at 6.25% until 8 January 2009, which will revert to a floating rate should the US dollar six month London Interbank Offered Rate ("LIBOR") exceed 7%. The benchmark rate for floating rate financial liabilities is the LIBOR of the relevant currency. This swap was terminated in January 2005.

Financial liabilities on which no interest is paid comprise other creditors of £3.1m (2003: £1.3m) falling due after more than one year, provisions falling due after more than one year of £6.2m (2003: £nil), and interests in provisions of associates of £10.8m (2003: £7.6m).

(b) Analysis of financial liabilities by type and currency

Financial liabilities on which interest is paid comprise:

	Loan notes 2004 £m	Bank loans 2004 £m	Bank over-drafts 2004 £m	Finance leases 2004 £m	Total 2004 £m	Loan notes 2003 £m	Bank loans 2003 £m	Bank over-drafts 2003 £m	Finance leases 2003 £m	Total 2003 £m
Sterling	**7.5**	**8.0**	**–**	**40.6**	**56.1**	8.4	49.9	0.2	39.0	97.5
US dollars	**–**	**207.5**	**–**	**17.5**	**225.0**	–	224.0	–	7.1	231.1
Australian dollars	**–**	**–**	**–**	**2.7**	**2.7**	–	50.5	–	7.0	57.5
Canadian dollars	**–**	**–**	**–**	**1.0**	**1.0**	–	–	–	–	–
	7.5	**215.5**	**–**	**61.8**	**284.8**	8.4	324.4	0.2	53.1	386.1

34 DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS (continued)

(c) Maturity of financial liabilities

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

	2004 £m	2003 £m
Expiring within one year	**31.8**	40.1
Expiring within one to two years	**24.0**	13.5
Expiring within two to five years	**234.6**	332.2
Expiring in more than five years	**14.5**	9.2
	304.9	395.0

(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 £147.2m (2003: £97.0m), and a loan note receivable of £1.0m (2003: £nil), which earn interest at floating rates. Cash deposits are placed on the money markets at commercial rates linked to the LIBOR of the relevant currency.The currency profile as at 31 December 2004 is as follows:

	Deposits and receivables at floating rates 2004 £m	Financial assets on which no interest is received 2004 £m	Total 2004 £m	Weighted average period until maturity for financial assets on which no interest is received 2004 Years	Deposits at floating rates 2003 £m	Financial assets on which no interest is received 2003 £m	Total 2003 £m	Weighted average period until maturity for financial assets on which no interest is received 2003 Years
Sterling	**99.8**	**19.3**	**119.1**	**2.1**	75.5	9.2	84.7	3.1
US dollars	**9.8**	**0.3**	**10.1**	**1.6**	13.3	1.6	14.9	2.0
Australian dollars	**37.7**	**–**	**37.7**	**–**	5.5	–	5.5	–
Canadian dollars	**0.9**	**–**	**0.9**	**–**	2.7	–	2.7	–
	148.2	**19.6**	**167.8**	**2.1**	97.0	10.8	107.8	2.5

Financial assets on which no interest is received total £19.6m (2003: £10.8m) and comprise investments of £10.5m (2003: £7.3m), and other debtors and prepayments greater than one year of £9.1m (2003: £3.5m).

(e) Currency exposures

As at 31 December 2004 and 31 December 2003 the Group did not have any material net currency transactional exposures.

(f) Undrawn committed borrowing facilities

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

	2004 £m	2003 £m
Expiring within one year	**–**	200.0
Expiring within one to two years	**–**	–
Expiring within two to five years	**302.7**	76.5

On 26 November 2004 the previous bank facility was refinanced with a new 5 year £552.5m revolving credit facility.

NOTES TO THE ACCOUNTS

34 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 2004 are set out below:

	Book value 2004 £m	Fair value 2004 £m	Book value 2003 £m	Fair value 2003 £m
Cash at bank and in hand	147.2	147.2	97.0	97.0
Other debt receivable	1.0	1.0	–	–
Other financial assets	19.6	19.6	10.8	10.8
Loans and overdrafts	(223.0)	(223.0)	(333.0)	(333.0)
Finance lease obligations	(61.8)	(61.8)	(53.1)	(53.1)
Forward foreign currency contracts	–	0.3	–	1.1
Interest rate swaps	–	(25.0)	–	(35.8)
Fuel price swaps	–	6.3	–	(0.3)
Other financial liabilities	(20.1)	(20.1)	(8.9)	(8.9)

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

The forward foreign currency contracts, interest rate swaps and fuel price swaps have been valued externally by comparison with the market foreign currency exchange rates, interest rates and 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:

	Net unrecognised losses 2004 £m	Net unrecognised losses 2003 £m
Unrecognised losses on hedges at the start of the year	35.0	49.0
Losses arising in previous years that were recognised in the year	(3.1)	(4.6)
Losses not recognised in the year arising before the start of the year	31.9	44.4
(Gains)/losses arising in the year that were not recognised in the year	(13.5)	(9.4)
Unrecognised losses on hedges at the end of the year	18.4	35.0
Of which:		
Losses expected to be recognised within one year	2.4	10.4
Losses expected to be recognised after one year	16.0	24.6
	18.4	35.0

(i) Market price risk – commodities

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

TEN YEAR SUMMARY

Year ended 31 December	2004 £m	2003† £m	2002‡ £m	2001‡ £m	2000 £m	1999 £m	1998 £m	1997 £m	1996 £m	1995 £m
Turnover	**2,560.2**	2,565.7	2,572.3	2,464.2	2,002.6	1,476.7	1,322.4	1,133.5	482.5	317.7
Operating profit before goodwill and exceptional items	**152.0**	128.9	125.9	156.8	155.1	113.2	95.8	83.6	66.1	46.9
Operating profit	**75.8**	83.2	67.2	32.1	101.8	95.2	84.9	66.1	62.3	44.0
Share of operating losses of associated undertakings	**(3.4)**	(4.1)	(6.6)	(1.9)	(1.8)	–	(0.2)	–	–	–
(Loss)/profit on sale of assets and investments	**(0.1)**	–	–	–	–	0.2	5.4	–	–	–
Release/(creation) of provision against fixed asset investment	**–**	–	–	–	–	–	4.8	(10.8)	–	–
Profit/(loss) on closure/sale of businesses	**8.9**	–	(126.1)	112.0	(1.0)	–	–	–	–	–
Net interest (payable)/receivable	**(18.1)**	(25.0)	(20.1)	(26.7)	(34.0)	(5.8)	2.1	(0.5)	(2.2)	(2.5)
Profit/(loss) on ordinary activities before taxation	**63.1**	54.1	(85.6)	115.5	65.0	89.6	97.0	54.8	60.1	41.5
Tax on profit/(loss) on ordinary activities	**(22.3)**	(12.4)	(20.3)	(1.2)	(12.9)	(22.8)	(22.8)	(18.8)	(18.7)	(14.0)
Minority interest	**3.6**	1.0	0.6	0.1	(0.7)	(0.2)	–	–	–	–
Dividends	**(41.3)**	(35.1)	(32.4)	(28.6)	(26.3)	(21.0)	(18.1)	(14.6)	(11.5)	(9.6)
Retained profit/(loss)	**3.1**	7.6	(137.7)	85.8	25.1	45.6	56.1	21.4	29.9	17.9
Statistics										
Basic earnings/(loss) per share	**32.6p**	31.9p	(80.0p)	88.4p	43.4p	58.3p	66.5p	34.2p	42.9p	35.5p
Normalised diluted earnings per share*	**71.8p**	53.0p	53.9p	62.3p	54.1p	51.5p	47.1p	38.3p	26.6p	19.7p
Dividends per ordinary share	**30.0p**	26.0p	24.5p	22.0p	20.7p	18.2p	16.0p	13.5p	11.5p	10.0p
Net assets										
Intangible fixed assets	**324.4**	404.6	467.7	508.3	523.7	242.6	9.1	–	–	–
Tangible fixed assets and investments	**390.8**	412.9	445.8	539.2	680.9	518.8	300.6	249.5	221.0	201.3
Net current liabilities	**(118.6)**	(147.2)	(186.5)	(120.8)	(349.5)	(62.5)	(33.6)	(61.3)	(41.1)	(34.1)
Creditors falling due after one year	**(256.0)**	(347.3)	(360.0)	(405.1)	(458.2)	(408.8)	(50.4)	(30.1)	(23.8)	(51.5)
Provisions for liabilities and charges	**(76.1)**	(58.8)	(104.4)	(119.5)	(19.6)	(23.1)	(13.8)	(12.0)	(10.1)	(9.7)
	264.5	264.2	262.6	402.1	377.3	267.0	211.9	146.1	146.0	106.0
Capital and reserves										
Share capital and share premium	**54.5**	51.9	51.4	50.3	47.0	41.5	36.1	30.5	28.6	28.2
Other reserves	**209.1**	207.6	206.4	346.5	325.8	221.3	175.8	115.6	117.4	77.8
Equity shareholders' funds	**263.6**	259.5	257.8	396.8	372.8	262.8	211.9	146.1	146.0	106.0
Equity minority interest	**0.9**	4.7	4.8	5.3	4.5	4.2	–	–	–	–
	264.5	264.2	262.6	402.1	377.3	267.0	211.9	146.1	146.0	106.0
Net (debt)/funds										
Cash at bank and in hand	**147.2**	97.0	93.7	92.3	53.8	101.0	94.2	55.9	30.0	39.5
Other debt receivable	**1.0**	–	–	–	–	–	–	–	–	–
Loan notes	**(7.5)**	(8.4)	(9.1)	(10.0)	(10.3)	(10.3)	(10.6)	(14.2)	(12.5)	(15.5)
Bank and other loans	**(215.5)**	(324.4)	(361.2)	(359.7)	(585.4)	(383.4)	(42.0)	(13.1)	(10.0)	(43.9)
Bank overdrafts	**–**	(0.2)	–	(0.5)	(0.4)	(4.5)	(2.0)	(3.1)	(1.2)	(5.4)
Finance lease obligations	**(61.8)**	(53.1)	(58.0)	(37.1)	(14.3)	(18.7)	(4.5)	(7.5)	(9.4)	(12.5)
	(136.6)	(289.1)	(334.6)	(315.0)	(556.6)	(315.9)	35.1	18.0	(3.1)	(37.8)
Net gearing	**52%**	109%	127%	78%	148%	118%	(17)%	(12)%	2%	36%

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

† Restated for change in revenue recognition and accounting policy for own shares (note 1) and change in classification (note 2).

‡ Restated for change in classification of bid costs (note 2).

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.

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

REGISTRAR

Administrative enquiries concerning shareholdings in National Express Group PLC, such as the loss of a share certificate, dividend payments or a change of address, should be directed, in the first instance, to the Registrar at Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DA. Correspondence should refer to National Express Group PLC and state clearly the registered name and address of the shareholder. If you have received more than one copy of this Annual Report and Accounts there may be multiple accounts in your name on the share register. To rectify this and save the Company unnecessary expenditure, please write to the Registrar, giving details of the accounts concerned and instructions as to how they should be amalgamated.

PAYMENT OF DIVIDENDS TO MANDATED ACCOUNTS

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

SHAREHOLDER ELECTRONIC COMMUNICATIONS

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

UNCLAIMED ASSETS REGISTER

The Company participates in the Unclaimed Assets Register ("UAR") which provides a search facility for shareholdings and other financial assets that may have been forgotten. For further information contact UAR, Leconfield House, Curzon Street, London W1J 5JA Tel: 0870 241 1713 or visit www.uar.co.uk

SHAREGIFT

ShareGift is an independent charity share donation scheme administered by the Orr Mackintosh Foundation (registered charity number 1052686). Those shareholders who hold only a small number of shares, the value of which make it uneconomic to sell them, can donate the shares to ShareGift who will sell them and donate the proceeds to a wide range of charities. Further information about ShareGift can be obtained from its website at www.shareGift.org and a ShareGift transfer form can be downloaded from www.nationalexpressgroup.com

ANALYSIS OF ORDINARY SHAREHOLDINGS AT 23 FEBRUARY 2005

	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	8,551	55	1,482	1
501 - 1,000	2,290	15	1,732	1
1,001 - 5,000	3,314	21	7,523	5
5,001 - 50,000	1,320	8	13,780	10
50,001 - 1,000,000	190	1	42,912	31
Over 1,000,000	28	–	71,745	52
	15,693	**100**	**139,174**	**100**

	Number of accounts	Per cent of total number of accounts	Number of shares '000	Per cent of ordinary capital
By investor type				
Individuals	14,513	92	21,386	15
Institutional Investors	1,080	7	110,565	79
Other Corporate Investors	100	1	7,222	6
	15,693	**100**	**139,173**	**100**

DIVIDENDS AND FINANCIAL CALENDAR

	EVENT	DATE
DIVIDENDS	Final dividend record date	8 April 2005
	Final dividend payment date	6 May 2005
	Interim dividend record date	September 2005
	Interim dividend payment date	October 2005
	Final dividend record date	April 2006
	Final dividend payment date	May 2006
FINANCIAL CALENDAR	Annual General Meeting	3 May 2005
	Interim results announced	July 2005
	Preliminary results announced	February 2006
	Annual report circulated	March 2006
	Annual General Meeting	April/May 2006

CORPORATE INFORMATION

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Naturalis
Made from 100% Elemental Chlorine Free woodpulps, sourced from carefully managed and renewed forests. Naturalis is fully recyclable and is manufactured to precise and controlled standards. Both the manufacturer, Tullis Russell Papermakers and the merchant distributor Premier Paper Group, are registered under the ISO14001 environmental standard.

Mega
Manufactured using pulp from plantation forests, forest thinning, off cuts and surplus timber. No pulp is utilised from tropical rain wood forests. Up to 50% of Mega's total fibre amount are regenerated fibres resulting from collected mill broke from different divisions and affiliated mills.

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