national express

National Express Group PLC
Annual Report and Accounts 2008

Making travel simpler





UK Bus and Coach page 12

UK Rail page 18

Contents

North America page 22

Spain page 26

Overview
Operational performance

Strong performance in delivery of Rail franchises in 2008, including meeting all first year commitments for East Coast.

Robust growth in UK Bus and Coach, with enhanced efficiencies and cost savings from integration.

Excellent customer retention in North America bus, supported by $38 million new contracts; steady progress in Business Transformation project with pilot now in two US states.

In Spain, full benefit of Continental Auto integration, delivering over 40% profit growth in local currency.

Outlook

Rail business expected to remain profitable in 2009, despite recessionary environment, through delivery of revenue and cost initiatives in East Coast and revenue support in East Anglia.

North America and UK Bus benefiting from lower economic sensitivity, combined with ability to manage service and cost base in Spain and UK Coach.

Strong focus on cash management and debt reduction, supplemented by rebased dividend, to deliver additional cash benefit in excess of £100 million in 2009.

Financial highlights

Continuing revenue

+5.9%

to £2,767.0 million (2007: £2,612.3 m)

Normalised* operating margin excluding discontinued operations

9.2%

(2007: 8.1%)

Normalised* profit before tax

+9.7%

to £194.1 million (2007: £177.0 m)

Normalised* diluted earnings per share

+11.6%

to 93.6p (2007: 83.9p)

Total dividend per share for the year

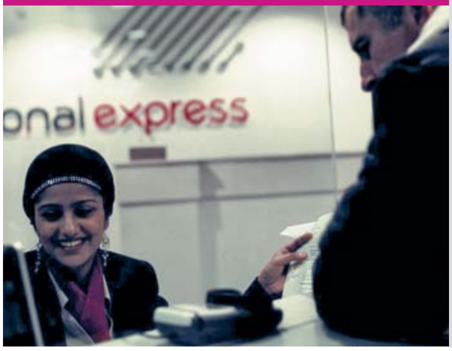
22.72p

(2007: 37.96p)

* Normalised results are the statutory results excluding the profit or loss on the sale of business, exceptional profit or loss on sale of non-current assets and charges for goodwill impairment, intangible asset amortisation, exceptional items and tax relief on qualifying exceptional items.

Business at a glance

UK Bus and Coach



More on page 12

UK Bus

National Express West Midlands
National Express Coventry
National Express Dundee
National Express London
National Express Midland Metro

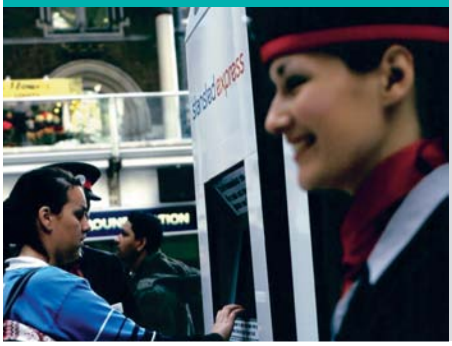
We operate over 2,300 buses, carrying approximately 320 million passengers a year and employ 7,500 people in the West Midlands, Dundee and London.

UK Coach

National Express Coaches
Eurolines
Airlinks
Kings Ferry

We provide Britain's only scheduled national coach network and serve more than 1,700 destinations, providing approximately 18.5 million passenger journeys each year, and employ 1,800 people.

UK Rail



More on page 18

UK Rail

c2c
National Express East Anglia
National Express East Coast

We provide 164 million passenger journeys per year and employ 7,000 people.

North America

More on page 22

North America

Durham School Services
Stock Transportation

The North American division focuses on student transportation. It operates over 15,000 buses. The division employs over 22,000 people.

Spain

More on page 26

Spain

ALSA
Continental Auto

We are Spain's leading private operator of coach and bus services. The division provides nearly 180 million passenger journeys per annum and employs over 6,800 people.

More available online at
www.nationalexpressgroup.com

Chairman's Statement

Tim Score
Interim Chairman

During 2008 we delivered strong revenue and profit growth for National Express. Total Group revenue grew nearly 6% to almost £2.8 billion. We increased normalised profit before tax by almost 10% to £194.1 million. At the same time, we improved our performance in rail, meeting all first year franchise commitments for East Coast. We saw a successful integration of the UK businesses, driving efficiencies and shared ideas. In Spain, we saw the full benefits of the Continental Auto acquisition, whilst in North America we had a successful year for contract retention and began delivery of the Business Transformation project.

2008 was also a year of significant weakening in the global economy. The fourth quarter saw a marked slowdown in growth, particularly in UK Rail and in Spain. With the unprecedented disruption in bank markets, any business with higher than average debt, including National Express, has suffered a significant adverse rerating of its equity; in short, a reduced share price.

2009 presents many challenges and the transport industry is not immune from these. Many parts of our business are less sensitive to economic change, benefiting from government-backed contracts and concessions, and offering value-orientated public transport services used for commuting, business and essential student transport, as well as more discretionary leisure travel. Nevertheless, we are taking appropriate actions to ensure that National Express comes through the current recession resiliently.

In particular, the UK rail industry faces challenging conditions, given the large number of franchises that were agreed in a very different economic climate. These franchises do not benefit from government revenue support in the early years of the contracts. Whilst our East Anglia franchise already benefits from this support mechanism, our East Coast franchise does not until December 2011. We are therefore engaged in constructive discussions with Government on a wide range of issues relating to managing the difficult outlook for UK Rail. Notwithstanding this, we have plans in place to reduce costs in order to deliver a profitable rail business in 2009.

We have also made cash management and the strengthening of our balance sheet our priority. As part of this programme, the Board is proposing to reduce the full year dividend by 40% to 22.72 pence per share, recommending a final dividend of 10 pence per share. Although this is a difficult decision, the Board feels this is an essential part of our 'self help' measures to reduce debt. The proposal will save over £30 million in cash in 2009, compared to last year, and sets a dividend which we see as a sustainable base for the future. We are also focusing on a restrained period of capital investment and have identified opportunities to reduce working capital. We will continue to review other opportunities to strengthen our financial position.

Our employees

I have been particularly impressed by the way in which our employees have risen to both the opportunities and challenges of the past 12 months. They continue to show immense commitment and work tirelessly to deliver great service to our customers. I would like to thank them for this dedication.

Your Board

In November 2008, we were delighted to welcome Jez Maiden as Group Finance Director, replacing Adam Walker. Jez's experience adds significant strength to the management team and a clear focus on driving improvement.

In December 2008, David Ross resigned as director and Chairman of the Group. I would like to thank David for his significant contribution to the business since he joined the company in 2001. We wish him well. I have assumed the Chairmanship of the Board on an interim basis. The process to appoint a new Chairman is well underway.

In June 2008, we strengthened the Board with the appointment of Miranda Curtis as a Non Executive Director, following the retirement of Barry Gibson after nearly nine years on the Board. I would like to thank Barry for his tremendous contribution during his tenure on the Board.

As we face the challenges of 2009, we have a strong Board and management team in place, committed and experienced colleagues and clear actions to ensure that we succeed in delivering a better, stronger Group.

Tim Score
Interim Chairman

Operating and Financial Review
Introduction

Richard Bowker
Group Chief Executive

"Despite the challenges of 2008, we delivered a strong operating performance."

Overview of 2008

In 2008 we delivered strong revenue and profit growth, despite an increasingly challenging economic environment as the year progressed. Total Group revenue grew 5.9% to almost £2.8 billion. We increased normalised profit before tax by 11.3% to £202.4 million (before discontinued operations).

In its first full year as part of the Group, National Express East Coast met all its franchise commitments, saw revenue growth of 9% and passenger growth from 18.1 million to 18.7 million. In East Anglia, we achieved passenger revenue growth of 6%, while profit is now underpinned by revenue support.

We integrated our UK Bus and Coach businesses at the start of the year, yielding benefits from merging back office functions and sharing operational expertise. New bus partnerships are delivering a sustainable, defensible business in the recessionary environment.

In North America, our Business Transformation project maintained momentum with the opening of our central operations centre and delivery of new technology in pilot stage across the first two US states. This will deliver sustainable competitive advantage in the industry.

The integration of Continental Auto in Spain continued through 2008, with the acquisition growing total revenue year on year, in local currency, by 40%. As the country's leading bus and coach operator, we have scale, long term concession contracts and new outsource opportunities to help offset the economic environment.

The global economy continues to face considerable uncertainty and we are not immune to the impacts of recession. Recognising these challenges, in the fourth quarter we announced plans to reduce headcount in the UK by 750, reducing our cost base by at least £15 million annually. In Spain, we have flexibility to reduce costs and services to reflect demand weakness on some routes.

With the onset of the 'credit crunch', we are focused on maximising cash generation from our naturally strong businesses. With the first Group debt facilities not maturing until September 2010, lower investment requirements and working capital reduction initiatives are planned to reduce net debt in 2009. In addition, despite strong earnings cover, it is also appropriate to rebase the dividend to conserve cash resources; the full year 2008 dividend is proposed to reduce to 22.72p per share, saving over £30 million in 2009. These initiatives should generate over £100 million of incremental cash in 2009.

Outlook for 2009

While the future holds many challenges, we are taking the appropriate steps to ensure that National Express comes through the current recession resiliently. We have made cash management and the strengthening of our balance sheet our priority, benefiting from our significant recent investment.

Our strength is our portfolio of transport businesses – robust revenues in less economically sensitive bus markets in North America and the UK, flexibility to manage costs and services in coach across the UK and Spain, and government revenue support in rail in our East Anglia franchise.

The East Coast rail franchise is undoubtedly exposed to recessionary impact, with a high fixed cost base and no revenue underpin until 2011. We are committed to sustainable delivery of the franchise, enhancing service and building on a highly successful first year. We have engaged with Government to explore ways to offset the impact of lower growth, whilst delivering value through the franchise premia, given that this, like many other franchises, was constructed in very different economic conditions. Alongside this, we have also developed our own 'self help' cost reduction plans, which will be implemented to reflect the difficult economic conditions. We expect financial performance in Rail to weaken in 2009 but to remain profitable, after taking account of our cost reduction plans, with a resilient performance from our other, less economically sensitive businesses.

Despite the challenges of 2008, we delivered a strong operating performance. We are focused on delivering a resilient performance in 2009, through robust cost management and revenue optimisation, built on a stronger financial platform. As people become more selective in how they spend their money, they will turn to those suppliers they know and trust to provide the best value for money. Thanks to our outstanding track record in delivery, constantly improving service levels and a well-deserved reputation for competitive pricing, we will ensure that National Express is well placed to benefit from this continuing trend.

Strategy review

Managing our financial platform
2008 saw unprecedented turmoil and disruption in global financial markets. Availability of debt funding to businesses for new investment and refinancing became severely curtailed and most companies are now looking to their own 'self help' opportunities to deliver cash.

Given this challenging economic and funding environment for 2009, we have placed increased emphasis on ensuring a stable financial platform for the Group. We have an above average debt level in our sector, following successful completion of our recent acquisition and extensive investment programme. We now have evolved a financial plan to deliver:

- Strong cash management, to reduce the Group's debt;
- A stronger balance sheet and appropriate capital structure.

Delivering strong cash management

National Express' businesses have strong cash generative qualities. These are reflected in the significant degree of cash-based revenue (for example, in European bus, Coach and Rail) and quasi-government-backed contracts (for example, in Spanish coach and North American school bus). In addition, following a sustained period of investment and acquisition, a much more limited investment programme is required over the next 12 to 18 months. A review of working capital has identified a series of initiatives which are targeted to deliver significant improvements during 2009.

With banks around the world severely curtailing debt availability, the Group has also taken action to ensure that it has access to sufficient liquidity. Our treasury management process has significantly improved cash management, utilising a Group-wide weekly control process. In addition, the Group has realigned its currency debt structure to reflect falling interest rates and currency weakness, moving debt out of a US dollar/Euro drawing structure into a Sterling/Euro structure that matches the Group's facility currencies and reduces volatility. As a result of these actions, the Group maintained £144 million of unused committed facilities at the end of 2008.

A stronger balance sheet and appropriate capital structure

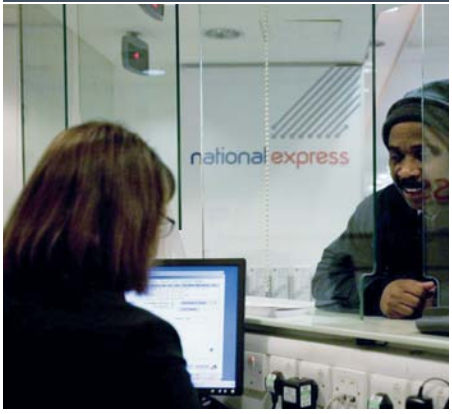
The increased focus on cash management across the Group should help deliver strong free cash flow generation and reduce net debt. June 2009 will see the Group's banking covenants returning to their normal level with a debt gearing ratio of 3.5 times EBITDA (following a relaxation for the first three half year period end tests after the Continental Auto acquisition in November 2007). The Group is confident that it will achieve these covenants.

Twelve months ago, the Board set a policy to increase dividends by 10% per annum for three years. Since then, global economic and financial conditions have changed substantially. Despite continued strong earnings cover, the current level of dividend places a significant cash drain on the Group at a time when it is more appropriate to conserve cash resources. The Board is therefore proposing to reduce the full year dividend for 2008 by 40% from the 2007 level. As a result, a rebased final dividend of 10.00p per share will be paid in July 2009, following the half year dividend of 12.72p per share paid in September 2008.

Given the cash generative nature and strong earnings potential of the Group, it is expected to resume a progressive dividend policy once the economic outlook is clearer and the Group has refinanced its core banking facilities. Meanwhile, the Group will continue to keep its funding strategy under review.

The Group's debt funding policy is to remain investment grade equivalent, since this maximises access to a wide variety of debt markets. This is supported by good cash generation, operations in defensive business sectors and stable banking relationships. The Group's primary committed debt facilities are in place until September 2010 and June 2011.

A single brand across the UK



Liverpool Street – the London hub of National Express East Anglia

Strategy continued

Strategy update

In 2007 National Express put in place a three part strategy for growth. We set out to:

- Reorientate the Group around a more customer-driven, branded proposition;
- Invest in the future to develop innovative products and services in markets in which we operate, to enable us to grow organically; and
- Acquire or develop businesses in new markets where we can create value.

For much of 2008, favourable conditions prevailed as we put our ideas into practice. The real test of any strategy is its relevance when trading conditions are less than favourable. By late 2008, when the global slowdown began to have an impact on the transport sector, our strategy remained effective. Whilst we have naturally reassessed priorities in preparing for the year ahead, our strategy can remain essentially unchanged.

We have set out our customer promise to Make Travel Simpler. In doing so, we are making public transport a more appealing alternative, which helps to achieve a wider social objective: the reduction of the emissions that are accelerating climate change. Some commentators might argue that in times of financial insecurity, people care less about issues such as global warming and more about personal expenditure. In our business, we can deliver on both fronts.

National Express' product – public transport – is a cleaner option than the private car. For example, a typical coach is over four times more efficient than the average car with average loadings. Our trains are over three times more efficient. Environmental advantage, combined with the special offers that make coach, bus and rail travel easier on the purse, as well as the conscience, makes our business model even more compelling in these difficult times.

Our UK coach network serves more than 1,700 destinations

A stronger, customer-driven brand

To serve our customers better, we have to know them better. That way we can build the sort of relationship that defines a strong and more profitable brand. That is why, in 2008, we made customer relationship management (CRM) a vital part of our overall marketing strategy.

Our CRM database now holds over five million existing and potential customers. In 2008, we generated over £11 million in genuinely incremental revenue that we would not have had before. In 2009, as economic conditions become more challenging, we are better able than ever to understand our customers' needs and offer them products they really want to buy.

Just as we are getting to know our customers better, they are becoming more familiar with us as a leading provider of public transport. Thanks in part to coordinated advertising campaigns, the positive awareness of the National Express brand grew significantly in 2008.

In 2008, we made progress in forging a single company in the UK. More than ever, we are moving out of traditional silos and working as a multi-modal operator. 2009 will see concerted efforts to share skills and experience and deliver synergies throughout our businesses. Smart cards provide a good example.

In January 2008, we became the first rail operating company to introduce the pre-pay Oyster card, where it has been a success on our c2c commuter business serving London. Using that experience, we are working closely in partnership with Centro in the West Midlands to create a region-wide smart card. Ultimately, as a diversified public transport provider, we want our customers to have access to the newest, most flexible and cost effective technology. e-tickets and m-tickets, where the ticket can be sent simply as a text message to a mobile phone, are becoming more commonplace. National Express has been a pioneer and will continue to be at the forefront of rolling out this kind of innovative technology; it is a technology that will have benefits in the UK, Spain and North America, indeed anywhere we operate in the future.

Presenting a united UK brand makes National Express a more attractive and prestigious partner. Links with major venues such as Wembley Stadium (where we are the Official Travel Provider) and media partnerships give us access to new and different audiences. For example, by offering tickets from £1 to *Daily Mirror* readers, we generated over 91,000 e-mail signups – 80% from new customers who had never used National Express coaches before. During the promotion period alone we had 14,000 bookings. Now we are building on the customer relationships we gained and looking to embark on new partnerships consistent with our business ethos.

Investing in our future

As a company confident in the future of public transport – and our leading role – we continued a programme of organic growth in 2008. While reaping the benefit of past investments, we also began new programmes to improve our levels of service and profitability.

On the East Coast rail franchise, for instance, we made a huge commitment in time, effort and resources to improve operational performance and enhance customer communications on those occasions when things do go wrong. Such events are becoming increasingly rare. East Coast is operating at its highest level of reliability since privatisation.

Equally important were significant improvements in station quality and ticketing convenience and efficiency. An award-winning new website launched in 2008 now generates almost 20% of all sales, and, in 2008, Durham station won the coveted Station of the Year award, following the completion of our refurbishment project.

National Express also pursued organic growth in coach and bus operations in 2008. During the year we continued to grow our events business – including music festivals, one-off concerts and sports fixtures. In 2008 National Express took 40,000 customers to and from events at Wembley Stadium. There are many more examples where our unrivalled skills in major event transport logistics have made us the number one choice for a wide range of clients.

Our Spanish operation, ALSA, was a centre of innovative ideas for growth in 2008. Coming from a rich heritage of outstanding operational delivery, ALSA has redefined the customer experience in Spain on public transport with new ticketing products and a new Supra Class luxury service aimed at business travellers. This market continues to have enormous potential.

We have also seen considerable growth in North America, where we have expanded school bus operations into two new US states, bringing our total to 29 plus two provinces in Canada. Securing nine new contracts, worth a total of $38 million a year, gives some indication of the potential of the North American market, which is expanding due to pressure on local school districts to outsource their transport operations. Significantly, five out of the nine new contracts involved new outsourcing business.

As our North American business gets bigger, it is also becoming more efficient. In 2008, we went live with an integrated Enterprise Resource Planning system (ERP), which is streamlining business processes, and we opened a central operations control centre, the 'Every Time Center', in Illinois. Some of the technology involved, in particular the digital communications links between the control centre and drivers, could have wider potential within the Group. For now, it is making our North American operations even more customer-friendly and competitive.

Not everything in 2008 was as successful as we had hoped. Our Dot2Dot airport transfer service in the UK was an exciting innovation and a potentially significant new business line for the Group. However, with the economic downturn having a serious impact on air travel, the business has remained loss-making and in January 2009 we sold Dot2Dot as a going concern.

Developments in coach have seen successes, such as our Cheltenham-London premier coach link. This high quality service introduced a new range of customers to the comfort and convenience of coach travel – a concept consistent with UK government objectives to widen the appeal of this more sustainable transport mode. Government is considering afresh the opportunities that coach services could offer and National Express, as a leading member of the Confederation of Passenger Transport, will be working hard to explain the benefits of this highly flexible, cost effective and environmentally friendly form of transport.

As we continue to build our business, in February 2009, we submitted our proposal to operate the UK rail South Central franchise.

Adding value through acquisitions

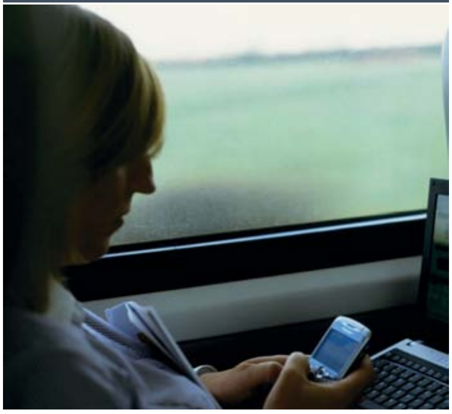
In 2007, we acquired Spain's second largest bus and coach operator, Continental Auto. In 2008, we achieved our objective of integrating Continental into ALSA, confirming our role as Spain's premier operator in the sector.

Our Spanish leadership team rose to the challenge of combining the best of the two companies' cultures. Now, we are benefiting from increased scale, better purchasing power, reduced costs, greater flexibility and enhanced efficiencies. In a market that is set to be transformed by future liberalisation, all of this gives us greater credibility with government and stronger appeal to those towns and cities considering the outsourcing of their transport activities. In 2008, we further strengthened our position in Spanish local transport with the acquisition of Transportes Colectivos SA (TCSA), which provides high quality services in the Bilbao metropolitan area.

We also expanded our US school bus operations with the purchase of two private school bus operations, including A&E Transport Services in upstate New York. This was a bolt-on acquisition, adjacent to existing business, and so providing immediate synergies. Our enlarged capabilities put us in a better position to pick up new outsourcing opportunities as they arise in the near future.

In the UK, our 2007 acquisition, the Kent-based Kings Ferry commuter service, had an excellent year. The commuter coach business saw strong year end season ticket renewals, reinforcing our belief that in times of economic challenge, consumers will look to better value alternatives, something we are well positioned to offer.

Real-time travel information by text



"We want our customers to have access to the newest, most flexible and cost effective technology."

We are the leading private coach operator in Spain

Performance Review

Overview

The clear strategy established in 2007 has enabled National Express to deliver a more customer-driven, branded proposition, grow organically through new products and services for our customers, and to integrate and bolt on further acquisitions and franchises across our businesses.

As a result, 2008 has been a year of strong revenue and profit growth. In the UK, a new integrated structure enabled delivery of marketing and cost synergies. It was a year of significant change for our rail business, which saw increased profitability, with the effective management of franchises exited during 2007 and 2008, and the successful roll-out of our East Coast intercity franchise, which we took over in December 2007. The coach business enjoyed robust growth on the key cross country services, whilst the stand-alone loss-making Dot2Dot airport shuttle business was sold in January 2009. The bus business has now successfully delivered three partnerships within our flagship West Midlands operation and new routes won in London will be supported by the opening of a new depot in 2009.

In Spain, the Continental Auto business was successfully integrated, following its acquisition in late 2007. Synergy benefits have been realised and different cultures blended to establish clear leadership in the local bus and coach market.

North America saw a successful bid season and operational start-up to the new school year. The piloting of new bus technology within 10% of operations was successfully trialled, part of our 'Business Transformation' project which will deliver significant cost efficiencies and competitive advantage from 2010. However, in 2009 we will also be improving cost performance which has adversely impacted profitability.

In 2008, the Group delivered a 5.9% total revenue increase. Normalised profit from operations was £253.9 million (2007: £210.4 million), reflecting excellent UK profitability and the benefits of acquisition in Spain. Normalised profit before tax was £202.4 million (2007: £181.8 million), delivering our expectations. In addition, we reported a normalised loss before tax of £8.3 million (2007: £4.8 million loss) on our discontinued operation, Dot2Dot.

Despite delivering a strong profit performance, 2008 saw an increasingly challenging environment develop, as the year progressed. Until September, organic revenue growth was robust across most markets. However, through the fourth quarter, there was a marked slowing in growth, particularly in the East Coast rail and Spanish coach businesses. This was coupled with increased financial stress in global credit markets.

Against this backdrop, the Group has been pro-active in managing its bank facilities. The Group successfully extended both the value and maturity of its Euro acquisition facility during 2008, which had been put in place to finance the acquisition of Continental Auto in 2007. As a result, the first maturity of the Group's principal financing facilities is not until September 2010. In addition to this, the Group has placed an increased focus on cash and debt management in 2009.

Dividend

Given the benefits of reducing debt and conserving cash in difficult global debt markets, the Board is recommending a total dividend in respect of 2008 of 22.72p per share (2007: 37.96p), a reduction of 40%. This represents normalised earnings per share (EPS) cover of 4.2 times (2007: 2.2 times).

Continental Auto was successfully integrated during 2008

Subject to shareholder approval, a final dividend of 10.00p per share (2007: 26.40p) will be payable on 3 July 2009 to shareholders on the register on 19 June 2009.

Current trading and outlook

2009 has seen recession hit the global economy with full force. The Group's exposure to more defensive public transport markets is expected to offer considerable protection to National Express, and translation of overseas profits is expected to benefit from the weakness in Sterling. Both North American school bus and UK local bus markets have continued to benefit from steady revenue growth in these less economically sensitive markets. There have been signs of some limited revenue decline in both UK Coach and Spanish long distance markets, reflecting lower consumer discretionary spend; however, the value-orientated nature of these businesses and schedule flexibility are expected to provide a degree of mitigation.

The UK rail industry has seen growth slow markedly. For National Express, revenue support should mitigate the majority of any impact on East Anglia. Constructive discussions are ongoing with Government on a wide range of issues relating to the outlook for UK Rail. However, we have also developed our cost reduction plans, which will need to be implemented to reflect the difficult economic conditions.

The Group has a robust plan in place to reduce debt through careful investment and strong cash management, which is expected to deliver over £100 million of benefit in 2009, over and above normal cash generation. Significant cost reduction programmes are underway across all businesses to protect profitability, supported by falling inflation resulting in lower cost increases, although 2009 will see the adverse impact of higher hedged fuel costs before expected relief in 2010.

Although visibility in the current market is limited, and whilst not immune to the difficult economic conditions, by focusing on self help management measures, the Group is meeting a challenging economic period with clear objectives and a robust plan. We expect financial performance in Rail to weaken in 2009 but to remain profitable, after taking account of our cost reduction plans, with a resilient performance from our other, less economically sensitive businesses.

Revenue

Group revenue grew by 5.9% to £2,767.0 million (2007: £2,612.3 million). All but one of the Group's divisions saw growth, with only Rail declining due to the exit of a number of franchises in 2007 and 2008, partially offset by a full year operation of the East Coast franchise.

Like for like revenue growth in the UK Bus and express coach business was robust at 5% for each of bus and coach, with bus benefiting from new bus routes in London and coach enjoying strong cross country growth. Airport coach routes were adversely impacted by reduced activity by 'no frills' airlines. Like for like revenue growth in Rail was 7%, with East Coast growing double digit through most of the year, before some slowing in the fourth quarter, whilst East Anglia and c2c saw good growth across the year.

Bus and coach operations in Spain saw like for like growth of 5% in local currency, benefiting from good urban and long distance performance, whilst total revenue grew by 40% in local currency with a full year from the Continental Auto acquisition. North America revenue was up 8% in local currency, with a steady income stream from longer term school board contracts, supported by a successful bid season.

Profit from operations

In 2008, the Group improved its performance in each of its four key profit measures (measured on a normalised basis, which the Board feels reflects the performance of the business more appropriately). Normalised profit from operations increased 20.7% to £253.9 million (2007: £210.4 million), stated before a loss on the Dot2Dot discontinued operation of £8.3 million (2007: £4.8 million loss). Group normalised operating margin for continuing operations increased by over one percentage point to 9.2% (2007: 8.1%). Total UK profitability rose by 10.1%, benefiting from increased profits in Rail, with a successful first year for the East Coast franchise, together with the contribution of the Gatwick Express franchise until its exit in June and the resolution of significant outstanding commercial claims in former operations, which will not recur in 2009. The UK Coach business broadly maintained profitability. Bus profitability reduced slightly as fuel costs impacted adversely; however, this remains a robust business for the Group.

WiFi access lets you stay connected on National Express East Coast trains

Key performance indicators

In 2008, National Express has delivered good results against four of its six financial key performance indicators (KPIs – note that non-financial KPIs are included in the separate Corporate Responsibility Report, which is published online later in the year).

KPI	**2008**	2007 (Restated)
Revenue growth	**5.9%**	3.6%
Continuing normalised profit from operations	**£253.9m**	£210.4m
Continuing normalised profit before tax	**£202.4m**	£181.8m
Normalised diluted earnings per share	**93.6p**	83.9p
Operating cash generation	**£152.3m**	£200.9m
Debt gearing ratio	**3.5x**	3.4x

Punctuality has improved across our rail franchises

Performance Review continued

Spain increased its profit from operations by 64% in Sterling terms, primarily driven by the integration of the Continental Auto acquisition with our strong performing ALSA business. North America Sterling profitability declined by 14%, as higher operating costs, driven by driver wages and double-running costs during the Business Transformation project, more than offset a currency translation benefit.

Profit before tax

As expected, normalised net interest expense increased to £51.5 million (2007: £29.0 million), reflecting the additional debt arising from the Spanish acquisition in late 2007. During the fourth quarter of 2008, the Group also moved much of its dollar and Euro debt into Sterling; however, falling Sterling interest rates helped offset the resultant adverse impact on interest.

Normalised profit before tax increased 11.3% to £202.4 million (2007: £181.8 million), before discontinued operations, in line with the Group's expectations and completing a strong year for National Express. The effective tax rate on normalised profits was 25.8% (2007: 27.2%), giving a normalised tax charge of £52.3 million (2007: £49.5 million). Normalised profit for the year was £150.1 million (2007: £132.3 million) for continuing operations.

Continuing exceptional items totalled £30.9 million (2007: £15.8 million). These costs principally related to the North America Business Transformation project (£11.1 million), for non-recurring costs involved in the implementation of the project but not of a capital nature, and UK rationalisation and redundancy costs (£17.2 million), associated with the integration of the UK businesses and East Coast franchise mobilisation in early 2008, together with a rationalisation programme announced in the fourth quarter of 2008 which will reduce headcount by 750. Some of the cost for the latter programme will be charged in 2009. A profit on disposal of operations of £5.1 million (2007: £16.2 million) largely related to the sale of a Portuguese transport business by ALSA.

Amortisation of £55.2 million (2007: £32.9 million) was charged on intangible assets, relating to contracts, software and similar assets acquired in Spain £48.7 million (2007: £25.6 million), North America £4.7 million (2007: £5.1 million), UK Bus £0.5 million (2007: £1.1 million), UK Rail £1.0 million (2007: £1.1 million) and UK Coach £0.3 million (2007: £nil).

Exceptional finance costs represented a charge of £11.5 million (2007: £nil) for losses on interest rate hedges no longer required, following a change in the Group's debt strategy.

The taxation credit on exceptional items, disposal and amortisation was £75.5 million (2007: £12.1 million credit). This includes tax credits on exceptional items and intangible asset amortisation, together with recognition of significant tax benefits arising from the integration of Continental Auto with ALSA.

Including discontinued operations, the Group profit attributable to shareholders was £118.8 million (2007: £105.1 million).

Earnings per share

Net of a loss on discontinued operations, normalised diluted earnings per share were 93.6p (2007: 83.9p).

Cash management

The Group's businesses are naturally cash generative. However, normalised operating cash flow in 2008 was 24% lower at £152.3 million (2007: £200.9 million). This represented a 60% (2007: 95%) conversion of profit from operations, due to significant capital investment, particularly in North America, and an adverse movement in working capital, particularly related to the new rail franchise secured at the end of 2007.

EBITDA for the Group rose to £350.4 million (2007: £287.6 million). Net capital expenditure was £114.8 million (2007: £103.0 million), including £8.2 million invested in intangible assets. This included £59.8 million in North America, in school bus fleet to service new and existing contracts, and in IT systems and bus equipment for the Business Transformation project, which saw the opening of the 'Every Time Center' in Illinois, to manage future bus operations and the 'go live' of a new Enterprise Resource Planning (ERP) system. UK investment reduced to £28.0 million, primarily focused on developing the new Digbeth coach station in Birmingham and franchise capital projects for the East Cost rail franchise. Spain invested £26.5 million, primarily in new coach fleet.

Working capital increased by £83.3 million (2007: £16.3 million decrease). The UK increased working capital by £48.8 million, reflecting the impact of the East Coast franchise after an inflow on take on in 2007, and North America by £9.1 million, due to new contract receivables and delays in collections during commissioning of the new ERP system. Spain decreased working capital by £2.7 million, whilst the corporate centre saw a £28.1 million outflow due to foreign currency swap settlements.

The resultant free cash flow (being the cash available to service equity dividends, acquisitions and disposals, before foreign currency translation) was £47.4 million (2007: £113.5 million). This included cash outflow on exceptional items of £27.9 million (2007: £11.3 million) and net interest payments of £50.7 million (2007: £23.4 million). Cash taxation payments were significantly lower at £5.0 million (2007: £18.8 million), benefiting from tax relief on goodwill amortisation in Spain and project spend in North America. The cash tax payment is expected to remain below the income statement charge in 2009 as well. After dividend payments of £59.6 million (2007: £53.9 million), which reflected a 10% increase year on year, and acquisitions net of disposals of £17.5 million (2007: £482.1 million), net funds outflow for the Group was £31.0 million (2007: £417.0 million outflow).

Operating cash flow

	2008 £m	2007 £m
Normalised profit from operations	**253.9**	210.4
Depreciation	**96.0**	79.6
Grant amortisation, profit on disposal and share-based payments	**0.5**	(2.4)
EBITDA	**350.4**	287.6
Net capital expenditure	**(114.8)**	(103.0)
Working capital movement	**(83.3)**	16.3
Operating cash flow	**152.3**	200.9

Net funds flow

	2008 £m	2007 £m
Operating cash flow	**152.3**	200.9
Discontinued operations	**(10.5)**	(4.2)
UK rail franchise entry and exit	**(2.0)**	(31.9)
Exceptional cash flow	**(27.9)**	(11.3)
Payments to associates	**(8.4)**	(8.4)
Receipt in respect of investments	**–**	10.7
Net interest	**(50.7)**	(23.4)
Dividends paid to minority interests	**(0.4)**	(0.1)
Taxation	**(5.0)**	(18.8)
Free cash flow	**47.4**	113.5
Financial investments and shares	**1.3**	5.5
Acquisitions and disposals	**(17.5)**	(482.1)
Dividends	**(59.6)**	(53.9)
Net funds flow	**(31.0)**	(417.0)

Debt

The dramatic weakening of Sterling against both the US dollar and the Euro in the latter part of 2008 resulted in an adverse foreign exchange movement on net debt of £238.0 million (2007: £55.4 million adverse). Prior to year end, the Group's currency debt strategy was changed to hold debt in line with the currencies of the Group's debt facilities, which significantly reduces debt exposure to currency movements, in particular, the US dollar.

Net debt increased by £269.0 million (2007: £472.4 million) to £1,179.8 million (2007: £910.8 million). The Group's principal ratios for debt financing purposes are adjusted net debt to EBITDA (the 'debt gearing ratio') and adjusted net debt to interest (the 'interest ratio'); adjusted net debt is net debt together with any cash which is restricted in its use; primarily relating to the UK Rail business. The Group's debt funding arrangements prescribe limits for each of these ratios. At 31 December 2008, the ratio values were:

Debt gearing ratio: 3.5 times (not to be greater than 4.0 times; 2007 actual value 3.4 times); and

Interest ratio: 5.9 times (not to be less than 3.5 times; 2007 actual value 9.9 times).

The maximum debt gearing ratio reduces under the Group's funding arrangements to 3.5 times from June 2009. In light of this stricter requirement, and given the difficult global debt markets conditions, the Group is targeting significantly lower capital investment and working capital requirements during 2009.

Our new livery was rolled out across the coach fleet in 2008

Making travel simpler on buses...

You might be studying hard, but there's always time to unwind with friends. Bought online, our season tickets give you the freedom to travel day and night, and save you money.

and on coaches...

When you want to take loved ones out for a special day together you can rely on National Express to get you safely to your destination… and then home in time for bed.

UK Bus and Coach

Our services

UK Bus

We operate over 2,300 buses, carrying approximately 320 million passengers a year and employ 7,500 people in the West Midlands, Dundee and London.

UK Coach

We provide Britain's only scheduled national coach network and serve more than 1,700 destinations, providing approximately 18.5 million passenger journeys each year, and employ 1,800 people.

Revenue (£m)

£578.9m

2006	508.1
2007	534.2
2008	578.9

Normalised operating profit (£m)

£67.0m

2006	64.4
2007	71.4
2008	67.0

Total number of employees

9,338

2006	8,859
2007	9,356
2008	9,338

Revenue for our recently integrated bus and coach business was £578.9 million (2007: £534.2 million) and normalised profit from operations was £67.0 million (2007: £71.4 million). Bus operations continued to do well in the West Midlands, where customer numbers were up 1.5%, and in London. A revised concessionary fares system was introduced, while higher fuel costs led to a small reduction in profitability. The coach business encountered challenging conditions in the fourth quarter, with a tough economic environment leading to a reduction in discretionary travel. Nevertheless, annual express coach revenue growth was 5%, with cross country revenues up by 7%. Airport rates were adversely impacted by a reduction in air travel.

The decision to combine the bus and coach businesses of National Express has yielded benefits across a number of areas. For example, similarities in the two businesses enabled us to merge all back office functions including financial support and information technology. The result was enhanced efficiencies and cost savings that will stand the business in good stead for future challenges. In addition, further cost-saving opportunities to preserve profitability in the difficult economic environment were identified in December 2008.

The combined bus and coach division has also benefited from a single identity as the National Express brand is rolled out across the business, leveraging our reputation for quality, reliability and value. Nevertheless, the new grouping continues to recognise and accommodate those aspects of the two businesses that remain different.

A key highlight of the year was the significant progress achieved in delivering partnerships with local and regional authorities. Roll-out of the Quality Partnerships in the West Midlands continued, following successful revisions and improvements to the Dudley network. Following this success, a new network was introduced in the Solihull area in January 2009. The business also established the groundwork for the

> "A key highlight of the year was the significant progress achieved in delivering partnerships with local and regional authorities."

Through our partnership with The FA we serve all Wembley fixtures

We have now launched our third Quality Partnership in the West Midlands

first Scottish Bus Punctuality Improvement Partnership with Travel Dundee, the Scottish Executive, Dundee City Council, Angus Council and Stagecoach.

In October we took over the contract for managing car parks and associated shuttle bus activity at Stansted Airport, in partnership with car park operator Cintra UK. We have begun introduction of a new fleet to the service, including seven new Mercedes Citaro 18-metre articulated buses. As a result, we are setting new standards of efficiency and reliability in this growing airport car park market.

In the nation's capital, National Express Travel London continued to win new routes. Two routes, based at our Battersea and Walworth depots, will start operating in April and September 2009.

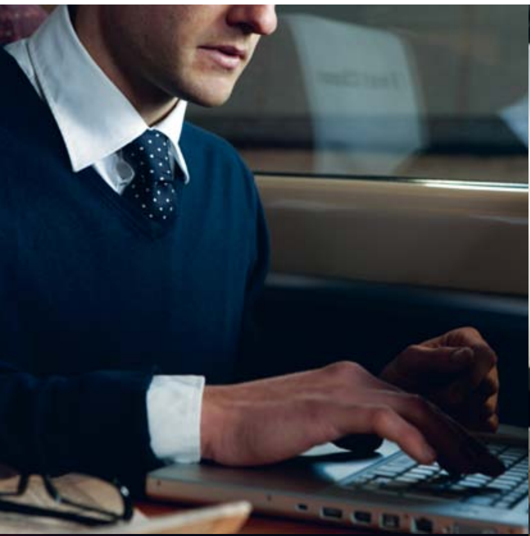
For the coach business, a major focus in 2008 was the upgrade of the UK's core coach station at Digbeth in Birmingham. In a £15 million project, we are transforming a former bus garage into a passenger facility designed and built to 21st century standards of comfort and efficiency. Meanwhile, we successfully initiated a temporary coach station nearby that ensures no disruption to the services.

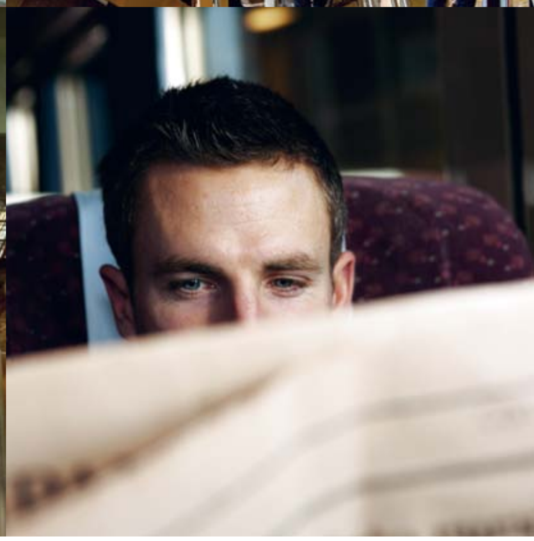
We are pleased with the progress of our commuter business, Kings Ferry, which we acquired in 2007. Apart from its well established commuter business, we have been successful in growing its private hire business. Contracts included a six-year deal with the Metropolitan Police to provide transport for activities associated with the Notting Hill Carnival and work with Eurostar to help passengers stranded as a result of the fire in the Channel Tunnel in September.

On international routes, our Eurolines business was a strong performer, with total passenger numbers up 2% over 2007. The Munich, Osnabruck, Amsterdam and Paris routes were particularly popular.

More available online at
www.nationalexpressgroup.com

Our coaches serve all the UK's major airports





and by rail...

A busy schedule means you have to make the best use of travelling time. Comfortable trains give you plenty of space to work and a chance to relax when the day is done.

UK Rail

Our services

UK Rail

We provide 164 million passenger journeys per year and employ 7,000 people.

East Coast passenger numbers grew from 18.1m to 18.7m during 2008

Revenue (£m)

£1,332.5m

2006	1,497.6
2007	1,472.1
2008	1,332.5

Normalised operating profit (£m)

£81.3m

2006	49.1
2007	63.3
2008	81.3

Total number of employees

7,011

2006	9,477
2007	7,457
2008	7,011

Revenue for the year was £1,332.5 million (2007: £1,472.1 million) with normalised profit from operations of £81.3 million (2007: £63.3 million). These results were broadly in line with our franchise forecasts, despite considerably more challenging trading conditions than anticipated in the fourth quarter, whilst also benefiting from the successful resolution of outstanding issues on previously exited franchises.

Behind these achievements was the fact that more people are choosing to travel on National Express trains. The East Coast franchise, for example, saw numbers of customers rise from 18.1 million to 18.7 million during the course of the year.

Customers benefited from increased reliability, better value and a more pleasant journey. Carefully targeted investments, combined with effective performance management programmes in each of the three businesses, ensured that customers' experiences matched their expectations. Punctuality improved across the board, according to independently audited Moving Annual Average (MAA) figures. East Anglia saw punctuality up from 89.8% to 90.6%, its best performance since National Express took over the franchise. Even more impressive was c2c's 2008 punctuality rate of 94.9% – the second highest in the UK. On the long-distance East Coast line, punctuality improved to 85.7%, rising on two occasions to 100% – a first for the line since privatisation.

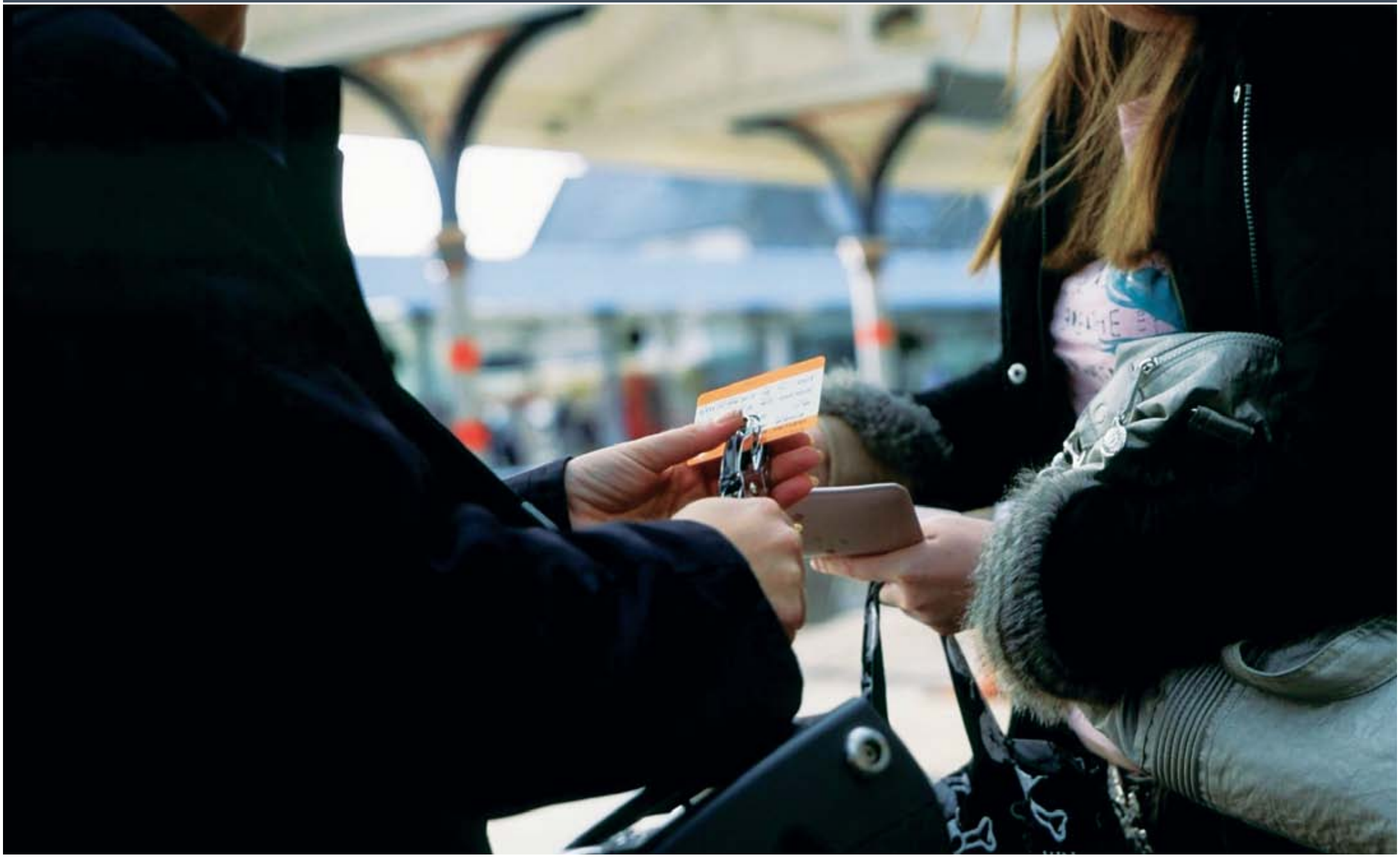
We have also offered customers better, more easily accessible deals in 2008, including greater emphasis on online marketing. 43% of East Coast revenues came through online sales, including a substantial proportion of the £11 million raised by the company's highly successful 'miniature prices' campaign. East Anglia boosted customer numbers on the Stansted Express route by relaunching its website to include translations in languages determined by the airport's destinations. Special offers from c2c included a popular two-for-one summer package and attractive weekend leisure fares.

Having convinced customers to travel on our trains because of reliability and good value, the third challenge in 2008 was to make the customer experience even better. On the East Coast line, alongside an extensive train refurbishment programme, we laid the groundwork for a new onboard catering service. Improvements to car parks at two important c2c and East Anglia stations made access easier for customers and security initiatives in both companies not only reduced anti-social behaviour but also enhanced revenues by discouraging fare dodgers.

Industry awards have recognised our rail companies' high levels of professionalism. Among the accolades have been the National Rail Awards' recognition of Tony Smith, Acting Engineering Director for c2c, for Outstanding Personal Contribution in 2008 and East Coast's citations for the best stations of the year for Durham and Doncaster.

During the year, customer satisfaction surveys reflected our award success, with improvements across the board. Among the highlights was c2c's move into second place in the National Passenger Autumn 2008 Survey, with an overall satisfaction score of 90%. Customer satisfaction with East Coast rose from 82% at the beginning of our franchise to 88% by year end, giving us the highest ranking of any long distance train operating company.

The 'miniature prices' campaign helped deliver an additional £11m of revenue on East Coast



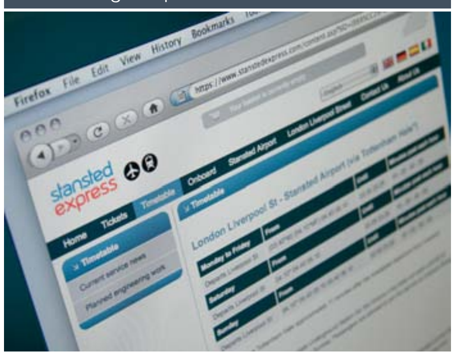
With East Coast delivering its first year franchise commitments, the rail business achieved strong results, with East Anglia performing well, c2c improving profitability and overall profitability supported by one-time benefits from the resolution of outstanding commercial claims in former franchises.

During the year we took steps to reduce costs across all our rail businesses. During the first half of 2008, the creation of a single customer contact centre and a Finance Shared Services centre for all our franchises centralised operations and improved efficiency. In the fourth quarter of 2008, we identified additional opportunities to improve efficiency and combat the recession. In our East Anglia business, changes will result in headcount reductions, including changes to onboard catering services and the removal of onboard staff on the Stansted Express. On the East Coast, this restructuring programme will result in a reduction of roles. We are also reducing UK divisional headcount.

"Customers benefited from increased reliability, better value and a more pleasant journey."

Customer satisfaction has increased across all three rail franchises

The Stansted Express website now offers multi-lingual options



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www.nationalexpressgroup.com


SCHOOL BUS
STOP ON ALTERNATING LIGHTS

and North America...

They may be an iconic memory from school days, but there is nothing outdated about our school buses in North America or the care we take getting students to their lessons.

North America

Our services

North America

The North American division focuses on student transportation. It operates over 15,000 buses. The division employs over 22,000 people.

Revenue (£m)

£372.5m

2006	283.7
2007	308.0
2008	372.5

Normalised operating profit (£m)

£32.5m

2006	39.1
2007	37.7
2008	32.5

Total number of employees

22,491

2006	18,376
2007	21,487
2008	22,491

Annual division revenue was £372.5 million (2007: £308.0 million) and normalised profit from operations was £32.5 million (2007: £37.7 million). In local reporting currency, revenue was US$690.5 million (2007: $617.5 million) and normalised profit from operations was $60.3 million (2007: $75.5 million).

In 2008, we achieved excellent customer retention in the US school bus sector, achieving a level of 95% renewal. At the same time, we maintained the momentum of our 'Business Transformation' project; its ultimate objectives are to deliver operational service excellence and administrative efficiency across our operations in 29 states (two more than in 2007) and two Canadian provinces.

In operational service excellence, we successfully rolled out the project in pilot form in Illinois and Wisconsin, putting into place a wide range of improvements. These included computerised routing support at 15 sites and the retrofitting of 1,770 buses with computer technology that not only provides GPS facilities but also revenue and payroll tracking, live route data information to the driver and options for tracking the children on the bus. The opening of an operations centre in Warrenville, Illinois – the 'Every Time Center' – centralised operational management and control in the pilot area and will contribute to eliminating cost inefficiency. This will deliver a significant competitive advantage in service and efficiency, when rolled out across the business early in 2010.

In addition to delivering an effective technical solution, good communication has been vital. We initiated a series of roadshows to get the message across about our newly improved vehicles and systems. The audience consisted of our employees and our primary market – school district officials.

In delivering administrative efficiency, during 2008 we began to consolidate our 'back office' finance and support functions at a new shared service centre. During the next 18 months, this will progressively move support activity out of the field, allowing greater local customer and operational focus. The key element delivered in 2008 was a new centralised ERP solution; despite some implementation challenges, which have required process improvements to be implemented, the system is operational and significant improvements are planned for 2009.

The combination of managing a substantial system implementation and change programme across the division resulted in some 'double running' costs. As a result, profitability dropped 20% in local currency terms. Clear actions and initiatives are planned for 2009.

In the marketplace, with growing popularity in the US of a state regulation that requires 65% of a school district's budget to be spent directly on education rather than ancillary services such as transport, many jurisdictions are looking to the advantages of outsourcing. National Express is already benefiting from this development. In 2008, we won nine new contracts, worth a total of $38 million a year. Five of those came from school districts that were looking to outside transport suppliers for the first time.

During 2008 we opened our central operations centre – the Every Time Centre

In a market conducive to growth, we expanded our North American business in 2008 with the acquisition of A&E Transport, a regional operator serving five locations in upper New York State, and performance has exceeded expectations.

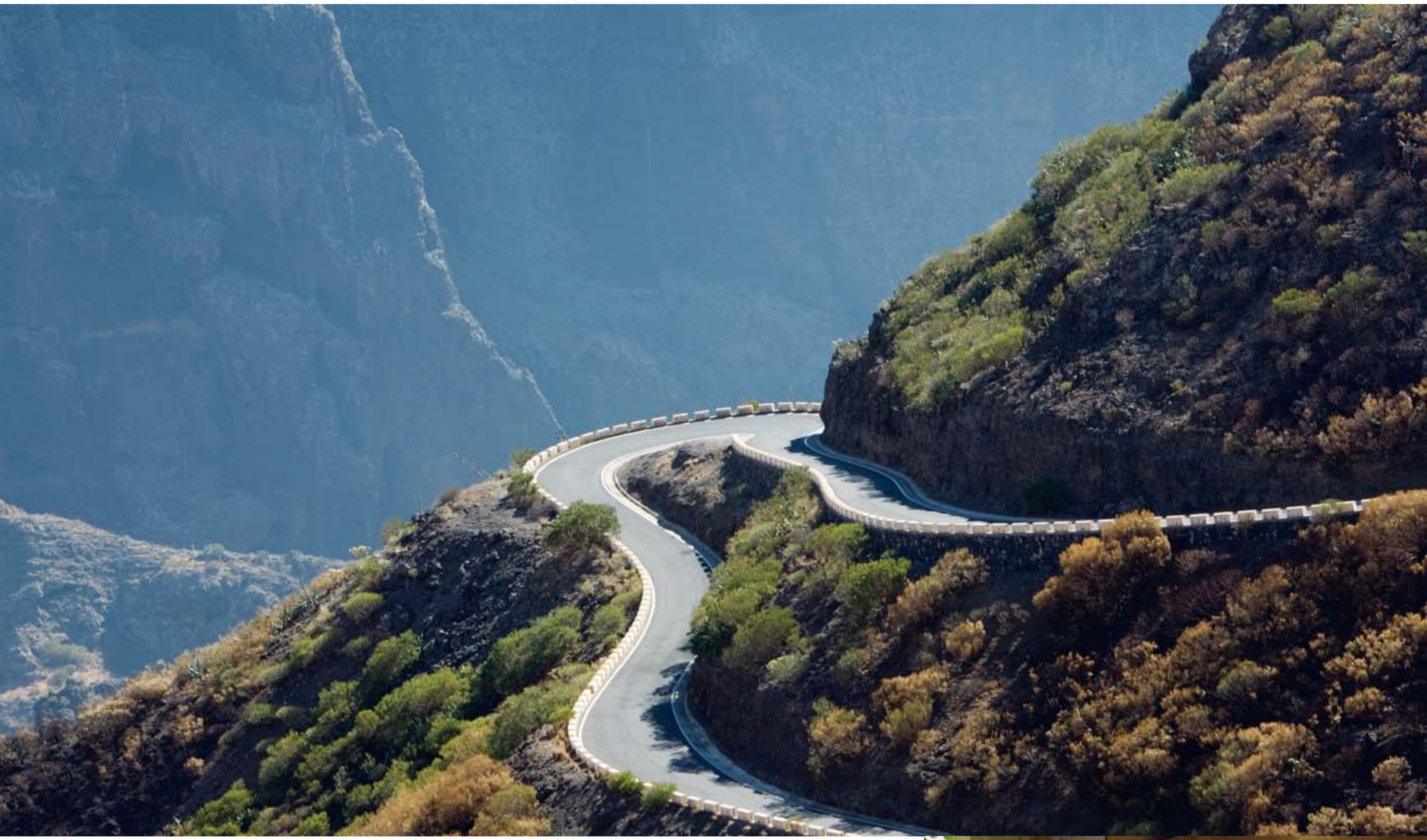
National Express in North America is not only growing. We are also becoming even safer. As a company that takes the transport of children very seriously indeed, safety is an integral part of our culture. In 2008, we reduced total injury frequency by 30% and lost-time injury frequency by 28%. Total accident and preventable street accident frequency each fell by 7% and the total preventable accident frequency was 4% lower than the previous year's figures. In every case, performance not only exceeded our targets, but confirmed an improvement trend apparent over the past five years.

We operate in 29 US states and two Canadian provinces

"In 2008 we achieved excellent customer retention in the US school bus sector."

Across Canada and the USA we operate over 15,000 buses

More available online at www.nationalexpressgroup.com



and in Spain

What could be more enjoyable than a carefree weekend away in Spain? A well connected coach network means you can get away in comfort, without the stress of driving yourself.

Spain

Our services

Spain

We are Spain's leading private operator of coach and bus services. The division provides nearly 180 million passenger journeys per annum and employs over 6,800 people.

Revenue (£m)

£483.1m

2006	249.3
2007	298.0
2008	483.1

Normalised operating profit (£m)

£83.3m

2006	44.3
2007	50.9
2008	83.3

Total number of employees

6,876

2006	3,720
2007	6,429
2008	6,876

Revenue in our Spanish division, ALSA, was £483.1 million (2007: £298.0 million) and normalised profit from operations was £83.3 million (2007: £50.9 million). In local currency, revenue was €608.5 million (2007: €434.9 million) and normalised profit from operations was €105.0 million (2007: €74.3 million). This has been achieved in spite of the economic slowdown in Spain, particularly in the second half of the year.

The urban business continued to perform well, whilst bidding for new contracts as more cities consider outsourcing. The long distance business achieved a good performance, despite increased competition from high speed rail on some routes. Regional transport saw more impact as the economic downturn adversely affected the construction and tourism industries.

The integration of Continental Auto, which the Group acquired in October 2007, continued throughout 2008 and remained on schedule at year end. We also bought Transportes Colectivos, S.A. (TCSA), which provides bus services, under the Bizkaibus brand, in the Bilbao metropolitan area.

As a result of these acquisitions, Spain's largest private transport operator also became one of its most efficient, benefiting from synergies in both sales and the management of depots and fleet totalling €6.6 million. In 2008 we achieved 95.7% fleet availability and transported a total of 122.2 million customers – an increase of 7.6% over the previous year. Customer opinion of the service we provided continued to improve; ALSA's customer satisfaction index (out of 10) rose to 6.91 for the year versus 6.88 in 2007. For the premium Supra services, the customer satisfaction index was 7.44 last year, up from 7.30 in 2007.

More available online at
www.nationalexpressgroup.com

The enlarged ALSA was also a safer and greener company. On the safety front, initiatives included enhanced driver training courses, coupled with a support programme aimed at drivers identified as in need of improvement; a new service planning system to provide greater control in monitoring and enforcing driver rest times; and a new process to identify accident hot spots and so help our drivers avoid potentially dangerous situations. Against this background of safety innovation, we achieved a 10% reduction in our accident rate for the year.

As part of our efforts to minimise the impact of ALSA operations on the environment, we extended the use of biodiesel to more services and began a trial of our first vehicles driven by ethanol and those meeting the Euro V emission standards. Having joined the Spanish voluntary code for reducing CO_2 Emissions promoted by the Observatory for Sustainability and the Ministry of Environmental Affairs, we had the distinction of being the first Spanish company to register a reduction in emissions – 1,651 tonnes of equivalent CO_2 in 2008.

Last year we also made travel more comfortable with the introduction of new routes for our Supra Class buses, following the Continental Auto integration. This has increased our ability to offer premium class services with reduced associated costs and increased profitability. Access to these and other services is increasingly through the use of online reservations and ticketing. Website revenues grew by 60% in 2008.

Following the successful acquisition of Continental Auto, we reinforced our position as the number one private transport operator in Spain. We believe that this positions us well to access new market opportunities in Spain, as well as driving a more sales and marketing driven agenda in our existing businesses. Continental Auto has a higher proportion of urban and commuter services, which balance the long distance services that are the largest part of ALSA. The integration of Continental Auto is proceeding to plan, both in terms of timing and synergies delivered. Integration has been completed in finance, sales and routing systems, and we have implemented our safety management and financial control procedures within Continental Auto. We are in the process of consolidating maintenance facilities and the fleet purchasing process.

During 2007 we negotiated the extension of a number of contracts. As a result no concession expires before 2013. Competitive pressures exist within the market; however, we have responded to the entry of low cost airlines and the development of high speed rail by varying our frequency, adapting our prices and altering our network to provide complementary services.

In addition, we secured non-regulated work outside the formal concessionary arrangements. This has benefited from having the scale of operations and the expertise to deliver in a timely and consistent basis.

We are developing our product offering in the market. In October we launched the new Supra class incorporating a revised on-board catering offering and on-board WiFi, being the first transport mode in Spain to offer this facility. In addition, we launched a new loyalty card, 'Bus Plus', and e-tickets were rolled-out on long distance routes. Good progress in developing distribution channels resulted in 15% of all sales for long distance and regional services occurring via the internet.

With over 60% of the Spanish transport market represented by bus and coach, we believe there are many opportunities for growth, particularly in the urban bus market. We also believe that, when future liberalisation of the public transport market in Spain occurs, we are well positioned to bring our experience and market presence to bear.

The integration of Continental Auto is proceeding to plan

"Following the successful acquisition of Continental Auto, we reinforced our position as the number one private transport operator in Spain."

A new loyalty card 'Bus Plus' benefits regular customers

Bizkaibus, which operates in Bilbao, was acquired in 2008

Relationships and Resources

Discontinued operations

Following the decision by the Group in October 2008 to exit the business, Dot2Dot has been classified as a discontinued operation in 2008. The normalised pre-tax loss in the year was £8.3 million (2007: £4.8 million loss) and, after tax relief of £2.8 million and an exceptional write-off of £4.2 million, total after-tax loss was £9.7 million (2007: £3.4 million loss). The operation was sold on 9 January 2009. In addition, discontinued operations includes an exceptional charge of £3.7 million for additional tax liabilities arising from prior year disposals.

Stakeholder relationships

The Group has a broad range of stakeholders who are key to the achievement of our business objectives. External stakeholders include those who award us our contracts – the UK Department for Transport, local authorities, transport bodies and school boards; our customers, who use our services; our suppliers, trade unions and non-governmental organisations. Internal stakeholders focus around our employees, whose hard work and commitment enable us to deliver our services every day.

We have an active stakeholder engagement programme, through regular meetings and events, open forums, magazines and websites. Interaction occurs at a Group, divisional and local level, maintaining stakeholder plans to address needs and support the business. Internal stakeholders engage through management conferences, employee magazines, intranet sites, meetings and conference calls. Customer and employee views are solicited through regular surveys, and coach and East Coast rail customers can text comments about their journey.

The Group's most important resource is our employees

Resources

The Group accesses a range of resources to deliver its objectives and service its stakeholders. These include:

Our people
In our service based business, the Group's most important resource is our people. Strong employee satisfaction helps deliver high customer satisfaction;

Our brand
National Express is the most recognised brand amongst UK transport groups, achieving number 130 in the Superbrand ranking for 2008/09. Integration of UK operations in early 2008 has helped develop the National Express master brand, with building recognition of the brand across rail and bus, beyond its traditional coach heartland. The brand is also used corporately in North America and Spain;

Our customers
We continue to develop our customer relationship management systems and databases, to optimise our service delivery to customers. During 2008, we have significantly grown the size of our contactable customer database and CRM activity over all business units;

Our reputation
The Group's reputation as a reliable, safe transport operator enables customers to award contracts to us knowing that we can deliver customers' expectations;

Our expertise
We are a first class operator, delivering excellent services safely and reliably, across different countries and cultures, and across rail, bus and coach;

Our contracts
Contract tenure provides a degree of certainty and risk management in delivering shareholder value.

Joint ventures and associates

The Group has a number of associates and joint ventures in Spain. It also holds a 40% investment in Inter-Capital and Regional Rail Limited ('ICRRL'). These investments made a profit of £nil in 2008 (2007: £0.4 million profit). The Group's Eurostar contract with ICRRL was designated an onerous contract in 2006 and the losses provided for to the end of the contract in 2010. Consequently, there is no charge to the income statement for this contract in 2008.

Other financial matters

Fuel

It is the Group's policy to hedge a proportion of future fuel usage against movements in fuel prices, in order to provide certainty and assist price recovery from customers, where possible. These swaps utilise a number of different market benchmarks, including ultra-low sulphur diesel (ULSD) and gasoil in the UK, heating oil in North America and Euro denominated ULSD in Spain.

On a constant volume basis, Group fuel costs in 2008 were £20 million higher than in 2007. This reflected the sharp increase in fuel price future contracts during the early part of 2008. For 2009, the Group has hedged almost 100% of its requirements at an expected cost of £28 million above 2008 (at constant volume). This reflects the higher priced outlook for fuel and oil when most of this usage was hedged in summer 2008. For 2010, to date the Group has hedged 48% of its requirements. With fuel future contracts priced below those achieved in 2009, this should reduce fuel costs in 2010.

Pensions

The Group's principal defined benefit pension schemes are all in the UK. These schemes have seen an increase in the combined deficit at 31 December 2008 to £45.0 million (2007: £29.8 million), reflecting the poor returns available recently on equity and bond markets.

The rail business operates an open element within the Railways Pension Scheme ('RPS'). Given the limited life of each franchise, the Group's main obligation is to pay the service contributions agreed with the scheme actuary over the period of the franchise only. The Group's RPS deficit on an IAS19 valuation basis is £38.7 million (2007: £18.8 million deficit).

The principal defined benefit schemes within Bus and Coach are closed to new members. The two bus schemes, the West Midlands Passenger Transport Authority Pension Fund and the Tayside Transport Superannuation Fund, have a combined deficit under IAS 19 of £3.6 million (2007: £5.1 million deficit). The National Express Group Staff Pension Plan has an IAS 19 deficit of £1.2 million (2007: £4.9 million deficit).

Financing and treasury management

The Group's treasury policy has been to adopt efficient financing structures that enable it to use its balance sheet strength to achieve the Group's objectives without putting shareholder value at risk. Having completed a period of acquisition and organic investment, and given that current difficult global funding markets may continue for some time, the Group is focusing its treasury policy and financial strategy on delivering strong liquidity, cash management and an effective capital structure, in order to manage its future reliance on uncertain capital markets.

The Group's treasury objective is to manage the risk for potential loss of shareholder value from certain financial risks. The Group's financial risk management objectives and policies are described in more detail in the notes to the financial statements.

At 31 December 2008, the Group had two principal bank debt facilities; an £800 million revolving credit facility maturing in June 2011 and a €540 million term loan facility. During the year, the maturity of the latter facility was extended to September 2009 with a one year extension to September 2010 at the Group's option. The headroom under the total committed facilities of the Group at 31 December 2008 was £143.8 million (2007: £199.4 million). The Group complied with all banking covenants during the year. As set out in the section 'Managing our financial platform'; the Group is focused on complying with its future financial covenants and on refinancing its debt as this becomes due.

As set out in the notes to 'Financial statements', the Group's net debt includes cash balances totalling £49.7 million (2007: £55.2 million), which cannot be withdrawn from the UK rail businesses. The franchise agreements for those train operating companies ('TOCs') restrict the withdrawal of cash, aimed at enabling a TOC to meet its working capital requirements on a stand alone basis. Cash can only be withdrawn by loan or dividend to the extent certain financial ratios are met.

Principal Risks and Uncertainties

Principal risks and uncertainties

The operation of a public company involves a series of risks and uncertainties across a range of strategic, commercial, operational and financial areas. National Express has a robust internal control and risk management process, as outlined in the Corporate Governance report, which is designed to provide assurance but which cannot avoid all risks. Outlined below are potential risks that could impact the Group's performance, causing actual results to vary from those experienced previously or described in forward looking statements within this document. These risks are monitored on an ongoing basis through the Group's risk management processes. Additional risks and uncertainties not identified may also have an adverse material effect on the Group.

Economic conditions
Whilst some of the Group's businesses have naturally defensive characteristics to the immediate economic environment (eg school bus), other parts are exposed and have significant gearing to changes in revenue (eg rail revenue has historically been correlated with GDP and employment and, given the high proportion of fixed costs in a rail franchise, deterioration in these can have a significant impact on profitability). Some of this risk can be mitigated through price sensitive revenue management systems, which adjust ticket pricing to maximise yield, and through active cost management;

Contract risk
Much of the Group's business is secured through new contracts, particularly in UK Rail, North America school bus and Spain. An inherent risk in contract bidding is that the bid assumptions prove to be undeliverable; for example, in UK Rail, if underlying economic growth proves to be lower than anticipated in the bid, passenger revenue is likely to be negatively impacted. The Group seeks to mitigate this risk by sharing revenue risk with the awarding body (for example, in rail revenue, risk is usually shared with the DfT after four years; in school bus, revenue risk is generally avoided as demand is fixed) and by careful economic modelling of new contracts;

Contract scale
Some contract-based businesses within the Group need to maintain a minimum number of contracts to retain their existing scale of operations. If that scale is not maintained, revenue and profitability could be impacted. The Group seeks to manage this risk by maintaining a competitive bid process and robust relationships with stakeholders;

Competition
Most of our businesses face competition with other modes of transport, such as cars and aircraft, and with other transport operators in the same mode of transport. The Group seeks to manage the risks of other modal competition through cost competitiveness (eg bus), service/reliability (eg rail) and lower carbon footprint (eg versus car). Transport markets remain intensely competitive and the Group seeks to offset risk of business loss through a combination of marketing, service quality and price;

Fuel costs
All of our businesses are exposed to fuel costs; primarily diesel for buses and coaches, and either gasoil or electricity for rail. Fuel prices are subject to significant volatility due to economic, political and climate circumstances. The Group cannot avoid this risk but seeks to reduce it through fuel hedging, which can reduce short term volatility and provide a known cost environment for our operations;

Political and regulatory changes
Some of our businesses are subject to significant regulation. Changes in political and regulatory environments can have significant impact on our public transport businesses. This risk is reduced by maintaining close relationships with key stakeholders and ensuring that the economic advantages of our businesses are fully understood and considered. For example, we have successfully delivered voluntary partnerships in UK Bus and are aiming to roll out further schemes within the framework of the new Local Transport Act.

Labour
Our businesses depend on delivering high quality, reliable services, cost efficiently. Service delivery therefore requires access to, and retention of, the right calibre of staff at an affordable cost (given that staff costs are the largest single cost component across the Group). This is managed through effective recruitment, training and retention strategies. For example, our North American business had its most successful start up to a school year in 2008, with sufficient drivers in place across the 16,500 bus fleet;

Operational incidents
Safety is at the heart of transporting passengers, yet the sheer number of vehicle movements creates a risk of safety incidents, potentially impacting the Group financially, reputationally and legally. Throughout the business, a strong safety culture prevails, led by the Board Safety and Environment Committee, which sets policy, reviews incidents, considers remedial actions and lessons learned. The transport sector is also exposed to a significant level of third party claims; given its scale, the Group 'self-insures' much of this risk, which can give rise to an adverse financial impact on settlement;

Organisational change
To reflect changing economic, market and technological conditions, significant organisational change initiatives occur from time to time. These can create uncertainty and increase risk of adverse operational and financial results. In 2008 this included UK integration, Spanish post-acquisition integration and North America Business Transformation. The Group seeks to mitigate these risks by structured programme and project management, including effective planning, quality assurance and external resourcing;

Business continuity
The Group is at risk of disruption from failure of network infrastructure availability (eg rail access), as well as unavailability of key systems/locations (eg to operate effective customer service systems). In some cases, the Group has protection – in compensation from infrastructure service providers – and also maintains operational continuity plans and insurance cover for larger losses;

Financial
The Group has committed financing in place but is dependent on maintaining sufficient EBITDA to support banking covenants, and, on access to funding markets when facilities approach maturity, failure to maintain which could force the Group to seek high cost debt funding, disposal of assets or further equity funding. The Group also operates a number of defined benefit pension schemes, the regulatory and funding environment for which could impact the Group, by requiring increases in future cash funding and restrictions on certain corporate activities (including disposals and return of equity capital). The Company has certain tax exposures, in addition to trading-related tax balances, totalling £41.4 million, which are provided for but which, in the event of an adverse finding by taxation authorities, could result in a substantial payment of cash.

Critical accounting policies

Key accounting judgements

Taking into account this analysis of risks and uncertainties, the key accounting judgements which could impact future financial performance include the following:

Going concern
This is a fundamental accounting concept that underlies the preparation of accounts in the UK. In adopting the going concern approach, the Directors have considered the uncertainties that could impact the Group including the impact of the challenging trading environment on profitability, the limited availability of new debt funding in current market conditions and its objective to reduce net debt in order to maximise the likelihood of maintaining debt covenant compliance. Given the Group's plans and potential mitigations, its opportunities and core funding relationships, in the opinion of the Directors, there are currently no material uncertainties that lead to significant doubt upon the Group's ability to continue as a going concern;

Pensions
Movement in asset markets, interest rates and life expectancy could materially affect the funding of the Group's pension schemes. The key assumptions used to value pension liabilities are set out in the notes to the financial statements;

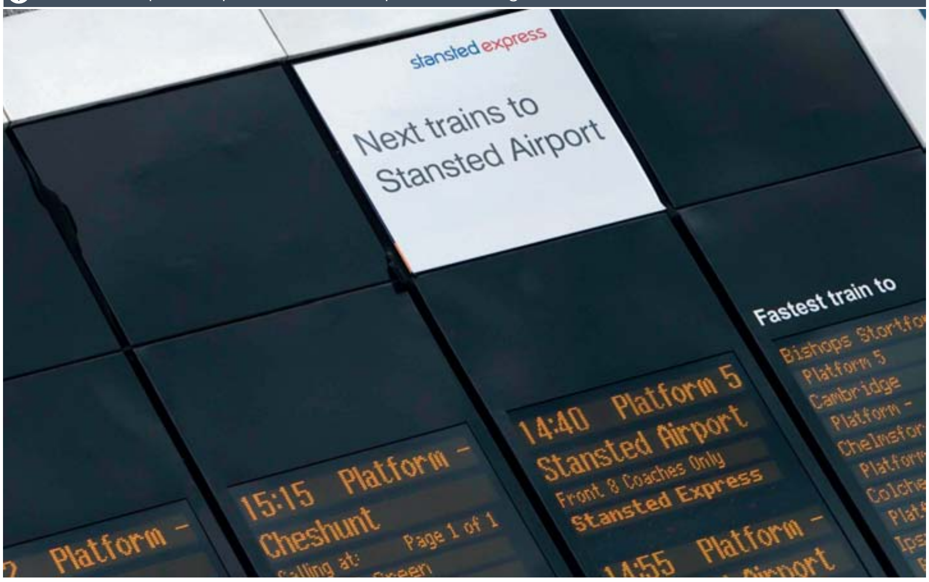
Tax
The Group carries out tax management consistent with a business of its size and makes appropriate provision, based on best estimates, until tax computations are agreed with the tax authorities;

Provisions
Using information available at the balance sheet date, the Group makes judgements, based on experience, on the level of provision required. Information subsequent to the balance sheet date may impact the level of provision required;

Impairment
The Group has reviewed the carrying value of tangible and intangible assets and, from time to time, may impair certain asset values on a value in use basis. Future changes in performance or disposals could impact these values.

In addition to these key accounting judgements, the Group has significant accounting policies in respect of revenue recognition, foreign currencies, property, plant and equipment, intangible assets and derivative financial instruments and hedge accounting, which are set out in the notes to the financial statements.

Stansted Express is part of National Express East Anglia



Basis of preparation

This financial information has been prepared in accordance with IFRS. The comparative information for 2007 has been amended to reflect the final fair value adjustments relating to the acquisition of Continental Auto and Kings Ferry, together with reclassification of Dot2Dot as a discontinued operation. Details are contained in the notes to the Financial Statements.

Cautionary statement

This Operating and Financial Review is intended to focus on matters which are relevant to the interests of shareholders of the Company. The purpose of the OFR is to assist shareholders in assessing the strategies adopted and performance delivered by the Company and the potential for those strategies to succeed. It should not be relied on by any other party or for any other purpose.

Forward looking statements are made in good faith, based on a number of assumptions concerning future events and information available to Directors at the time of their approval of this report. These forward looking statements should be treated with caution due to the inherent uncertainties underlying any such forward looking information. The user of these accounts should not rely unduly on these forward looking statements, which are not a guarantee of performance and which are subject to a number of uncertainties and other facts, many of which are outside the Company's control and could cause actual events to differ materially from those in these statements. No guarantee can be given of future results, levels of activity, performance or achievements.

Corporate Responsibility

Corporate responsibility lies at the heart of our business. We define this as being about what we do and then how we do it. Our services are key in keeping the economy going – we keep people moving in these challenging times helping to avoid social exclusion by offering value. However, we do not just offer great economic and social benefits. Our services have huge net benefits for the environment and we believe we have a key role in shaping a low carbon economy. We do this by training and supporting our staff, investing in our services and delivering this in a way that meets the needs of the communities we serve.

We report more widely on these activities on our group website – www.nationalexpressgroup.com – which will be updated at the start of May 2009.

Safety and security

As always, safety and security remains at the forefront of everything we do. We are committed to ensuring that our safety record improves across all our operations. We have a robust health and safety policy and controls in place to monitor performance.

In the UK, we are committed to introducing new technology which fosters safety. During the year, we trialled the use of Alcolock units on around 40 vehicles. The unit links a breathalyser to the vehicle immobiliser, preventing the coach being driven if the driver has been drinking alcohol. We now plan to roll out the Alcolock units progressively across the coach fleet. We also trialled a GPS-based system which warns bus drivers if they approach low structures, such as bridges. Following this trial, we intend to fit our double-deck bus fleet in the West Midlands with the system.

During the year, ALSA was the first European operator to fit the new universal seat belt in its vehicles. In the UK, where seat belts are already standard on coaches, we made child booster seats available on every scheduled service.

Across bus and rail we have continued to support initiatives which tackle issues of anti-social behaviour and vandalism. Our involvement with the Safer Travel initiative in the West Midlands, Dundee and Surrey, working with the police and local councils, continues to prove successful in tackling anti-social behaviour. During 2008, we successfully prosecuted nearly 60 people caught smoking on board buses in the West Midlands.

On c2c, we ran a joint initiative with British Transport Police and Network Rail during the school summer holidays to reduce crime, stone throwing and vandalism to trains and stations. Called Operation Shellshock, this involved a special team of four Police Officers travelling on trains working undercover, an unmarked police car and the Network Rail helicopter, equipped with an infra-red camera, supported by a c2c staff hotline to report incidents in real-time to the police. It achieved significant improvements in reducing incidents and delay minutes in the six weeks of last year's school summer holidays compared with 2007.

Environment

Climate change is a huge challenge and there are already ambitious targets in place for reducing emissions of greenhouse gases in the UK and Spain. This is a great opportunity for our business as we believe use of public transport will need to increase if we are to reduce total emissions from transport. We are not complacent about the need to improve our own efficiency – we have a great track record on this and have targets for making further improvement. However, our greatest contribution is through the net savings that arise when customers choose to use our services instead of the car or plane.

During 2008 we published More is Less – our vision for an integrated transport system by 2020 that is consistent with a carbon constrained world. We are committed to shaping the debate about how we reduce greenhouse gas emissions from transport with policy makers. In the medium term we expect our absolute emissions to increase as we aim to increase our operations.

While walking and cycling are the most environmentally sound ways of travelling, they are only practical for a small amount of journeys. Next to these, coaches offer the lowest carbon way to travel, with train and bus close behind. By attracting more people to use our services, instead of the car, there are considerable CO_2 savings.

Making travel simpler for all our customers

Our vision for an integrated transport system

Supporting our communities

Public transport plays a critical role in the communities we serve. Our bus, coach and rail services connect people in their daily lives and we never forget how important it is that our services run on schedule and provide value for money, particularly in challenging economic times.

Our services are readily accessible and provide an essential link for those who could be prevented from accessing key services because they do not have use of a car. Many everyday services, such as education, health or retail, are now situated outside of town centres. Transport is essential to access them and people without a car could easily be prevented from using them.

Travelling on public transport also offers benefits over the car. As a passenger, you can use your time more productively, whether you are relaxing or have work to do. It also helps cut congestion on our roads, reducing the need to build and widen roads.

We are working hard to improve the punctuality of our trains, and where delays occur we have improved ways for customers to access real-time information, such as by text message.

At a local level we continue to support initiatives which relate to our business. On the East Coast, we launched the Connectors community engagement programme which brings together young people and our employees to debate and act on issues such as sustainability and the environment. The programme provides teaching resources which encourage debate about sustainability and is building links with schools along the East Coast route.

People

Investing in our people through appropriate training and development is how we build capability across the business.

During 2008, we brought our UK leadership and development teams together and now have three academies in Birmingham, Stratford and York. Our 'Team Leader' and 'First Level Leaders' programmes continue to develop talent from within the business.

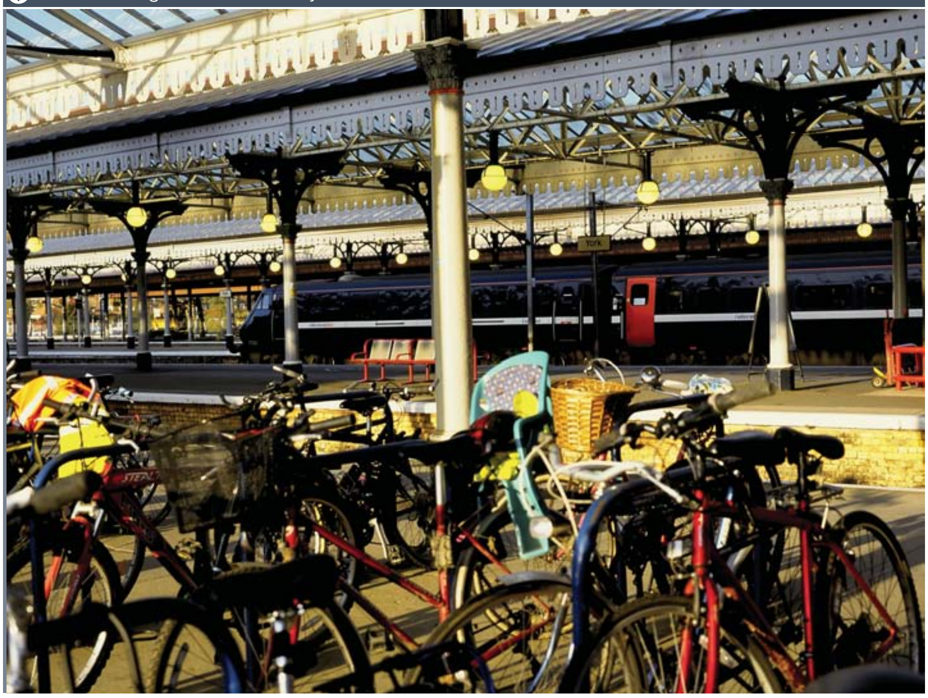
A key challenge during 2008 was to communicate our promise and our values to our people and to reflect these elements in the personal objectives of our management and customer-facing teams. We now have a combined set of management competencies, values and behaviours which are measured and reviewed consistently across the UK.

In Spain, we have introduced innovative ways of delivering training. For the first time, we are delivering training online. This makes training more accessible to a geographically widespread workforce.

In North America, we introduced a centralised recruitment team for all staff and leaders' positions which has helped streamline and standardise processes.

More available online at
www.nationalexpressgroup.com

We encourage customers to cycle to stations



Governance
Board of Directors and Management

1 Richard Bowker CBE
Group Chief Executive

2 Jez Maiden
Group Finance Director

3 Ray O'Toole
Chief Executive UK Division

4 Jorge Cosmen
Deputy Chairman

5 Sir Andrew Foster
Non Executive Director

6 Roger Devlin
Non Executive Director

7 Tim Score
Interim Chairman

8 Miranda Curtis
Non Executive Director

9 Tony McDonald
Company Secretary

1


2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4


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1 Richard Bowker CBE
Group Chief Executive
Richard Bowker was appointed to the Board as Chief Executive in September 2006. He was formerly Chief Executive of Partnerships for Schools ('PfS'), a government body responsible for delivering the Building Schools for the Future Investment Programme. Between December 2001 and September 2004 he was Chairman and Chief Executive of the Strategic Rail Authority. Prior to that, he was Group Commercial Director of Virgin Group and Co-chairman of Virgin Rail. Richard is a Fellow of the Chartered Institute of Management Accountants and the Chartered Institute of Logistics and Transport. He is the Deputy Chairman (Non Executive) of British Waterways. Aged 42.

2 Jez Maiden
Group Finance Director
Jez Maiden joined the Board in November 2008. He was formerly Chief Finance Officer at Northern Foods plc. Prior to that, he was Group Finance Director of British Vita plc, Director of Finance of Britannia Building Society and Group Finance Director of Hickson International plc. He is currently a Non Executive Director of Yule Catto & Co plc and is a Fellow of the Chartered Institute of Management Accountants. Aged 47.

3 Ray O'Toole
Chief Executive UK Division
Ray O'Toole joined the Board in November 1999 as Chief Operating Officer. From January 2008, Ray became Chief Executive of all our UK operations. 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. Ray 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. He is a Member of the British Transport Police Authority. Aged 53.

4 Jorge Cosmen
Deputy Chairman *ƒ
Jorge Cosmen was appointed to the Board in December 2005 at the time of the ALSA transaction. He was appointed Deputy Chairman in October 2008. He was Corporate Manager for the ALSA Group from 1995, becoming Chairman in 1999. Between 1986 and 1995, he worked in sales, distribution and banking. He is a Business Administration graduate and has an International MBA from the Instituto de Empresa in Madrid. Aged 40.

5 Sir Andrew Foster
Non Executive Director +*ƒ
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 Regional CEO for Yorkshire. He is currently Deputy Chairman of the Royal Bank of Canada Europe Limited, Chairman of the Commonwealth Games Council for England and a Non Executive Director of the Sports Council, Nestor Health Care and PruHealth. Sir Andrew has also completed reviews of Further Education and Athletics for the Government. Aged 64.

6 Roger Devlin
Interim Senior Independent Director +#ƒ
Roger Devlin was appointed to the Board on 1 October 2007. Roger spent 13 years as a Director of Hill Samuel where he was head of Mergers and Acquisitions and Chief Executive of their US investment banking operations. He then moved to Ladbrokes, later Hilton PLC, as Group Corporate Development Director. He now chairs three private equity businesses on behalf of Permira and Isis, all active in the leisure and hospitality fields. He is also Senior Independent Director of RPS Group plc, Europe's leading environmental consultancy. Aged 51.

7 Tim Score
Interim Chairman +*#ƒ
Tim Score was appointed to the Board in February 2005 and appointed as Interim Chairman in December 2008. 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 chartered accountant. Aged 48.

8 Miranda Curtis
Non Executive Director #ƒ
Miranda Curtis was appointed to the Board in June 2008. She is an Executive Officer of Liberty Global Inc (Denver, Colorado), President of Liberty Global Japan and a director of Jupiter Telecommunications Limited (J:COM) in Tokyo. She has also served on the boards of Liberty subsidiaries in Singapore, Ireland, France and Spain. She is a Trustee and member of the Board of Governors of the Institute for Government. Between 1998 and 2002 she was a Non Executive Director of Telewest Communications plc and between 1998 and 2000 a Non Executive Director of Flextech plc. Aged 53.

9 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 48.

+ Member of the Audit Committee
* Member of the Nomination Committee
# Member of the Remuneration Committee
ƒ Member of the Safety and Environment Committee

Divisional heads

Ray O'Toole
Chief Executive UK Division
Ray O'Toole's details are shown opposite.

Javier Carbajo
Chief Executive, ALSA Group
Javier Carbajo joined the Group in December 2005 when National Express acquired ALSA. A graduate in economics and with an MBA, he has been with ALSA for 30 years during which time he has held management positions in most areas of the business. In 1999, he was appointed Chief Executive of Enatcar following its acquisition by ALSA. In 2003, he was appointed CEO of ALSA Group. Aged 56.

Brian Stock
Chief Executive, 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 2004 and was appointed as Chief Executive of the Group's North American operations in October 2004. Brian has had over 25 years in the bus industry. Prior to joining the Group, Brian was President of Stock Transportation. Aged 50.

More available online at www.nationalexpressgroup.com

Directors' Report

The Directors are pleased to present their annual report and the audited financial statements for the year ended 31 December 2008.

Principal activities
National Express Group PLC is the holding company of the National Express Group of companies. Its subsidiary companies provide mass passenger transport services in the UK and overseas.

Business review
Reviews of the business, likely future developments and details of principal risks and uncertainties as required by Section 417 of the Companies Act 2006 and paragraph 4.1.8R of the Disclosure and Transparency Rules of the Financial Services Authority (the "DTRs") can be found in the following pages and are incorporated into this report by reference:

- Chairman's Statement on page 3.
- Operating and Financial Review on pages 4 to 33.

Results and dividends
The profit on ordinary activities before tax from continuing operations for the year ended 31 December 2008 was £109.9 million (2007: £149.3 million) and a profit attributable to equity shareholders of £118.8 million (2007: £105.1 million) was transferred to reserves.

The Directors recommend a final dividend of 10p per share which, together with the interim dividend of 12.72p per share paid on 26 September 2008, gives a total dividend for the year of 22.72p per share (2007: 37.96p). Subject to shareholder approval, the final dividend will be paid on 3 July 2009 to shareholders on the register at 19 June 2009.

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

David Ross (resigned 9 December 2008)
Richard Bowker
Miranda Curtis (appointed 1 June 2008)
Jorge Cosmen
Roger Devlin
Sir Andrew Foster
Barry Gibson (resigned 31 May 2008)
Jez Maiden (appointed 17 November 2008)
Ray O'Toole
Tim Score
Adam Walker (resigned 26 March 2008)

Directors are appointed by ordinary resolution at a general meeting of ordinary shareholders. The Directors have the power to appoint a Director during the year but any person so appointed must be put up for appointment at the next Annual General Meeting. One-third of the Directors, or the number nearest to but not exceeding one-third, must retire from office at each Annual General Meeting. A retiring Director is eligible to stand for re-appointment. Any Director who has held office for three years or more since their last appointment must retire and offer themselves for re-appointment.

In accordance with the above provisions Ray O'Toole and Jorge Cosmen will retire by rotation at the 2009 Annual General Meeting and, being eligible, will offer themselves for re-election. Miranda Curtis will stand for election at the 2009 Annual General Meeting following her appointment to the Board on 1 June 2008. Jez Maiden will stand for election at the 2009 Annual General Meeting following his appointment to the Board on 17 November 2008. Adam Walker resigned as a Director of the Company on 26 March 2008. Barry Gibson resigned as a Director of the Company on 31 May 2008 and David Ross resigned as a Director of the Company on 9 December 2008. The names and biographies of the current Directors appear on page 37. Details of the remuneration of the Directors, their interests in shares of the Company and service contracts are contained in the Directors' Remuneration Report on pages 49 to 56.

Directors' interests in contracts
Except as stated in note 37 on page 114, no contract existed during the year in relation to the Company's business in which any Director was materially interested.

Directors' Liability Insurance
The Company maintains Directors' and Officers' Liability Insurance in respect of legal action that might be brought against its Directors. Under the Company's Articles of Association the Company may indemnify its Directors and Officers in accordance with the provisions of Section 233 of the Companies Act 2006 although during 2008 it has not done so. In 2005 indemnities were provided by the Company to Ray O'Toole who has been joined as a defendant in proceedings being brought before the Supreme Court of New South Wales. These proceedings relate to a period of time when Ray O'Toole was a Director of Bosnjak Holdings Pty Ltd, which was a subsidiary of the Group. These indemnities remain in place. Copies of the Articles of Association and the indemnity for Ray O'Toole are available for inspection at the Company's registered office.

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, age or ethnic origin. All UK businesses report diversity data and are responsible for benchmarking against their local population.

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. Senior management within the Group meet regularly to review strategic developments. 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 various employee share schemes.

Employee satisfaction is tracked through an annual employee survey. Results from the 2008 survey have been fed back to employees and action plans at local level rolled out. A number of Group-wide initiatives have been established for employees. For example, the "Express Awards" reward outstanding employee activities in and out of the workplace. In the Directors' view the current initiatives are deemed to be effective.

Environmental policy
Information on the Group's environmental initiatives can be found in the Corporate Responsibility Review on page 34 and in the separate Corporate Responsibility Report which is published later in the year on the Company's website, www.nationalexpressgroup.com.

Charitable and political contributions
Charitable donations made during the year totalled £366,000 (2007: £374,000). It is the Group's policy not to make political donations and accordingly none were made in the year. However the Company did attend and sponsor various political events during the year for which total expenditure was £13,000 (2007: £27,900).

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 2008 were 21 days (2007: 22 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.

Financial instruments
Details of the use by the Company and its subsidiaries of financial instruments can be found in the Notes to the Consolidated Accounts on pages 102 to 104.

Major shareholdings
As at 26 February 2009 the Company had been notified of the following interests in its shares which represent 3% or more of the voting rights in the Company:

	Ordinary shares	Percentage of share capital	Nature of holding
European Express Enterprises Ltd	13,503,600	8.73	Direct
	13,100,610	8.47	Indirect
Barclays Bank PLC	6,429,425	4.16	Indirect
Barclays Global Investors	6,058,928	3.92	Indirect
Legal & General Group Plc	6,037,172	3.90	Direct
Newton Investment Management Ltd	6,831,739	4.42	Direct
Prudential PLC	10,176,423	6.58	Direct

These holdings include the Directors' holdings which are shown on page 54 of the Directors' Remuneration Report.

Share capital and rights attaching to the Company's shares
Under the Company's Articles of Association, any share in the Company may be issued with such rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise as the Company may from time to time by ordinary resolution determine (or, in the absence of any such determination, as the Directors may determine).

At 31 December 2008, the Company's issued share capital consisted of a single class of ordinary shares with a nominal value of 5p. At a general meeting of the Company every member has one vote on a show of hands and on a poll one vote for each share held. The notice of general meeting specifies deadlines for exercising voting rights either by proxy or present in person in relation to resolutions to be passed at a general meeting. Details of the authorised and issued share capital of the Company and details of shares issued during the year can be found in note 32 on page 104.

Directors' Report continued

Share capital (continued)
No shareholder is, unless the Board decides otherwise, entitled to attend or vote either personally or by proxy at a general meeting or to exercise any other right conferred by being a shareholder if he or she or any person with an interest in shares has been sent a notice under Section 793 of the Companies Act 2006 (which confers upon public companies the power to require information with respect to interests in their voting shares) and he or she or any interested person failed to supply the Company with the information requested within 14 days after delivery of that notice. The Board may also decide that no dividend is payable in respect of those default shares and that no transfer of any default shares shall be registered. These restrictions end seven days after receipt by the Company of a notice of an approved transfer of the shares or all the information required by the relevant Section 793 notice, whichever is earlier.

The Directors may refuse to register any transfer of any share which is not a fully-paid share, although such discretion may not be exercised in a way which the Financial Services Authority regards as preventing dealings in shares of that class from taking place on an open or proper basis. The Directors may likewise refuse any transfer of a share in favour of more than four persons jointly.

The Company is not aware of any other restrictions on the transfer of ordinary shares in the Company other than:

- certain restrictions that may from time to time be imposed by laws and regulations (for example, insider trading laws); and
- pursuant to the Listing Rules of the Financial Services Authority whereby certain employees of the Company require approval of the Company to deal in the Company's shares.

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities or voting rights.

Resolutions will be proposed at the 2009 Annual General Meeting to authorise the Directors to exercise all powers to allot shares and approve a limited disapplication of statutory pre-emption rights. Details are set out in the Notice of Meeting accompanying this document.

The Company was granted authority at the Annual General Meeting in 2008 to purchase its own shares up to an aggregate value of 10% of the issued nominal capital. The authority was not used during the year. The authority is renewed annually and approval will be sought at the Annual General Meeting in 2009 for its renewal. Further details are set out in the Notice of Meeting accompanying this document.

As at 26 February 2009 the Company held a total of 1,825,000 ordinary 5p shares (nominal value £91,250) in treasury equal to 1.2% of the issued share capital.

Share schemes
The IFG Trust (Jersey) Limited, as Trustee of the National Express Group Employee Benefit Trust, as at 26 February 2009 held 0.1% of the share capital of the Company for employee share schemes. Further details of the Company's employee share schemes can be found in note 7 on page 74. The Trustee may vote the shares held by the Trust at its discretion.

Annual General Meeting
The Annual General Meeting will be held on 6 May 2009. Shareholders will be asked to approve six items of special business, details of which are given in the Notice of Meeting accompanying this report.

Articles of Association
The Company's Articles of Association may only be amended by a special resolution at a general meeting of shareholders.

Powers of the Directors
Subject to its Articles of Association and relevant statutory law and to any direction that may be given by the Company in general meeting by special resolution, the business of the Company shall be managed by the Directors, who may exercise all powers of the Company which are not required to be exercised by the Company in general meeting.

Material contracts and change of control agreements
The Company is party to a number of banking agreements which allow for notification of change of control within five days of becoming aware of the event following which repayment of outstanding commitments is to be made within thirty days.

The Group's UK rail portfolio currently comprises three DfT franchises: National Express East Coast, National Express East Anglia and c2c. Each of the three rail franchise agreements with DfT contains termination rights for the benefit of DfT which would be triggered by a change of control in National Express Group PLC.

The Group's rail franchisees lease their rolling stock. National Express East Coast's rolling stock leases with HSBC Rail (UK) Limited and with Porterbrook Leasing Company Limited both contain termination rights for the benefit of the lessor which would be triggered by a change of control in National Express Group PLC.

All of National Express East Anglia's rolling stock leases with HSBC Rail (UK) Limited and its more significant leases with Porterbrook Leasing Company Limited contain termination rights for the benefit of the lessor which would be triggered by a change of control in National Express Group PLC.

The Group's UK bus business operates routes in London under a framework agreement with TfL. That agreement contains a termination right for the benefit of TfL which would be triggered by a change of control in National Express Group PLC.

The Group's North American business operates school bus services under contracts with school boards. Those contracts invariably contain a change of control clause for the benefit of the board which would be triggered by a change of control in National Express Group PLC. While no one single school bus contract could be considered significant in the context of the Group turnover, the impact on that turnover in the event that each school board exercised its termination right on a change of control would be significant.

Directors' and employees' service contracts
Ray O'Toole has a provision in his service contract which provides 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 salary and benefits that the Director would have received during the notice period. There are no other agreements between the Company and its Directors or employees providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) that occurs because of a takeover bid.

Auditors
Resolutions to appoint Ernst & Young LLP as auditor of the Company and to authorise the Directors to fix their remuneration will be proposed at the 2009 AGM.

Disclosure of information to auditors
The Directors confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware and that each Director has taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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. Details of borrowings, liquidity risks and committed facilities can be found in notes 29 and 30 to the Group financial statements and in the OFR.

Post balance sheet event
On 24 October 2008, the Group announced that it planned to exit the Dot2Dot business. On 9 January 2009, the Group concluded the sale of the Dot2Dot business and it has been classified as a discontinued operation for the year ended 31 December 2008. Further details are included in note 11 on page 79.

Directors' responsibilities for the financial statements
The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards as adopted by the European Union or, in the case of the Company's accounts, UK GAAP.

The Directors are required to prepare financial statements for each financial year that give a true and fair view of the financial position of the Company and of the Group and the financial performance and cash flows of the Group for that period. In preparing those accounts the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- present information and accounting policies in a manner that provides relevant, reliable and comparable information;
- provide additional disclosures where necessary to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance; and
- state that the Company and the Group have complied with applicable accounting standards, 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 Company and the Group and enable them to ensure that the accounts comply with relevant legislation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Information published on the internet is accessible in many countries with different legal requirements. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' responsibility statement pursuant to DTR 4
The Directors confirm that, to the best of each person's knowledge:

(a) the financial statements set out in pages 57 to 130, which have been prepared in accordance with applicable United Kingdom law and International Financial Reporting Standards as adopted by the European Union or, in the case of the Company's accounts, UK GAAP, give a true and fair view of the assets, liabilities, financial position and profit of the Company and of the Group taken as a whole; and

(b) the Operating and Financial Review on pages 4 to 33 contained in this report includes a fair review of the development and performance of the business and the position of the Company and the Group taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board

Tony McDonald
Secretary
26 February 2009

Corporate Governance Report

The Board and its principal Committees

Details of the Board and its principal Committees are set out below. The following table sets out the number of meetings of the Board and its Committees during the year and individual attendance by the Board and Committee members at these meetings. All of the Committees are authorised to obtain legal or other professional advice as necessary, to secure the attendance of external advisors at their meetings and to seek information required from any employee of the Company in order to perform their duties. The full terms of reference of the Committees are available on the Company's website at www.nationalexpressgroup.com.

	The Board of Directors		Audit Committee		Remuneration Committee		Nomination Committee		Safety and Environment Committee	
Name of Director	Attended	Possible	Attended	Possible	Attended	Possible	Attended	Possible	Attended	Possible
Richard Bowker *Chief Executive*	14	14	–	–	–	–	–	–	–	–
Tim Score *Interim Chairman*	13	14	3	3	3	3	1	1	4	4
David Ross *Chairman*[1]	11	13	–	–	–	–	2	2	4	4
Executive Directors										
Jez Maiden[2]	4	4	–	–	–	–	–	–	–	–
Ray O'Toole	14	14	–	–	–	–	–	–	–	–
Adam Walker[3]	2	2	–	–	–	–	–	–	–	–
Non Executive Directors										
Jorge Cosmen *Deputy Chairman*	14	14	–	–	–	–	3	3	4	4
Miranda Curtis[4]	9	10	–	–	2	2	–	–	3	3
Roger Devlin	12	14	3	3	3	3	–	–	4	4
Sir Andrew Foster	14	14	3	3	–	–	3	3	4	4
Barry Gibson[5]	4	4	–	–	1	1	–	–	–	1

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

1. Resigned from the Board on 9 December 2008.
2. Appointed to the Board on 17 November 2008.
3. Resigned from the Board on 26 March 2008.
4. Appointed to the Board on 1 June 2008.
5. Resigned from the Board on 31 May 2008.

The Board of Directors

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, significant changes to accounting policies, capital structure and dividend policy.

Audit Committee

Members of the Audit Committee are:

Tim Score (Chairman)
Roger Devlin
Sir Andrew Foster

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 is responsible for ensuring that provision of non-audit services does not impair the external auditor's independence or objectivity. It discusses 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 Company's internal control and risk management systems.

Remuneration Committee
Members of the Remuneration Committee are:

Roger Devlin (appointed as Chairman 31 May 2008)
Miranda Curtis (appointed 1 June 2008)
Tim Score
Barry Gibson (resigned as Chairman 31 May 2008)

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 options. The Committee is responsible for selecting, appointing and setting the terms of reference for any remuneration consultants who advise the Committee. The Committee ensures 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
Members of the Nomination Committee are:

Tim Score (appointed as Chairman 9 December 2008)
Sir Andrew Foster
Jorge Cosmen
Barry Gibson (resigned 31 May 2008)
David Ross (resigned as Chairman on 9 December 2008)

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 reviews the time required from a Non Executive Director and uses performance evaluation to assess whether the Non Executive Director is spending enough time on fulfilling their duties.

Safety and Environment Committee
Members of the Safety and Environment Committee are:

Miranda Curtis (appointed as Chairman 1 June 2008)
Jorge Cosmen
Sir Andrew Foster
Tim Score
Roger Devlin
Barry Gibson (resigned as Chairman 31 May 2008)
David Ross (resigned 9 December 2008)

The Committee is responsible for reviewing and challenging constructively the structure, content and operation of the safety management arrangements put in place by members of the executive management of the Group's operating companies. It reports periodically to the Board its observations on the safety management arrangements in place and reviews and makes recommendations to the Board on any specific safety management issues relating to the Group or any subsidiary company.

The Board supports the highest standards of corporate governance and ethical practices within all its operations and continues to review its policies on an ongoing basis. 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.

Corporate Governance Report continued

Statement of Compliance with the Combined Code

In the opinion of the Directors the Company has complied with Section 1 of the Combined Code on Corporate Governance published in 2006 (the "Combined Code") throughout the year apart from provision A.3.2 (the requirement that at least half of the Board, excluding the Chairman, should comprise Non Executive Directors determined by the Board to be independent), provision A.3.3 (appointment of one independent Non Executive Director to be the Senior Independent Director), provision A.4.1 (the requirement for the Nomination Committee to have a majority of independent Directors), provision B.2.1 (the requirement for the Remuneration Committee to have a least three independent Non Executive Directors) and provision C.3.1 (the requirement for the Audit Committee to be made up of at least three independent Non Executive Directors), as follows:

- Following the resignation of David Ross as Chairman on 9 December 2008, Tim Score held the position of Interim Chairman and Senior Independent Director. On 19 January 2009 Roger Devlin was appointed as Senior Independent Director for the period of Tim Score's interim chairmanship.
- Following the resignation of David Ross as Chairman on 9 December 2008, Tim Score has held the position of Interim Chairman. Excluding the Interim Chairman, the Board comprises seven Directors of whom three Non Executive Directors (Miranda Curtis, Roger Devlin and Sir Andrew Foster) are considered by the Board to be independent. Barry Gibson was considered by the Board to be independent to the date of his resignation on 31 May 2008.
- Following the resignation of David Ross, the current members of the Nomination Committee are Tim Score who is not considered independent whilst acting as Interim Chairman, Jorge Cosmen who is not considered independent and Sir Andrew Foster who is considered independent.
- Following the resignation of David Ross, and the appointment of Tim Score as Interim Chairman, only two of the members of the Remuneration Committee, Roger Devlin and Miranda Curtis, are considered independent.
- The Company is in non-compliance with the requirement that the Audit Committee should be made up of independent Non Executive Directors as Tim Score is both Chairman and a member of the Audit Committee. However the Board is satisfied that Tim Score fulfils the requirement of having recent and relevant financial experience.

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 four Non Executive Directors. A full list of the Directors with details of their biographies and Committee memberships is given on page 37. 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;
- periodically reviewing with the Board its working practices and performance; and
- ensuring there is effective contribution from the Non Executive Directors and a constructive relationship between the Executive and Non Executive Directors.

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.

Roger Devlin is the Senior Independent Director. The Board considers all of the Non Executive Directors to be independent other than Jorge Cosmen, and considered David Ross to be independent prior to his appointment as Chairman and Tim Score to be independent prior to his appointment as Interim Chairman. Mr Cosmen is not considered to be independent by the Board due to his close links with the Alsa business and significant interests in the shares of the Company which are held through European Express Enterprises Limited. 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.

The Board meets at least eight times during the year. In 2008 the Board met 14 times and visited businesses in Spain and North America. There is a formal schedule of matters reserved for the Board's decision, the main terms of which are shown on page 42 together with the attendance record of the Directors. During the year the Chairman met on several occasions 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 regularly to discuss current issues.

The Company purchases Directors' and Officers' Liability Insurance for the Company and its subsidiaries, which gives appropriate cover for any legal action brought against its Directors.

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 and Environment Committee. The members of each principal Committee, attendance and main duties are shown on pages 42 and 43. In addition there is an Executive Committee with authority to approve routine matters of business and a Tax and Treasury Committee which reviews the Group's tax planning, banking facilities and treasury reports.

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. The procedures adopted by the Company in relation to Directors' conflicts of interest are detailed on page 46.

External advisors are normally 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

The members of the Nomination Committee are shown on page 43.

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

- prepares a job specification and a description of the capabilities required for a particular post;
- considers 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, will use an external search consultancy and/or open advertising.

During the year the Committee:

- considered the appointment of a new Non Executive Director to replace Barry Gibson, appointed search consultants for the Non Executive Director's position and interviewed candidates for this position following which Miranda Curtis was appointed as a Non Executive Director;
- considered the appointment of a new Executive Director to replace Adam Walker, appointed search consultants for the Executive Director's position and interviewed candidates for this position following which Jez Maiden was appointed as an Executive Director;
- prepared a job specification for the role of Deputy Chairman and made a recommendation for the formal appointment of Jorge Cosmen to the role of Deputy Chairman;
- considered the appointment of an Interim Chairman, following the resignation of David Ross and selected search consultants to identify a permanent successor for the Chairman's position;
- reviewed proposals which were submitted to the Board for the implementation of succession planning.

Corporate Governance Report continued

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 advisors give presentations to the Board on significant matters during the year.

Under the direction of the Chairman, the Company Secretary is responsible for ensuring 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. An 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; and
- build an understanding of the Group's main relationships including stakeholders and customers.

Performance evaluation
During the year a formal evaluation of the Board's performance was carried out using external consultants. The external consultants received evaluation questionnaires from each of the Directors and the Company Secretary. The questionnaires covered the performance of the Board as a whole and individual Board members. As a follow-up to the questionnaires individual meetings were held by the consultants with each Board member at which the answers to the questionnaires were explored further and additional matters raised. The responses to all questionnaires were discussed with the Chairman of the Board and the consultants then made a presentation to the Board as a whole, drawing out the general themes arising from the questionnaires. Subsequently the Board agreed a series of actions to improve its performance and increase its effectiveness.

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 Directors' Remuneration Report including details of remuneration policy and service contracts is set out on pages 49 to 56.

Directors' conflicts of interest
The Board has a procedure in place to deal with a situation where a Director has a conflict of interest, as required by the new company law regime introduced by the Companies Act 2006. As part of this process, the members of the Board prepare a list of other positions held and all other conflict situations that may need authorising either in relation to the Director concerned or his/her connected persons. The Board considers each Director's situation and decides whether to approve any conflict situations, taking into consideration what is in the best interests of the Company and whether the Director's ability to act in accordance with his or her wider duties is affected. Each Director is required to notify the Company Secretary of any potential or actual conflict situations that will need authorising by the Board. Authorisations given by the Board are reviewed annually.

Accountability and audit
Statements of the respective responsibilities of the Directors and auditors are set out on pages 41 and 57.

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 company 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 relevant 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 function.

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 reviewed at management level and passed to 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 included in quarterly reports. 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 Group internal audit function which works in conjunction with an in-house internal audit resource. The division of responsibilities between the in-house and outsourced functions is agreed as part of an annual internal audit plan. The internal audit function reports to management and the Audit Committee on the Group's financial and operational controls, and reviews, together with in-house internal audit functions, particularly in the UK business, the extent to which its recommendations have been implemented.

Board-level reporting on internal control – during the year the Audit Committee reviews regular reports from the internal audit function, 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 and Accounts. 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 in line with the Guidance for Directors in the Combined Code published by the Financial Reporting Council (Turnbull guidance). Where significant control failings or weakness have been identified, appropriate corrective action has been taken.

Audit Committee and auditors

The work of the Audit Committee

The members of the Audit Committee are shown on page 42.

The Committee meets at least three times a year and met three times in 2008. The agenda reflects the duties delegated to it by its terms of reference, details of which are summarised on page 42. There are a number of standing items considered during the year such as consideration of the internal and external audit reports, review of the Annual Report and Accounts, review of the preliminary and half year announcements, and review of the Corporate Governance Report.

Other items that were considered and discussed during 2008 included a review of the 2008 internal and external audit plans, the integration of the Continental Auto business in Spain, annual fitness checks within the subsidiaries and the external auditor's performance and fees.

At the invitation of the Committee, and as appropriate to the matters under discussion, meetings may be attended by the Executive Directors and 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.

Review of external auditor

The Audit Committee assesses and reviews on a regular basis the independence of the external auditor. As part of their determination the Audit Committee considers a report by the external auditor on the firm's independence which is required in order to carry out its professional duties and responsibilities as auditor.

Policy on auditor providing non-audit work

The Committee has an approved policy on the provision of non-audit services. The policy sets the approvals policy for the following types of service:

- services that are considered to have "general pre-approval" by the Audit Committee, by virtue of the approval of the policy;
- services that require "specific pre-approval", on a case-by-case basis, before any work can commence; and
- services that cannot be supplied by the external auditor.

The services that require specific pre-approval are tax, transaction investigation and valuation, advisory and corporate finance services. The fees for these services are pre-approved up to a level of 25% of the total fees paid to the external auditor. For services exceeding this limit specific pre-approval is required.

In deciding whether or not to grant approval for the provision of specific services by the external auditor, the Audit Committee includes in its consideration the following factors:

(i) whether the external auditing firm is best placed to provide an effective and efficient service, given its familiarity with the Company's processes, systems and people; and

(ii) the level of non-audit fees paid to the external auditor in the year as a proportion of the annual external audit fee.

The majority of non-audit work undertaken by the external auditor during the year relates to overseas financing structures and tax advisory/compliance services. These items the Committee believes would be impractical and costly to provide through another party.

Corporate Governance Report continued

Whistleblowing policy
A Group "whistleblowing" policy has been issued to all Group companies to ensure a consistent approach across the Group.

Relations with shareholders
Dialogue with institutional shareholders
The Board 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 half year and final results. A formal review of the opinions of the Company's major investors on its financial performance and management was undertaken in 2007 and an action plan has been put in place addressing key issues arising from this survey.

During the year written responses are given to correspondence received from shareholders and all shareholders receive copies of the Annual Report and Accounts or the Annual Review and Summary Financial Statement. 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 Annual Report and Accounts, press releases, share price data and links to subsidiary company websites.

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. Voting at the Annual General Meeting on all resolutions is by poll on a one share, one vote basis. The results are available on the Group's website following the meeting. Notice of the Annual General Meeting and related papers are sent to shareholders at least 20 working days before the meeting.

Directors' Remuneration Report

This report has been approved by the Board and the Remuneration Committee (the "Committee"). Shareholders will be invited to approve the report at the 2009 Annual General Meeting.

Remuneration Committee
Composition of the Committee
The members of the Committee who served during the year, all of whom were independent Directors, were:

Roger Devlin (*Chairman)* (appointed Chairman 31 May 2008)
Barry Gibson *(Chairman)* (resigned 31 May 2008)
Miranda Curtis (appointed 1 June 2008)
Tim Score

Role of the Committee
The key responsibilities of the Committee are to:

- determine the fees of the Chairman;
- determine the remuneration and conditions of employment (including any termination arrangements) of the Executive Directors;
- approve the remuneration and conditions of employment of the Divisional Chief Executives and Company Secretary;
- review the remuneration and conditions of employment of the senior management team; and
- select and appoint any remuneration consultants who advise the Committee.

The full terms of reference of the Committee are available on the Company's website at www.nationalexpressgroup.com.

Advisors to the Committee
The Committee has appointed independent remuneration consultants, Hewitt New Bridge Street (HNBS) to advise on all aspects of senior executive remuneration. HNBS has no other connection with the Group other than in the provision of advice on executive and employee remuneration.

The Chief Executive and Chief Executive UK Division provide guidance to the Committee on remuneration packages for senior executives employed by the Group (but not in respect of their own remuneration).

Activities of the Committee
During the year the Committee considered the following items of business:

- Executive Directors' and senior executives' salary levels and 2007 annual bonus awards;
- Annual bonus scheme terms for 2008;
- Review of the Chairman's fees;
- The total shareholder return comparator group used in the Long Term Incentive Plan's performance condition;
- 2008 award levels under the Company's Long Term Incentive Plan and WMT Long Service Option Scheme;
- Testing of performance conditions and vesting of Long Term Incentive Plan awards granted in 2005;
- Long Term Incentive Plan entitlements upon redundancy;

The Committee's recommendations in 2008 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, the time commitment required from the Director (estimated to be 100 days per year for the Chairman and 20 days per year for the other Non Executive Directors) and any additional responsibilities undertaken, 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 2008 the basic fee for acting as a Non Executive Director was £44,000 a year. A fee of £7,000 is paid for chairing a Committee. An additional fee of £5,000 is paid to the Senior Independent Director. The fees of the Non Executive Directors will not increase in 2009.

Remuneration policy for Executive Directors
Remuneration policy is based on the following broad principles set by the Committee:

- 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 falling within the direct remit of 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."

Directors' Remuneration Report continued

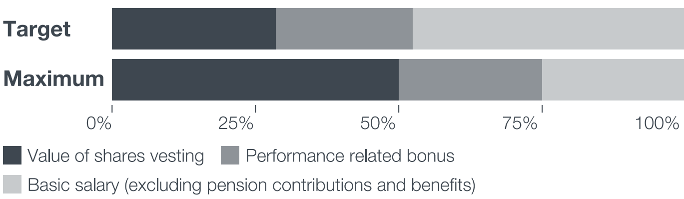
Remuneration policy for Executive Directors (continued)

In implementing its policy, the Committee gives full consideration to the principles set out in the Combined Code on Corporate Governance with regard to Directors' remuneration.

Remuneration policy is reviewed on an ongoing basis against the Committee's broad principles and in light of emerging best practice in corporate governance. The Group operates a leadership and development programme which includes an appraisal system for Directors and senior management. The appraisal system uses balanced scorecards to assess performance against financial, customer, operational and people objectives. The results of the annual appraisal system are taken into consideration when setting remuneration levels.

While not directly relevant to National Express, the Committee has considered the Company's current remuneration policy in light of the recent Financial Services Authority's (FSA) letter to Chief Executives of UK financial institutions. The conclusion of the Committee was that the current remuneration structure at the Company remains appropriate in light of the good practice suggestions of the FSA.

Performance related versus fixed remuneration (%)



Fixed versus variable remuneration

A substantial proportion of the Executive Directors' pay is performance-related. The table opposite shows the balance between fixed and performance-related pay at target and maximum performance levels based on the elements of National Express's remuneration package set out below as operated in the financial year under review. Maximum performance assumes achievement of maximum bonus and full vesting of shares under the LTIP.

Elements of remuneration

Summary of the components of the Executive Directors' remuneration.

	Objective	Performance period	Policy
Basic salary	To position at a competitive level for similar roles within comparable markets.	Annually	Individual pay levels (using comparable mid-market data for guidance) are determined by reference to the individual's performance, experience in post and potential.
Performance-related bonus	To incentivise delivery of performance objectives.	1 year	Bonus payments are based on the achievement of specified corporate objectives.
Pension	To provide competitive benefits in line with market practice and to act as a retention mechanism and reward long service.	Ongoing	The policy is to provide market competitive retirement benefits. Only basic salary is pensionable.
Long Term Incentive Plan	To drive performance, aid retention and align the interests of Executive Directors with shareholders.	3 years	Half of any award is subject to EPS growth. The remaining half is subject to the relative total shareholder return (TSR) of the Company compared against a bespoke peer group.
Other benefits	To provide competitive benefits in line with market practice.	Ongoing	Executive Directors receive a fully expensed car, private health and long term sickness insurance. A cash alternative may be provided according to individual circumstances.

(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 two comparator groups of companies. In addition, due consideration is given to proposed pay increases and remuneration elsewhere in the Group. The comparator groups for the 2008 financial year were a group of transport sector companies with a median market capitalisation of £1,925 million and a group of companies from the FTSE Mid 250 drawn from all sectors with a median market capitalisation of £1,995 million which reflected that of National Express at the time of completing the review. For 2009 the comparator groups will be based on similar groups of transport/leisure and general sector companies drawn from the FTSE 250. In 2009 there will be no increase in the basic salary of the Executive Directors.

(ii) Performance-related bonus

The maximum potential bonus payable to Executive Directors in 2008 was 100% of salary. 70% of the bonus payable was based on financial targets and 30% based on non-financial targets. The non-financial targets encompass customer, operational excellence and people objectives. No bonus is payable unless the Group's normalised profit budget is achieved. The definition of normalised profit is set out in the Glossary on page 133. Directors receive 50% of that part of the bonus referable to financial targets upon achieving budget and 100% of that part upon achieving a stretch target which, for 2008, was 107% of budget. In terms of actual performance against the targets set for the financial year under review, the result was 102.9% of budgeted profit before tax. Bonus entitlements of Executive Directors who were in post for the whole of 2008 were in the range of 66% to 77%. However, Richard Bowker voluntarily waived 33% of his bonus entitlement and Ray O'Toole voluntarily waived 25% of his entitlement. As a result bonus entitlements of Executive Directors were in the range of 44% to 58%. Furthermore, any bonuses awarded in respect of the 2008 calendar year will not be paid in 2009 but will, rather, be deferred for a period of one year. Half of each award will be a cash deferred award conditional upon the continued employment of the relevant Director. The other half of each award will be converted (at the average of the closing price for the Company's shares during the five business days from 3 March to 9 March 2009 inclusive) into deferred forfeitable ordinary shares of the Company. Subject to the terms of the award and the relevant Director's continued employment, these awards will ordinarily vest on 10 March 2010.

In line with the Association of British Insurers' Guidelines on Responsible Investment Disclosure, the Committee ensures that the incentive structure for Executive Directors and senior management will not raise environmental, social or governance ("ESG") risks by inadvertently motivating irresponsible behaviour. More generally, with regard to the overall remuneration structure, there is no restriction on the Committee which prevents it from taking into account corporate governance on ESG matters and the Committee takes due account of issues of general operational risk when structuring incentives.

For 2009 bonus payments will be based on a similar structure but with the maximum potential bonus opportunity reduced to 75% of salary.

(iii) Pensions

Under the terms of their service agreements, Executive Directors are either entitled to become members of one of the Group pension schemes or to receive payment of a fixed percentage of salary.

Adam Walker was a member of the National Express Group Staff Pension Plan ("the Plan") which is an HM Revenue & Customs (HMRC) approved defined benefit scheme until 26 March 2008. The benefits from this Plan are subject to HMRC limits. Spouses' pensions are provided in accordance with the terms of the Plan. Ray O'Toole was a member of this Plan until 7 April 2006 and he now receives a salary supplement of 44% in lieu of pension contributions. Neither Richard Bowker nor Jez Maiden is a member of a company pension scheme and each receives a 25% salary supplement in lieu of pension contributions. Life assurance of four times' basic annual salary is provided for the Executive Directors.

(iv) Incentive scheme and share options

(a) Long term incentive arrangements

The National Express Group Long Term Incentive Plan (LTIP) was approved by shareholders at the 2005 Annual General Meeting and operates as the Company's sole type of executive long term incentive arrangement. The LTIP consists of annual awards of performance and matching shares. Details of the plan are provided below.

Performance shares

Executive Directors are eligible to receive a conditional award of shares up to an equivalent of 1 x their annual basic salary. The vesting of the award is conditional on meeting the performance conditions set out below.

Matching shares

Executive Directors are also eligible to receive awards of matching shares that are based on a personal investment in National Express Group PLC shares funded either through a personal investment (for example using an annual bonus award) or through pledging of shares not already allocated to the LTIP. The maximum investment/pledge is 30% of gross salary per annum. Matching awards are based on the ratio of 100 shares for every 30 shares purchased. This is a two for one ratio on a gross income tax basis. Matching share awards are also conditional on the performance conditions set out below.

If a participant ceases employment before vesting for a "compassionate" reason (eg redundancy, retirement, death in service, sale of business out of the Company's group) his awards will ordinarily vest. The extent of vesting will be determined by applying the relevant performance conditions to the date of cessation and scaling back the number of shares awarded on a pro rata basis (rounded up to the next complete six month period from the date of grant) unless the Committee determines that it would be inappropriate to apply a pro rata reduction. Awards lapse on cessation of employment for any other reason.

Directors' Remuneration Report continued

Performance conditions

There are two distinct performance conditions applying to awards made. First, the performance condition attached to one-half of an award (Part "A") is based on the Company's normalised diluted earnings per share ("EPS") growth performance in excess of inflation over a fixed three-year period (three financial years commencing with the financial year in which the award is made). The performance condition attached to the other half of an award (Part "B") is based on the Company's TSR performance over the same fixed three-year period relative to the TSR performance of a comparator group of 20 transport companies taken predominantly from the FTSE Industrial Transportation and FTSE Travel & Leisure sectors. The companies comprising the comparator group have been chosen on the basis of their comparability to National Express Group PLC (based on their size and scope of business operations). There is no ability to retest either performance condition.

For awards made in 2006, 2007 and 2008 Parts A and B will vest to the extent that the performance conditions set out in the tables below are met:

Average growth in the Company's normalised diluted EPS* in excess of inflation ("CPI"*)	Percentage of Part A that vests
Less than 3%	0%
3%	30%
6%	100%
Between 3% and 6%	30%–100% pro rata

*Normalised diluted earnings per share and CPI are as defined in the Glossary on page 133.

Rank of the Company's Total Shareholder Return against a comparator group	Percentage of Part B that vests
Below median	0%
Median	30%
20th percentile	100%
Between median and 20th percentile	30%–100% pro rata

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.

The following table sets out the percentage of each extant award that would have vested if the performance conditions had been tested as at 31 December 2008 (without making any allowance for pro rata reduction for any period of less than three years).

Indicative percentage of LTIP awards vesting based on performance to 31 December 2008

Year of award	TSR element (max 50%)	EPS element (max 50%)	Total (max 100%)
2006	20.8%	38.6%	59.4%
2007	23.1%	50.0%	73.1%
2008	00.0%	50.0%	50.0%

(b) Savings Related Share Option Scheme (Sharesave Scheme)
The Company operates an HMRC 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.

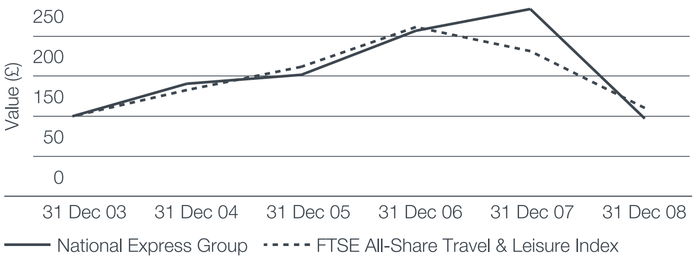
Performance criteria

The Committee believes that budgeted profit and/or EPS growth as performance measures for the discretionary bonus scheme and long term incentives 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 reported in the Company's audited accounts, which the Company believes to be the most transparent and objective measure of the Company's profit or EPS. The Committee also monitors the Group's TSR against both the FTSE All-Share Travel & Leisure Index as a measure against its peer group and the FTSE 250 Index, representing a broad equity market index of which the Company is a constituent member. TSR has been used by the Company as a second performance measure for awards made to Executive Directors under the LTIP as outlined above.

Prior to making awards in 2009, the Remuneration Committee will undertake a review of the ongoing appropriateness of the range of EPS targets in light of the current trading prospects for the Company given the current economic environment and the constituents of the TSR peer group. If it were considered appropriate to make any fundamental changes to the performance targets, it is anticipated that this would be accompanied by a consultation with major shareholders.

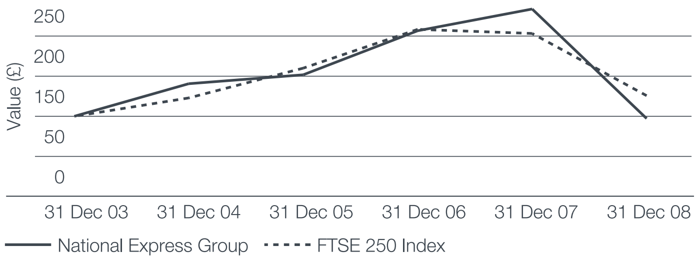
The following graphs show a comparison of National Express Group PLC total cumulative shareholder return against that achieved by the FTSE All-Share Travel & Leisure Index and the FTSE 250 Index. These indices have been selected because the Company is a constituent of each index and the Committee, therefore,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

Total shareholder return versus FTSE All-Share Travel & Leisure Index Source: Thomson Financial



The graph above looks at the value, by the end of 2008, of £100 invested in National Express Group on 31 December 2003 compared with £100 invested in the FTSE All-Share Travel & Leisure Sector Index. The other points plotted are the values at intervening financial year-ends.

Total shareholder return versus FTSE 250 Index Source: Thomson Financial



The graph above looks at the value, by the end of 2008, of £100 invested in National Express Group on 31 December 2003 compared with the value of £100 invested in the FTSE 250 Index. The other points plotted are the values at intervening financial year-ends.

Directors' service contracts, notice periods and termination payments

Executive Directors

The contract dates and notice periods for the Executive Directors are as follows:

Director	Contract date	Notice period from the Company	Notice period from the Director
Richard Bowker	22 May 2006	12 months	12 months
Ray O'Toole	11 September 2003	12 months	6 months
Jez Maiden	17 November 2008	12 months	12 months
Adam Walker (resigned as a Director 26 March 2008)	11 September 2003	12 months	6 months

The service contracts of all the Executive Directors, which are rolling contracts, contain a provision, exercisable at the option of the Company, to pay an amount on early termination of employment equal to one year's salary. 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 contract of Ray O'Toole has 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, which, in the case of Richard Bowker, applies even where the Company elects to make a payment in lieu of notice.

Adam Walker's service contract, until he left service on 26 March 2008, also included the same provisions on leaving service following a change of control as Ray O'Toole's. Adam Walker did not receive any payments in lieu of notice following his resignation.

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

Non Executive Directors

The Non Executive Directors do not have service contracts with the Company but are appointed for an initial three-year term. Non Executive Directors are typically expected to serve for two three-year terms, although their appointment can be terminated either by them or the Company on one month's written notice. It is open to the Company to invite a Non Executive to serve for a further period after the expiry of two three-year terms. All Directors are required to stand at least once every three years for re-appointment by shareholders. The original appointment dates of the Non Executive Directors are:

Jorge Cosmen – 1 December 2005
Miranda Curtis – 1 June 2008
Roger Devlin – 1 October 2007
Sir Andrew Foster – 1 August 2004
Tim Score – 21 February 2005

Senior executive remuneration

The Remuneration Committee reviews and notes the salaries of senior executives within the Group. The salaries of this group of employees by band are as follows:

Salary band £000	**Number of executives 2008**
>200–410	**4**
>150–200	**11**
>100–150	**44**
>70–100	**41**

Directors' Remuneration Report continued

Information subject to audit: Directors' remuneration
Directors' emoluments

	Salary/fees £000	Performance related bonus[1] £000	Benefits[2] £000	Benefits in lieu of pension £000	**Total 2008[3] £000**	Total 2007 £000
Executive Directors						
Richard Bowker	530	233	35	133	**931**	1,133
Ray O'Toole	400	230	23	175	**828**	921
Adam Walker (resigned 26 March 2008)	90	–	7	–	**97**	744
Jez Maiden (appointed 17 November 2008)	44	32	3	11	**90**	–
Non Executive Directors						
David Ross (Chairman) (resigned 9 December 2008)[4]	183	–	–	–	**183**	185
Tim Score (Interim Chairman)	58	–	–	–	**58**	48
Jorge Cosmen (Deputy Chairman)	44	–	–	–	**44**	43
Miranda Curtis (appointed 1 June 2008)	30	–	–	–	**30**	–
Roger Devlin	48	–	–	–	**48**	11
Sir Andrew Foster	44	–	–	–	**44**	43
Barry Gibson (resigned 31 May 2008)	23	–	–	–	**23**	53

1. Bonuses for 2008 will be deferred (half in cash and half in National Express Group PLC shares) until 10 March 2010.
2. Benefits in kind include a company car, fuel, life assurance and health insurance.
3. Total remuneration excludes Company pension contributions which are shown below.
4. Until David Ross's resignation, he had a standing instruction for his broker to re-invest his Chairman's fee in National Express Group PLC shares.

Pensions
Pension benefits earned by Directors in the year to 31 December 2008 from both the approved and unapproved plans were:

	Age	NRA+	Accrued benefit at 1 January 2008 £000	Increase in period (net of indexation) £000	Transfer value of increase in period £000	**Accrued benefit at 31 December 2008 £000**	Transfer value at 1 January 2008 £000	**Transfer value at 31 December 2008 £000**	Movement in transfer value during period less Director's contributions £000
Ray O'Toole*	53	60	35.0	–	–	**36.4**	490.5	**643.4**	152.9
Adam Walker** (resigned 26 March 2008)	41	60	45.9	1.6	16.9	**49.3**	371.3	**522.1**	145.4

\+ Normal Retirement Age.
* Ray O'Toole ceased to accrue pension benefits on 7 April 2006.
** Adam Walker ceased to accrue pension benefits on 26 March 2008. Adam Walker paid pension contributions totalling £36,000 up to the date of his resignation.

Directors' shareholdings
Directors' interests and transactions
The beneficial and non-beneficial interests of the Directors in office as at 31 December 2008 are shown below:

	At 31 December 2008	At 1 January 2008 or on appointment if later	Change from 31 December 2008 to 26 February 2009
Executive Directors			
Richard Bowker	**11,828**	7,554	–
Ray O'Toole	**31,364**	24,364	–
Jez Maiden (appointed 17 November 2008)	**6,000**	6,000	–
Non Executive Directors			
Jorge Cosmen	**28,530,165**	23,017,253	–
Roger Devlin	**6,275**	–	–
Miranda Curtis (appointed 1 June 2008)	**–**	–	–
Sir Andrew Foster	**–**	–	–
Tim Score	**–**	–	–

(The above table is not subject to audit.)

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 five years.

Sharesave Share Option Awards

	Note	At 1 January 2008	During year Granted	During year Exercised	During year Lapsed	**At 31 December 2008**	Option price	Market price at date of exercise	Date from which exercisable	Expiry date
Richard Bowker	(i)	–	312	–	–	**312**	922p	–	01.11.11	30.04.12
Ray O'Toole	(i)	–	312	–	–	**312**	922p	–	01.11.11	30.04.12

Notes
(i) Options granted under the National Express Group Savings Related Share Option Scheme.

Conditional Award of Shares to Jez Maiden

On 17 November 2008, Jez Maiden was granted a share award under a one-off arrangement in relation to his appointment as Group Finance Director. The Committee felt that the award was appropriate to provide compensation for share arrangements forfeited in the process of joining National Express Group PLC and, in doing so, expedite both his recruitment and alignment with the interests of the Company's shareholders.

		At 1 January 2008	During year Granted	During year Exercised	During year Lapsed	**At 31 December 2008**	Option price	Market price at date of exercise	Date of vesting
Jez Maiden (appointed 17 November 2008)	First Award	–	21,074	–	–	**21,074**	–	–	17.11.09
	Second Award	–	21,075	–	–	**21,075**	–	–	17.11.10
	Third Award	–	28,666	–	–	**28,666**	–	–	17.11.11

In accordance with Listing Rule 9.4.2(2) the principal terms of the awards are summarised below.

The award comprises three parts, an award over 21,074 shares (the "First Award"), an award over 21,075 shares (the "Second Award") and an award over 28,666 shares (the "Third Award"). Each award is structured as a conditional right to free shares, the terms of which were set after taking account of Jez Maiden's forfeited awards (which included performance and non-performance awards).

Subject to the terms of the awards and Jez Maiden's continued employment, the First Award and Second Award will ordinarily vest on 17 November 2009 and 17 November 2010 respectively.

Similarly, the Third Award will ordinarily vest on 17 November 2011 subject to the terms of the award and continued employment. The extent of vesting of the Third Award is also dependent on the satisfaction of performance targets assessed over a three-year performance period.

The performance targets applying to the Third Award are identical to those set for the 2008 LTIP awards, details of which are set out above (a mix of earnings per share and shareholder return targets).

The awards will ordinarily lapse on cessation of employment save in certain compassionate "good leaver" circumstances (e.g. death and disability). In such circumstances the extent to which the First and Second Awards may vest will be determined by the Committee. In the case of the Third Award the extent of vesting will be dependent on the satisfaction of the performance criteria over the curtailed period and such time pro rata adjustments as the Committee considers appropriate.

In the event of a variation of the share capital, the Committee may make such adjustments to the awards as it considers appropriate.

No amendments to the advantage of Jez Maiden will be made to the material terms of the awards without shareholder approval other than any minor alteration to (i) benefit the administration of the awards (ii) take account of a change in legislation or (iii) obtain or maintain favourable tax, exchange or regulatory treatment for Jez Maiden or the Company.

The Committee may vary the performance conditions applying to the Third Award if an event has occurred which causes it to consider that it would be appropriate to amend the performance conditions, provided the Committee considers the varied conditions are fair and reasonable and not materially less challenging than the original condition would have been but for the event in question.

The awards are not transferable (save on death) or pensionable.

The awards may only be satisfied by market purchased shares (excluding shares held in treasury). A cash equivalent payment may be made in lieu of shares.

Directors' Remuneration Report continued

Long Term Incentive Plan (LTIP) Awards

Performance shares of 1 x salary are awarded to Executive Directors as nil cost options under the Long Term Incentive Plan. In addition 100 matching shares are awarded for every 30 investment shares pledged or invested by the Director under the share matching element of the LTIP. Further details of the LTIP and the performance conditions that have applied to each award below are shown on page 52.

	Note	LTIP Share Awards	At 1 January 2008	During year Granted	During year Exercised	During year Lapsed	**At 31 December 2008**	Market price on date of award	Market price at date of exercise	Date from which exercisable	Expiry date
Richard Bowker		Performance shares	48,590	–	–	–	**48,590**	1032.5p	–	09.11.09	09.05.10
		Matching shares	8,513	–	–	–	**8,513**	1032.5p	–	09.11.09	09.05.10
		Performance shares	37,878	–	–	–	**37,878**	1320.0p	–	11.04.10	11.10.10
		Matching shares	16,666	–	–	–	**16,666**	1320.0p	–	11.04.10	11.10.10
		Performance shares	–	53,400	–	–	**53,400**	992.5p	–	10.04.11	10.10.11
		Matching shares	–	14,246	–	–	**14,246**	992.5p	–	10.04.11	10.10.11
Ray O'Toole	(i)	Performance shares	35,287	–	23,888	11,399	**–**	921.0p	1020p	27.06.08	27.12.08
	(i)	Matching shares	56,613	–	38,325	18,288	**–**	921.0p	1020p	27.06.08	27.12.08
		Performance shares	38,814	–	–	–	**38,814**	931.0p	–	06.04.09	06.10.09
		Matching shares	24,600	–	–	–	**24,600**	931.0p	–	06.04.09	06.10.09
		Performance shares	28,409	–	–	–	**28,409**	1320.0p	–	11.04.10	11.10.10
		Performance shares	–	40,302	–	–	**40,302**	992.5p	–	10.04.11	10.10.11
		Matching shares	–	6,666	–	–	**6,666**	992.5p	–	10.04.11	10.10.11
Adam Walker	(i,ii)	Performance shares	32,573	–	22,051	10,522	**–**	921.0p	620p	27.06.08	27.12.08
(resigned	(i,ii)	Matching shares	32,333	–	21,888	10,445	**–**	921.0p	620p	27.06.08	27.12.08
26 March 2008)		Performance shares	34,501	–	–	34,501	**–**	931.0p	–	06.04.09	06.10.09
		Matching shares	32,333	–	–	32,333	**–**	931.0p	–	06.04.09	06.10.09
		Performance shares	27,272	–	–	27,272	**–**	1320.0p	–	11.04.10	11.10.10
		Matching shares	18,666	–	–	18,666	**–**	1320.0p	–	11.04.10	11.10.10

Notes

(i) Performance and matching shares granted under the LTIP on 27 June 2005 vested and became exercisable from 27 June 2008 to the extent that the performance conditions had been met. TSR performance had been such as to result in 79.4% of that part of the performance and matching share awards that were subject to the TSR performance condition to vest and the EPS performance had been such as to result in 56% of that part of the performance and matching share awards that were subject to the EPS performance condition to vest.

(ii) Since the performance condition in relation to Adam Walker's 2005 LTIP award (performance and matching share awards) had been met prior to his resignation (as set out in (i) above), the Committee permitted these awards to be exercised on his departure. All other LTIP awards granted to Adam Walker lapsed on 26 March 2008.

In respect of the operation of the Long Term Incentive Plan the Company operates the National Express Group Employee Benefit Trust which currently holds 180,793 shares as at 26 February 2009.

The Register of Directors' Interests maintained by the Company contains full details of the Directors' holdings of shares and options over shares in the Company.The aggregate value of the LTIPs which vested in the year was £999,421 (2007: £nil). The mid-market price of the Company's ordinary shares at 31 December 2008 was 494.75p (2007: 1242p) and the range during the year ended 31 December 2008 was 433.5p to 1236p.

By order of the Board

Roger Devlin
Director and Chairman of the Remuneration Committee
26 February 2009

Independent Auditor's Report to the Members of National Express Group PLC

We have audited the Group financial statements of National Express Group PLC for the year ended 31 December 2008 which comprise the Group Income Statement, the Group Balance Sheet, the Group Statement of Cash Flows, the Group Statement of Recognised Income and Expense and the related notes 1 to 39. These Group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of National Express Group PLC for the year ended 31 December 2008 and on the information in the Directors' Remuneration Report 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 auditor's 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' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Group financial statements give a true and fair view and whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes the specific information presented in the Operating and Financial Review that is cross referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Report reflects the Company's compliance with the nine provisions of the 2006 Combined 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 Group financial statements. The other information comprises only the Chairman's Statement, the Operating and Financial Review, the Corporate Governance Report, the unaudited part of the Directors' Remuneration Report and the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Group financial statements, 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 Group financial statements 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 Group financial statements.

Opinion
In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2008 and of its profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the Group financial statements.

Ernst & Young LLP
Registered Auditor
London
26 February 2009

Group Income Statement
For the year ended 31 December 2008

	Note	Total before goodwill impairment, intangible amortisation and exceptional items 2008 £m	Goodwill impairment, intangible amortisation and exceptional items 2008 £m	Total 2008 £m	Total before goodwill impairment, intangible amortisation and exceptional items 2007 £m	Goodwill impairment, intangible amortisation and exceptional items 2007* £m	Total 2007* £m
Continuing operations							
Revenue	4	**2,767.0**	**–**	**2,767.0**	2,612.3	–	2,612.3
Operating costs before goodwill impairment, intangible amortisation and exceptional items		**(2,513.1)**	**–**	**(2,513.1)**	(2,401.9)	–	(2,401.9)
Intangible amortisation	5	**–**	**(55.2)**	**(55.2)**	–	(32.9)	(32.9)
Exceptional items	5	**–**	**(30.9)**	**(30.9)**	–	(15.8)	(15.8)
Total operating costs	6	**(2,513.1)**	**(86.1)**	**(2,599.2)**	(2,401.9)	(48.7)	(2,450.6)
Group operating profit		**253.9**	**(86.1)**	**167.8**	210.4	(48.7)	161.7
Profit on disposal of non-current assets	5	**–**	**5.1**	**5.1**	–	16.2	16.2
Profit from operations		**253.9**	**(81.0)**	**172.9**	210.4	(32.5)	177.9
Share of post tax results from associates and joint ventures accounted for using the equity method	18	**–**	**–**	**–**	0.4	–	0.4
Finance income	9	**17.4**	**–**	**17.4**	17.0	–	17.0
Finance costs	9	**(68.9)**	**(11.5)**	**(80.4)**	(46.0)	–	(46.0)
Profit before tax		**202.4**	**(92.5)**	**109.9**	181.8	(32.5)	149.3
Tax (charge)/credit	10	**(52.3)**	**75.5**	**23.2**	(49.5)	12.1	(37.4)
Profit after tax for the year from continuing operations		**150.1**	**(17.0)**	**133.1**	132.3	(20.4)	111.9
Loss for the year from discontinued operations	11	**(5.5)**	**(7.9)**	**(13.4)**	(3.4)	(2.9)	(6.3)
Profit for the year		**144.6**	**(24.9)**	**119.7**	128.9	(23.3)	105.6
Profit attributable to equity shareholders		**143.7**	**(24.9)**	**118.8**	128.4	(23.3)	105.1
Profit attributable to minority interests		**0.9**	**–**	**0.9**	0.5	–	0.5
		144.6	**(24.9)**	**119.7**	128.9	(23.3)	105.6
Earnings per share:							
– basic earnings per share	13			**77.9p**			69.2p
– diluted earnings per share	13			**77.4p**			68.7p
Normalised earnings per share:							
– basic earnings per share	13	**94.3p**			84.4p		
– diluted earnings per share	13	**93.6p**			83.9p		
Earnings per share from continuing operations:							
– basic earnings per share	13			**86.8p**			73.3p
– diluted earnings per share	13			**86.1p**			72.8p
Dividends per ordinary share:							
– interim	12			**12.72p**			11.56p
– final	12			**10.00p**			26.40p
				22.72p			37.96p

*Adjusted for the final purchase price allocation in relation to Continental Auto and The Kings Ferry Limited in accordance with IFRS 3 and restated for the presentation of Dot2Dot as a discontinued operation.

Dividends of £59.6m were declared and payable during the year (2007: £54.0m). Dividends of £34.6m were proposed for approval during the year (2007: £57.8m).

Group Balance Sheet
At 31 December 2008

	Note	2008 £m	2007* £m
Non-current assets			
Intangible assets	14	**1,519.6**	1,206.9
Property, plant and equipment	15	**841.5**	696.4
Financial assets – Available for sale	17	**9.2**	7.2
– Derivative financial instruments	17	**1.5**	5.3
Investments accounted for using the equity method	18	**7.9**	11.8
Other receivables	20	**7.0**	10.0
Deferred tax asset	27	**20.0**	–
		2,406.7	1,937.6
Current assets			
Inventories	21	**24.4**	20.0
Trade and other receivables	22	**332.3**	272.4
Financial assets – Derivative financial instruments	17	**2.5**	10.0
Current tax assets		**4.0**	9.5
Cash and cash equivalents	23	**105.9**	157.2
		469.1	469.1
Assets in disposal group classified as held for sale	11	**0.7**	–
Total assets		**2,876.5**	2,406.7
Non-current liabilities			
Financial liabilities – Borrowings	28	**(1,215.0)**	(652.3)
– Derivative financial instruments	28	**(59.3)**	(5.4)
Deferred tax liability	27	**(124.9)**	(158.1)
Other non-current liabilities	25	**(20.7)**	(3.7)
Defined benefit pension liability	35	**(45.0)**	(29.8)
Provisions	26	**(39.0)**	(43.5)
		(1,503.9)	(892.8)
Current liabilities			
Trade and other payables	24	**(557.3)**	(574.0)
Financial liabilities – Borrowings	28	**(71.6)**	(415.7)
– Derivative financial instruments	28	**(79.3)**	(17.7)
Current tax liabilities		**(32.5)**	(24.7)
Provisions	26	**(44.3)**	(44.8)
		(785.0)	(1,076.9)
Liabilities directly associated with disposal group assets classified as held for sale	11	**(2.2)**	–
Total liabilities		**(2,291.1)**	(1,969.7)
Net assets		**585.4**	437.0
Shareholders' equity			
Called up share capital	32	**7.7**	7.7
Share premium account	33	**195.7**	195.3
Capital redemption reserve	33	**0.2**	0.2
Own shares	33	**(15.2)**	(16.3)
Other reserves	34	**133.7**	30.4
Retained earnings	33	**257.2**	215.8
Total shareholders' equity		**579.3**	433.1
Minority interest in equity	33	**6.1**	3.9
Total equity		**585.4**	437.0

*Adjusted for the final purchase price allocation in relation to Continental Auto and The Kings Ferry Limited in accordance with IFRS 3.

S R Bowker CBE Group Chief Executive
J K Maiden Group Finance Director
26 February 2009

Group Statement of Cash Flows

For the year ended 31 December 2008

	Note	2008 £m	2007 £m
Cash generated from operations	38	**218.2**	272.1
Tax paid		**(5.0)**	(18.8)
Net cash from operating activities		**213.2**	253.3
Cash flows from investing activities			
Payments to acquire businesses, net of cash acquired	19(a)	**(11.4)**	(485.0)
Deferred consideration for businesses acquired		**(0.3)**	(1.7)
Purchase of property, plant and equipment		**(124.4)**	(149.7)
Proceeds from disposal of property, plant and equipment		**33.7**	22.9
Payments to acquire intangible assets	14	**(8.2)**	–
Receipts from disposal of available for sale investments		**–**	10.7
Receipts from disposal of businesses, net of cash disposed		**5.4**	34.3
Payments in respect of discontinued operations	11	**(6.1)**	(1.9)
Interest received		**17.4**	17.0
Net cash used in investing activities		**(93.9)**	(553.4)
Cash flows from financing activities			
Proceeds from issue of ordinary shares		**0.4**	5.5
Purchase of treasury shares		**(1.7)**	–
Interest paid		**(66.5)**	(39.5)
Finance lease principal payments		**(32.8)**	(26.3)
Net loans advanced		**14.0**	424.9
Payments for the maturity of foreign currency swaps		**(33.0)**	–
Dividends paid to minority interests		**(0.4)**	(0.1)
Dividends paid to shareholders of the Company		**(59.6)**	(53.9)
Net cash (used in)/from financing activities		**(179.6)**	310.6
(Decrease)/increase in cash and cash equivalents		**(60.3)**	10.5
Opening cash and cash equivalents		**157.2**	143.6
(Decrease)/increase in cash and cash equivalents		**(60.3)**	10.5
Foreign exchange		**9.0**	3.1
Closing cash and cash equivalents	23	**105.9**	157.2

Group Statement of Recognised Income and Expense

For the year ended 31 December 2008

	Note	2008 £m	2007* £m
Income and expense recognised directly in equity			
Exchange differences on retranslation of foreign operations		**413.7**	82.9
Exchange differences on retranslation of foreign currency borrowings		**(264.2)**	(89.1)
Exchange differences on retranslation of minority interests		**1.3**	0.2
Actuarial (losses)/gains on defined benefit pension plans	35	**(24.8)**	11.7
(Loss)/gain on cash flow hedges taken to equity		**(79.4)**	21.5
		46.6	27.2
Transfers to the income statement			
On cash flow hedges		**(9.2)**	(1.0)
		(9.2)	(1.0)
Tax on exchange differences		**17.6**	14.3
Tax on share-based payments		**(1.6)**	0.4
Deferred tax on actuarial gains		**7.0**	(3.5)
Deferred tax on cash flow hedges		**24.8**	(6.1)
Tax on items taken directly to or transferred from equity		**47.8**	5.1
Net gain recognised directly in equity		**85.2**	31.3
Profit for the financial year		**118.8**	105.1
Profit attributable to minority interests		**0.9**	0.5
Total recognised income and expense for the year		**204.9**	136.9
Income and expense attributable to equity shareholders		**202.7**	136.2
Income attributable to minority interests		**2.2**	0.7
		204.9	136.9

*Adjusted for the final purchase price allocation in relation to Continental Auto and The Kings Ferry Limited in accordance with IFRS 3.

Notes to the Consolidated Accounts

For the year ended 31 December 2008

1 Corporate information

The consolidated accounts of National Express Group PLC and its subsidiaries ("the Group") for the year ended 31 December 2008 were authorised for issue in accordance with a resolution of the Directors on 26 February 2009 and the balance sheets were signed on the Board's behalf by S R Bowker and J K Maiden. National Express Group PLC is a public limited company incorporated in England and Wales whose shares are publicly traded on the London Stock Exchange.

The principal activities of the Group are described in the Operating and Financial Review ("OFR") that accompanies these accounts.

2 Accounting policies

Statement of compliance

These accounts have been prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") as adopted by the European Union ("EU"), and with those parts of the Companies Acts 1985 and 2006 applicable to companies reporting under IFRS. The Group is required to comply with international accounting requirements under IAS 1 "Presentation of Financial Information" except in extremely rare circumstances where management concludes that compliance would be so misleading that it would conflict with the objective to "present fairly" its accounts. On this basis, the Group has departed from the requirements of IAS 19 "Employee Benefits" and has accounted for its constructive but not legal obligations for the Railways Pension Scheme ("RPS") under the terms of its UK rail franchise agreements. Details of the background and rationale for this departure are provided in note 35, including the impact on the Group's reported financial performance and position of adopting the accounting treatment as required by IAS 1.

Basis of preparation

The financial statements have been prepared under the historical cost convention, except for the recognition of derivative financial instruments, available for sale investments and accounting for pensions detailed below.

As noted above, the Group has taken the extremely rare decision to depart from the requirement of IAS 19 "Employee Benefits" so as to present fairly its financial performance, position and cash flows in respect of its obligation for the RPS. The details of this departure and impact on the Group's accounts are set out in note 35.

A summary of the Group's accounting policies applied in preparing the accounts for the year ended 31 December 2008 is set out below.

The preparation of accounts in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the accounts and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge, actual results may ultimately differ from those estimates.

The key sources of estimation uncertainty that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are the measurement and impairment of indefinite life intangible assets (including goodwill) and measurement of defined benefit pension obligations. The measurement of intangible assets other than goodwill in a business combination involves estimation of future cash flows and the selection of a suitable discount rate. The Group determines on an annual basis whether indefinite life intangible assets are impaired and this requires an estimation of the value in use of the cash-generating units to which the intangible assets are allocated. This requires estimation of future cash flows and choice of a suitable discount rate (see note 14). Measurement of defined benefit pension obligations requires estimation of future changes in salaries and inflation, as well as mortality rates, the expected return on assets and the choice of a suitable discount rate (see note 35). Key accounting judgements which may impact future financial performance are described in the OFR.

The consolidated accounts are presented in pounds sterling and all values are rounded to the nearest one hundred thousand pounds (£0.1m) except where otherwise indicated.

During 2007, the Group acquired the entire share capital of Continental Auto SLU ("Continential Auto") and The Kings Ferry Limited. The allocations of the consideration paid in respect of the acquisitions to the fair value of the net assets acquired were completed during 2008. In accordance with IFRS 3 "Business Combinations", the Group financial statements for the year ended 31 December 2007 have been restated to reflect the final fair value and amortisation adjustments relating to Continental Auto and the goodwill adjustment relating to The Kings Ferry Limited. Further details are contained in note 19. On 24 October 2008, the Group announced that it planned to exit the Dot2Dot business. On 9 January 2009, the Group completed the sale of the Dot2Dot business and it has been classified as a discontinued operation for the year ended 31 December 2008, and the results for the year ended 31 December 2007 restated for the presentation of Dot2Dot as a discontinued operation. Further details are contained in note 11.

Basis of consolidation

The consolidated accounts comprise the accounts of National Express Group PLC and all its subsidiaries drawn up to 31 December each year. Adjustments are made to bring any dissimilar accounting policies that may exist into line with the Group's accounting policies.

On acquisition of a business, the purchase method of accounting is adopted, and the Group income statement includes the results of subsidiaries and businesses purchased during the year from the date control is assumed. The 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 income statement includes the results of that business to the date of disposal.

Intragroup transactions, balances and unrealised gains and losses on transactions between group companies are eliminated.

Minority interests represent the portion of profit or loss and net assets in subsidiaries that is not attributable to the parent Company shareholders and is presented separately from parent shareholders' equity in the consolidated balance sheet.

2 Accounting policies (continued)

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the following amendments and IFRIC interpretations as of 1 January 2008.

- IFRIC 11, "IFRS 2 – Group and Treasury Share Transactions." This interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments needed. There was no impact on the financial performance or position of the Group.
- IFRIC 12, "Service Concession Arrangements." This interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. This interpretation is not applicable to any member of the Group and therefore has no impact on the Group.
- Amendment to IAS 39 and IFRS 7. This amendment was issued during the year effective immediately. There was no impact on the financial performance or position of the Group.

Interests in joint ventures

The Group has a number of contractual arrangements with other parties to share control of other entities which represent joint ventures.

The Group recognises its interest in the entity's assets and liabilities using the equity method of accounting. The Group balance sheet includes the appropriate share of these joint ventures' net assets or liabilities and the income statement includes the appropriate share of their results after tax.

Accounts of jointly controlled entities are prepared for the same reporting period as the Group. Adjustments are made in the Group's accounts to eliminate the Group's share of unrealised gains and losses on transactions between the Group and its jointly controlled entities. The Group ceases to use the equity method from the date it no longer has joint control over the entity.

Interests in associates

Companies, other than subsidiaries and joint ventures, 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 net assets based on their latest accounts under the equity method.

Income statement presentation

The income statement has been presented in a columnar format to enable users of the financial statements to view the normalised results of the Group. Normalised results are defined as the statutory results before the following as appropriate: profit or loss on the sale of businesses, exceptional profit or loss on the sale of non-current assets and charges for goodwill impairment, amortisation of intangible assets, exceptional items and tax relief on qualifying exceptional items and intangibles.

Exceptional items

Exceptional items are material items of income or expenditure which, in the opinion of the Directors, due to their nature and infrequency require separate identification on the face of the income statement to allow a better understanding of the financial performance in the year, in comparison to prior years.

Revenue recognition

Rendering of services

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

Revenue is recognised by reference to the stage of completion of the customer's travel or services provided under contractual arrangements as a proportion of total services to be provided.

UK Trains revenue includes amounts attributed to the train operating companies ("TOCs"), based principally on agreed models of route usage, by Railway Settlement Plan Limited (which administers the income allocation system within the UK rail industry), in respect of passenger receipts. In addition, franchise agreement receipts from the Department for Transport Rail Division ("DfT Rail") and local Passenger Transport Executives ("PTEs") are treated as revenue. Franchise agreement payments to DfT Rail are recognised in operating costs. UK Coach revenue comprises amounts receivable generated from ticket sales. UK Bus and European Coach & Bus revenue comprises amounts receivable generated from ticket sales and revenue generated from services provided on behalf of local transport authorities, which is recognised as the services are provided. For all the divisions noted above, the relevant share of season ticket or travelcard income is deferred within liabilities and released to the income statement over the life of the relevant season ticket or travelcard. North American Bus revenue from school boards and similar contracts is recognised as the services are provided.

Rental income

Rental income is accounted for on a straight-line basis over the lease term.

Finance income

Revenue is recognised using the effective interest method.

Government grants

Government grants relating to property, plant and equipment are included in liabilities as deferred income and are credited to the income statement over the expected useful economic life of the assets concerned. Other grants are credited to the income statement as the related expenditure is expensed.

Notes to the Consolidated Accounts continued

2 Accounting policies (continued)

Segmental reporting

Each of the Group's business and geographical segments provides services that are subject to risks and returns that are different from those of the other business segments. Due to the nature of the Group's operations the distinct business segments align directly with geographical segments which are operating in separate economic environments.

The Group's segments comprise: UK Bus; UK Coach; UK Trains; North American Bus; European Coach & Bus; and Central functions. These segments are described in more detail in the OFR accompanying these accounts.

Leases

Leases of property, plant and equipment where substantially all the risks and rewards of ownership of the asset have passed to the Group, are capitalised in the balance sheet as property, plant and equipment. Finance leases are capitalised at the lower of the fair value of the leased property and the present value of the minimum lease payments. 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 income statement over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding. Property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term.

Leases of property, plant and equipment where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Rentals paid under operating leases are charged to the income statement on a straight-line basis over the term of the lease. Incentives received under operating leases and initial direct costs in negotiating the lease are amortised to the income statement on a straight-line basis over the term of the lease.

All material arrangements and transactions entered into by the Group are reviewed to check whether they contain elements that meet the accounting definition of a lease, although they may not follow the legal form of a lease.

Borrowing costs

Borrowing costs are recognised as an expense when incurred in accordance with the benchmark accounting treatment under IAS 23 "Borrowing Costs".

Current tax and deferred tax

Current tax is provided on taxable profits earned according to the local tax rates applicable where the profits are earned. Income taxes are recognised in the income statement unless they relate to an item accounted for in equity, in which case the tax is recognised directly in equity. The tax rates and tax laws used to compute the current tax are those that are enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full in respect of all material temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, apart from the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill;
- where an asset or liability is recognised in a transaction that is not a business combination and that at the time of the transaction affects neither accounting nor taxable profit or loss; and
- in respect of investment in subsidiaries, associates and joint ventures where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is measured on a non-discounted basis at tax rates that are expected to apply in the periods in which the temporary 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 that there will be taxable profits from which the future reversal of underlying temporary differences can be deducted. Their carrying amount is reviewed at each balance sheet date on the same basis.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and when the Group intends to settle its current tax assets and liabilities on a net basis.

Intangible assets

Intangible assets acquired separately that meet the recognition criteria of IAS 38 "Intangible Assets", are capitalised at cost and when acquired in a business combination are capitalised at fair value at the date of acquisition. Following initial recognition, finite life assets are amortised on a straight-line basis and indefinite life assets are not amortised. The amortisation expense is taken to the income statement through operating expenses.

The existing finite life intangible assets have a residual value of nil and are amortised over their estimated useful lives as follows:

Customer contracts	– over the life of the contract (between 1 and 33 years)
Right to operate TOC franchises	– over the life of the franchise (between 1 and 7 years)

Intangible assets with indefinite lives are tested annually for impairment and the useful lives of finite life intangible assets are examined on an annual basis and adjustments, where applicable, are made on a prospective basis. Finite life assets are reviewed for impairment where indicators of impairment exist.

The Group's indefinite life intangible assets include customer relationships and goodwill. Customer relationship intangible assets are recognised only on contracts where historical experience has shown that these contracts are consistently renewed.

2 Accounting policies (continued)

Software

Computer software that is not integral to an item of property, plant and equipment is recognised separately as an intangible asset and is carried at cost less accumulated amortisation and accumulated impairment losses. Costs include software licences, consulting costs attributable to the development, design and implementation of the computer software and internal costs directly attributable to the development, design and implementation of the computer software. Costs in respect of training are expensed as incurred. Amortisation is calculated using the straight-line method so as to charge the cost of the computer software to the income statement over its estimated useful life (seven years).

The carrying value of intangibles is reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable.

Goodwill

IFRS 3 "Business Combinations", has been applied to the accounting for business combinations from 1 January 2004.

Goodwill on acquisition is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is stated at historic cost less any accumulated impairment. If an acquisition gives rise to an excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously referred to as negative goodwill), this is credited immediately to the income statement.

In accordance with IFRS 3, goodwill is not amortised. All goodwill is subject to an annual test of impairment and an impairment charge recognised as required.

Fair value accounting adjustments are made in respect of acquisitions. Fair value adjustments based on provisional estimates are amended within one year of the acquisition if required, with a corresponding adjustment to goodwill, in order to refine adjustments to reflect further evidence gained post acquisition.

Where goodwill forms part of a cash-generating unit and all or part of that unit is disposed of, the associated goodwill is included in the carrying amount of the operation when determining the gain or loss on the disposal of the operation.

Property, plant and equipment

All property, plant and equipment is stated at historic cost less accumulated depreciation and accumulated impairment losses. Under the transitional arrangements of IFRS 1 the Group elected to deem the fair value of certain revalued assets to be equivalent to cost.

Land and buildings comprise mainly vehicle depots and garages, and offices. Freehold land is not depreciated. Other property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives as follows:

Freehold buildings	– 30 to 50 years
Long leasehold property improvements	– 15 to 40 years
Public service vehicles	– 8 to 15 years
Plant and equipment, fixtures and fittings	– 3 to 15 years

Useful lives and residual values are reviewed annually and adjustments, where applicable, are made on a prospective basis. Repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the derecognition of the asset is included in the income statement in the period of derecognition.

Impairment of non-financial assets

All non-current assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, except for indefinite life intangible assets and goodwill which are reviewed annually. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognised in the income statement in expense categories consistent with the function of the impaired asset.

Except for goodwill impairments, a review is made at each reporting date of any previous impairment losses to assess whether they no longer exist or may have decreased. If such indication exists, the asset's recoverable amount is estimated and any previously recognised impairment loss is reversed only if there has been a change in the estimates used to assess the recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased, subject to a limit of the asset's net book value had no previous impairment loss been recognised. Such reversal is recognised in the income statement. Future depreciation or amortisation is then adjusted to allocate the asset's revised carrying amount over its remaining useful economic life. Impairments to goodwill cannot be reversed.

Financial instruments

The Group determines the classification of its financial instruments at initial recognition. The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired.

Notes to the Consolidated Accounts continued

2 Accounting policies (continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the income statement within finance costs in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date which are classified as non-current assets. The Group's loans and receivables comprise "trade and other receivables" and "cash and cash equivalents" in the balance sheet.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

The Group's investments in entities that are not subsidiaries, associates or joint ventures are classified as available-for-sale financial assets. After initial recognition these assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or the investment is determined to be impaired, at which time the previously reported cumulative gain or loss is included in the income statement. Where there is no active market for the Group's investments, fair value is determined using valuation techniques including recent commercial transactions and discounted cash flow analyses. In the absence of any other reliable external information, assets are carried at cost or amortised cost as appropriate.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

Derivative financial instruments

The Group uses derivative financial instruments such as foreign currency forward exchange contracts, fuel price swaps and interest rate swaps to hedge its risks associated with foreign currency, fuel price and interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value and subsequently remeasured to fair value for the reported balance sheet. The fair value of foreign currency forward exchange contracts, interest rate and fuel price swaps is calculated by reference to market exchange rates, interest rates and fuel prices at the period end.

The Group's fuel price swaps and interest rate swaps are designated as cash flow hedges. The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity, and the ineffective portion in the income statement. The gains or losses deferred in equity in this way are recycled through the income statement in the same period in which the hedged underlying transaction or firm commitment is recognised in the income statement.

Foreign currency forward currency contracts are used to hedge the Group's net investment in foreign currency denominated operations and to the extent they are designated and effective as net investment hedges are matched in equity against foreign exchange exposure in the related assets and liabilities. Gains and losses accumulated in equity are included in the income statement when the foreign operation is partially disposed of or sold.

For derivatives that do not qualify for hedge accounting, gains or losses are taken directly to the income statement in the period.

Hedge accounting is discontinued when the hedging instrument expires, is sold, terminated or exercised, or no longer qualifies for hedge accounting.

Inventories

Inventories are valued at the lower of cost and net realisable value on a FIFO basis, after making due allowance for obsolete or slow moving items.

Pre-contract costs

Pre-contract costs associated with securing new rail franchises are expensed as incurred up to the point when a franchise is awarded. From this point in time, they are recognised as an asset and are expensed to the income statement over the life of the franchise. Costs associated with the commencement of all new contracts other than rail franchises are expensed as incurred.

Trade and other receivables

Trade and other receivables are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. Doubtful debts are provided for when collection of the full amount is no longer probable, whilst bad debts are written off when identified.

2 Accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents as defined for the cash flow statement comprise cash in hand, cash held at bank with immediate access, other short-term investments and bank deposits with maturities of three months or less from the date of inception and bank overdrafts. In the consolidated balance sheet cash includes cash and cash equivalents excluding bank overdrafts. Bank overdrafts that have no legal right of set-off against cash and cash equivalents are included within borrowings in current liabilities.

Trade and other payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at cost being the net fair value of the consideration received plus transaction costs that are directly attributable to the issue of the financial asset or liability. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

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. The insurance provision is based on estimated exposures at the year end principally for claims arising in the UK and North America prior to the year end date, subject to the overall stop loss within the Group's insurance arrangements. The majority of provisions will be utilised within six years, and the provision has been discounted to take account of the expected timing of future cash settlements.

Pensions and other post-employment benefits

The Group has a number of pension schemes, both of a defined benefit and defined contribution nature. Full details are provided in note 35 including the departure from IAS 19 required for the Group's RPS obligations as outlined in the Statement of Compliance.

The balance sheet position in respect of defined benefit schemes comprises the net value for each scheme of the present value of the relevant defined benefit obligation at the balance sheet date less the fair value of plan assets. The trustees complete a full actuarial valuation triennially, separately for each plan, but the obligation is updated annually for financial reporting purposes by independent actuaries, using the projected unit credit method. The present value of the obligation is determined by the estimated future cash outflows discounted using interest rates of high quality corporate bonds which have terms to maturity equivalent to the terms of the related liability.

The current service cost and gains and losses on settlements and curtailments are recognised in staff pension costs within operating costs in the income statement. Past service costs are included in operating costs where the benefits have vested, otherwise they are amortised on a straight-line basis over the vesting period. The finance elements of the pension cost, comprising the expected return on assets of funded defined benefit schemes and the interest on pension scheme liabilities, are also included in operating costs. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to the statement of recognised income and expense in the period in which they arise.

Our TOCs participate in the RPS, a defined benefit scheme which covers the whole of the UK Rail industry. This is partitioned into sections and the Group is responsible for the funding of these sections whilst it operates the relevant franchise. In contrast to the pension schemes operated by most businesses, the RPS is a shared cost scheme, which means that costs are formally shared 60% by the employer and 40% by the employee. A liability is recognised in line with other defined benefit schemes in the Group, although this is offset by a franchise adjustment so that the net liability represents the deficit that the Group expects to fund during the franchise term. This represents a departure from IAS 19 so as to present fairly the Group's financial performance, position and cash flow in respect of its obligations for the RPS.

The charges in respect of defined contribution schemes are recognised when they are due. The Group has no legal or constructive obligation to pay further contributions into a defined contribution scheme if the fund has insufficient assets to pay all employees benefits relating to employee service in the current and prior periods.

Share-based payment

The Group awards equity-settled share-based payments to certain employees, under which the Group receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted, excluding the impact of any non-market service and performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material using a pre-tax discount rate. The amortisation of the discount is recognised as a finance cost.

Contingent liabilities are obligations that arise from past events that are dependent on future events. They are disclosed in the notes to the accounts where the expected future outflow is not probable.

Notes to the Consolidated Accounts continued

2 Accounting policies (continued)

Share capital, share premium and dividends

Where either the Company or employee share trusts purchase the Company's equity share capital, the consideration paid, including any transaction costs, is deducted from total shareholders' equity as Own shares until they are cancelled or reissued. Any consideration subsequently received on sale or re-issue is included in shareholders' equity.

Dividend distributions to the Company's shareholders are recognised as a liability in the Group's financial statements on the date when dividends are approved by the Company's shareholders. Interim dividends are recognised in the period they are paid.

Non-current assets held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use.

A discontinued operation is a component of the Group that has been disposed of, or is classified as held for sale and it either represents a separate major line of business or geographical area; is part of a plan to dispose of a separate major line of business or geographical area; or was an acquired subsidiary intended for resale. The resulting profit or loss from discontinued operations is reported separately in the income statement.

Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortised.

Foreign currencies

The trading results of foreign currency denominated subsidiaries, joint ventures and associates are translated into sterling, the presentation currency of the Group and functional currency of the parent, using average rates of exchange for the year as a reasonable approximation to actual exchange rates at the dates of transactions.

The balance sheets of foreign currency denominated subsidiaries, joint ventures and associates are translated into sterling at the rates of exchange ruling at the year end and exchange differences arising are taken directly to the translation reserve in equity. On disposal of a foreign currency denominated subsidiary, the deferred cumulative amount recognised in the translation reserve (since 1 January 2004 under the transitional rules of IFRS 1) relating to that entity is recognised in the income statement. All other translation differences are taken to the income statement, with the exception of differences on foreign currency borrowings and forward foreign currency contracts which are used to provide a hedge against the Group net investments in foreign enterprises. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in the income statement.

New standards and interpretations not applied

The IASB and IFRIC have issued the following standards, interpretations and amendments with an effective date after the date of these financial statements.

IAS 1 (Revised) "Presentation of financial statements" (effective for annual periods beginning on or after 1 January 2009). The new standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income which presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group will apply this revision to IAS 1 from 1 January 2009 and is currently evaluating whether it will present one or two statements.

IAS 23 (Amendment) "Borrowing costs" (effective for annual periods beginning on or after 1 January 2009). This amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset, removing the option to immediately expense those borrowing costs. The Group will apply this amendment to IAS 23 from 1 January 2009 and will evaluate its impact from this date.

IAS 27 (Revised) "Consolidated and separate financial statements" (effective for annual periods beginning on or after 1 July 2009). The revised standard was issued in January 2008 and requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will they give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The Group will apply this revised standard from 1 January 2010 and does not anticipate any impact on the financial statements.

IAS 32 (Amendment) "Financial instruments: Presentation", and IAS 1 (Amendment) "Presentation of financial statements" – "Puttable financial instruments and obligations arising on liquidation" (effective for annual periods beginning on or after 1 January 2009). These amendments were issued in February 2008. The revisions provide a limited scope exception for puttable instruments to be classified as equity if they fulfil a number of specified features. The amendments to the standards will have no impact on the financial position or performance of the Group, as the Group has not issued such instruments.

IAS 39 (Amendment) "Financial Instruments: Recognition and Measurement – Eligible Hedged Items" (effective for annual periods beginning on or after 1 July 2009). These amendments to IAS 39 were issued in August 2008. The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged items. The Group has concluded that the amendment will have no impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.

2 Accounting policies (continued)

IFRS 1 (Amendment) "First-time adoption of IFRSs" and IAS 27 (Amendment) "Consolidated and Separate Financial Statements" (effective for annual periods beginning on or after 1 January 2009). The amendments to IFRS 1 allows an entity to determine the cost of investments in subsidiaries, jointly controlled entities or associates in its opening IFRS financial statements in accordance with IAS 27 or using a deemed cost. The amendment to IAS 27 requires all dividends from a subsidiary, jointly controlled entity or associate to be recognised in the income statement in the separate financial statements. The Group will apply these amendments from 1 January 2009. The new requirements will not have an impact on the consolidated financial statements.

IFRS 2 (Amendment) "Share-based payment" (effective for annual periods beginning on or after 1 January 2009). This amendment clarifies that vesting conditions are service conditions and performance conditions only and that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group will apply this amendment to IFRS 2 from 1 January 2009 and is currently in compliance with this amendment.

IFRS 3 (Revised) "Business combinations" (effective for business combinations occurring in accounting periods beginning on or after 1 July 2009). This standard continues to apply the acquisition method to business combinations. However, it introduces a number of changes that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. The Group will apply the revised IFRS 3 for all business combinations from 1 January 2010.

IFRS 8 "Operating Segments" (effective for annual periods beginning on or after 1 January 2009). IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, "Disclosures about segments of an enterprise and related information". The Group will apply IFRS 8 from 1 January 2009 and is currently evaluating its impact.

Improvements to IFRSs (effective for annual periods beginning on or after 1 January 2009). In May 2008 the Board issued its first omnibus of amendments to its standards, primarily with a view to remove inconsistencies and clarify wording. The Group will apply the improvements from 1 January 2009 and is currently evaluating the impact.

IFRIC 13 "Customer Loyalty Programmes" (effective for annual periods beginning on or after 1 July 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive, the arrangement is a multiple-element arrangement and the consideration receivable from the customer should be allocated between the components of the arrangement in proportion to their fair values. The Group will apply IFRIC 13 from 1 January 2009 and is currently evaluating its impact.

IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" (effective for annual periods beginning on or after 1 January 2008). IFRIC 1 provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset and how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The European Union endorsed IFRIC 14 in December 2008 and therefore the Group will adopt IFRIC 14 from 1 January 2009 as permitted by the special transitional provisions introduced by the EU. The Group is currently evaluating its impact.

IFRIC 15 "Agreement for the Construction of Real Estate" (effective for annual periods beginning on or after 1 January 2009). IFRIC 15 clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognised if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. IFRIC 15 will not have an impact on the consolidated financial statements because the Group does not conduct such activity.

IFRIC 16 "Hedges of Net Investment in a Foreign Operation" (effective for annual periods beginning on or after 1 October 2008). IFRIC 16 provides guidance on the accounting for a hedge of a net investment. As such it provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the Group the hedging instruments can be held in the hedge of a net investment and how an entity should determine the related amount of foreign currency gain or loss. The Group will apply IFRIC 16 from 1 January 2009 and is currently assessing which accounting policy to adopt for the recycling on disposal of a net investment.

IFRIC 17 "Distributions of Non-cash Assets to Owners" (effective for annual periods beginning on or after 1 July 2009). IFRIC 17 provides guidance on how an entity should account for distributions other than cash (non-cash assets) to owners. The Group will apply IFRIC 17 from 1 January 2010 and does not anticipate it will have an impact on the financial position or performance of the Group, as the Group does not distribute non-cash assets to owners.

IFRIC 18 "Transfers of Assets from Customers" (effective for transfers of assets on or after 1 July 2009). IFRIC 18 clarifies the requirements for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water).The Group will apply IFRIC 18 from 1 July 2009 and it will not have an impact on the consolidated financial statements because the Group does not conduct such activities.

Notes to the Consolidated Accounts continued

3 Exchange rates

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

	2008 Closing rate	**2008 Average rate**	2007 Closing rate	2007 Average rate
US dollar	**1.46**	**1.85**	1.98	2.00
Canadian dollar	**1.78**	**1.96**	1.98	2.15
Euro	**1.05**	**1.26**	1.36	1.46

If the results for the year to 31 December 2007 had been retranslated at the average exchange rates for the year to 31 December 2008, North America would have achieved normalised operating profit of £40.8m on revenue of £334.2m, compared to normalised operating profit of £37.7m on revenue of £308.0m as reported, and Europe would have achieved a normalised operating profit of £59.0m on revenue of £345.3m, compared to normalised operating profit of £50.9m on revenue of £298.0m as reported.

4 Revenue

	2008 £m	2007 £m
Rendering of services	**2,755.2**	2,604.1
Rental income	**11.8**	8.2
Revenue	**2,767.0**	2,612.3
Finance income	**17.4**	17.0
Total revenue from continuing operations	**2,784.4**	2,629.3

During the year, franchise agreement receipts from DfT Rail (and PTEs in 2007) amounted to £24.0m (2007: £340.8m) in UK Trains.

5 Segmental analysis

The operating businesses are organised and managed separately according to the nature of the public transport services they provide and the geographical market they operate in. Due to the nature of the services the Group provides, the primary and secondary segments coincide. Commentary on the segments is included in the OFR.

Analysis by class and geography of business

	External revenue 2008 £m	**Inter-segment sales 2008 £m**	**Segment revenue 2008 £m**	External revenue 2007 £m	Inter-segment sales 2007 £m	Segment revenue 2007 £m
UK Bus	**340.0**	**1.0**	**341.0**	320.2	2.1	322.3
UK Trains	**1,332.5**	**–**	**1,332.5**	1,472.1	–	1,472.1
UK Coach	**238.9**	**5.8**	**244.7**	214.0	13.9	227.9
Inter-segment sales elimination	**–**	**(6.8)**	**(6.8)**	–	(16.0)	(16.0)
UK operations	**1,911.4**	**–**	**1,911.4**	2,006.3	–	2,006.3
North American Bus	**372.5**	**–**	**372.5**	308.0	–	308.0
European Coach & Bus	**483.1**	**–**	**483.1**	298.0	–	298.0
Revenue from continuing operations	**2,767.0**	**–**	**2,767.0**	2,612.3	–	2,612.3
Discontinued operations (note 11)	**5.1**	**–**	**5.1**	3.1	–	3.1
Total revenue	**2,772.1**	**–**	**2,772.1**	2,615.4	–	2,615.4

Inter-segment sales represent rail replacement services provided to UK Trains by UK Bus and UK Coach. Inter-segment trading is undertaken on standard arm's length commercial terms. Due to the nature of the Group's businesses, the origin and destination of revenue is the same.

5 Segmental analysis (continued)

	Continuing			Discontinued	Continuing			Discontinued
	Normalised operating profit 2008 £m	Goodwill impairment, intangible amortisation and exceptional items 2008 £m	Segment result 2008 £m	Segment result 2008 £m	Normalised operating profit 2007 £m	Goodwill impairment, intangible amortisation and exceptional items 2007 £m	Segment result 2007 £m	Segment result 2007 £m
UK Bus	**40.0**	**(3.5)**	**36.5**		43.5	(1.2)	42.3	
UK Trains	**81.3**	**(13.2)**	**68.1**		63.3	(2.9)	60.4	
UK Coach	**27.0**	**(2.3)**	**24.7**		27.9	(0.3)	27.6	
UK operations	**148.3**	**(19.0)**	**129.3**		134.7	(4.4)	130.3	
North American Bus	**32.5**	**(15.8)**	**16.7**		37.7	(13.3)	24.4	
European Coach & Bus	**83.3**	**(51.3)**	**32.0**		50.9	(28.2)	22.7	
Central functions	**(10.2)**	**–**	**(10.2)**		(12.9)	(2.8)	(15.7)	
Result from continuing operations	**253.9**	**(86.1)**	**167.8**		210.4	(48.7)	161.7	
Result from discontinued operations			**–**	**(12.8)**			–	(4.8)
Total result			**167.8**	**(12.8)**			161.7	(4.8)
Profit on disposal of non-current assets			**5.1**	**–**			16.2	–
Profit from operations			**172.9**	**(12.8)**			177.9	(4.8)
Share of post tax results from associates and joint ventures			**–**	**–**			0.4	–
Loss on sale of discontinued operations			**–**	**–**			–	(2.9)
Net finance costs			**(63.0)**	**–**			(29.0)	–
Profit/(loss) before tax			**109.9**	**(12.8)**			149.3	(7.7)
Tax expense			**23.2**	**(0.6)**			(37.4)	1.4
Profit/(loss) for the year			**133.1**	**(13.4)**			111.9	(6.3)

Intangible asset amortisation and operating exceptional items can be analysed by class and geography of business as follows:

	Intangible asset amortisation 2008 £m	Exceptional items 2008 £m	Total 2008 £m
UK Bus	**0.5**	**3.0**	**3.5**
UK Trains	**1.0**	**12.2**	**13.2**
UK Coach	**0.3**	**2.0**	**2.3**
North American Bus	**4.7**	**11.1**	**15.8**
European Coach & Bus	**48.7**	**2.6**	**51.3**
Total continued operations	**55.2**	**30.9**	**86.1**
Discontinued operations (note 11)	**–**	**3.8**	**3.8**
Total	**55.2**	**34.7**	**89.9**

Notes to the Consolidated Accounts continued

5 Segmental analysis (continued)

	Intangible asset amortisation 2007 £m	Exceptional items 2007 £m	Total 2007 £m
UK Bus	1.1	0.1	1.2
UK Trains	1.1	1.8	2.9
UK Coach	–	0.3	0.3
North American Bus	5.1	8.2	13.3
European Coach & Bus	25.6	2.6	28.2
Central functions	–	2.8	2.8
Total	32.9	15.8	48.7

In the year to 31 December 2008 exceptional costs of £4.3m for UK Integration were incurred in UK Bus, UK Trains, UK Coach and Central functions. Mobilisation costs of £0.1m were incurred in National Express East Coast. Integration costs of £2.6m were incurred in Continental Auto. Business transformation costs of £11.1m were incurred in North America. In addition, exceptional costs of £12.8m were incurred in the UK relating to a reorganisation announced at the end of 2008.

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

In 2008 non-operating exceptional items comprise £5.1m of profit on disposal of businesses owned by Alsa (note 19b).

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

Assets, liabilities and capital expenditure can be analysed by class and geography of business as follows:

	Assets 2008 £m	**Liabilities 2008 £m**	**Capital expenditure 2008 £m**	Assets 2007 £m	Liabilities 2007 £m	Capital expenditure 2007 £m
UK Bus	**190.5**	**(90.7)**	**7.4**	202.7	(104.1)	22.4
UK Trains	**205.5**	**(340.7)**	**10.8**	212.4	(366.6)	37.6
UK Coach	**70.9**	**(54.3)**	**10.4**	73.4	(59.1)	12.9
Intercompany elimination	**(1.9)**	**1.9**	**–**	(2.6)	2.6	–
UK operations	**465.0**	**(483.8)**	**28.6**	485.9	(527.2)	72.9
North American Bus	**700.6**	**(115.6)**	**71.7**	498.6	(86.2)	50.7
European Coach & Bus	**1,580.6**	**(186.9)**	**39.4**	1,248.2	(130.5)	32.6
Central functions	**16.8**	**(84.5)**	**0.7**	9.7	(77.6)	0.9
Unallocated	**144.0**	**(1,449.3)**	**–**	189.2	(1,173.1)	–
Intercompany elimination	**(31.2)**	**31.2**	**–**	(24.9)	24.9	–
Total continuing operations	**2,875.8**	**(2,288.9)**	**140.4**	2,406.7	(1,969.7)	157.1
Assets in disposal group/(liabilities directly associated with disposal group) classified as held for sale	**0.7**	**(2.2)**	**0.6**	–	–	0.9
Total	**2,876.5**	**(2,291.1)**	**141.0**	2,406.7	(1,969.7)	158.0

Capital expenditure comprises property, plant and equipment additions as disclosed above and in note 15. In addition, software intangible assets of £8.2m (2007: £nil) were acquired and disclosed in note 14.

5 Segmental analysis (continued)
Unallocated assets and liabilities comprise the following items:

	Unallocated assets 2008 £m	**Unallocated liabilities 2008 £m**	Unallocated assets 2007 £m	Unallocated liabilities 2007 £m
Cash and cash equivalents	**105.9**	**–**	157.2	–
Other debt receivable	**0.9**	**–**	–	–
Current tax	**4.0**	**(32.5)**	9.5	(24.7)
Available for sale investments	**9.2**	**–**	7.2	–
Derivative financial assets/(liabilities)	**4.0**	**(138.6)**	15.3	(23.1)
Borrowings, excluding finance leases	**–**	**(1,152.7)**	–	(966.7)
Dividend payable	**–**	**(0.6)**	–	(0.5)
Deferred tax	**20.0**	**(124.9)**	–	(158.1)
Total	**144.0**	**(1,449.3)**	189.2	(1,173.1)

6 Operating costs

		2008 £m	2007 £m
Materials and consumables		**84.3**	107.2
Staff costs (including exceptional cost of £15.3m (2007: £5.0m))		**894.2**	816.0
Depreciation – Owned assets		**75.6**	66.6
– Leased assets		**20.4**	13.0
Amortisation of leasehold property prepayment		**0.1**	0.1
Amortisation of fixed asset grants		**(1.8)**	(1.3)
Operating lease charges	Rolling stock: capital element	**131.8**	150.5
	Rolling stock: non-capital element	**57.3**	61.1
	Public service vehicles	**4.6**	3.8
	Other	**9.6**	10.6
	– Plant and equipment	**203.3**	226.0
	Fixed track access	**304.1**	330.6
	Other	**68.8**	79.6
	– Land and buildings	**372.9**	410.2
Pre-contract bid costs: UK Trains		**4.6**	7.5
Foreign exchange differences		**(2.1)**	(0.3)
Other charges (including exceptional expense of £15.6m (2007: £10.8m))		**892.5**	772.7
Operating costs before intangible asset amortisation		**2,544.0**	2,417.7
Intangible asset amortisation		**55.2**	32.9
Total operating costs – continuing operations		**2,599.2**	2,450.6

The TOCs have fixed track access contracts with Network Rail Infrastructure Limited for access to the railway infrastructure (tracks, stations and depots). The TOCs 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. The non-capital element of the lease charge includes heavy maintenance charges and charges based on mileage.

Notes to the Consolidated Accounts continued

6 Operating costs (continued)
An analysis of fees paid to the Group's auditors is provided below:

	2008 £m	2007 £m
Fees payable to the Company's auditors for the audit of the consolidated and parent Company accounts	**0.6**	0.4
Fees payable to the Company's auditors and its associates for other services:		
The audit of the Company's subsidiaries	**1.2**	1.3
Other services pursuant to legislation	**–**	0.1
Tax services	**0.6**	0.5
Corporate finance services	**–**	0.2
Other services	**0.1**	–
	2.5	2.5

Included in the above fees paid to the Group's auditors are £nil (2007: £508,000) of fees capitalised with respect to acquisitions. Fees charged to the income statement for other services are £55,000 (2007: £44,000).

7 Employee benefit costs
(a) Staff costs

	2008 £m	2007 £m
Wages and salaries	**773.8**	709.3
Social security costs	**92.6**	76.1
Pension costs (note 35)	**23.5**	27.5
Share-based payment (note 8)	**4.3**	3.1
	894.2	816.0

Included within wages and salaries are exceptional costs of £15.3m (2007: £5.0m).

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

	2008	2007
Managerial and administrative	**4,250**	4,123
Operational	**40,760**	37,431
	45,010	41,554

Included in the above costs are the following costs related to the Group's key management personnel who comprise the Directors of the parent Company.

	2008 £m	2007 £m
Fees	**0.4**	0.4
Basic salaries	**1.1**	1.2
Benefits	**0.4**	0.4
Performance-related bonuses	**0.5**	1.2
Post-employment benefits	**–**	0.1
Share-based payment	**1.0**	0.6
	3.4	3.9

Information concerning Directors' emoluments, shareholdings and share options is disclosed in the Directors' Remuneration Report.

(b) Share schemes
Details of options or awards outstanding as at 31 December 2008 under the Group's share schemes are as follows:

	Number of share options 2008	Number of share options 2007	Exercise price	Future exercise periods
Executive Share Option Plan	**114,400**	216,925	398p–963p	2009–2014
Long Term Incentive Plan	**891,365**	1,054,170	nil	2009–2011
Share Matching Plan	**247,957**	222,676	nil	2009–2011
Deferred Annual Share Bonus Plan	**302,533**	237,509	nil	2009–2011
WMT Long Service Option Scheme	**165,269**	177,527	398p–1163p	2009–2018
Sharesave Scheme	**1,099,322**	–	922p	2009–2012
	2,820,846	1,908,807		

7 Employee benefit costs (continued)
(b) Share schemes (continued)

(i) Executive Share Option Plan
The Company operates tax approved and unapproved executive share option schemes open to Group employees in senior management positions (and formerly Executive Directors). Options granted by this Plan have a maximum term of ten years. The options vest after three years subject to the satisfaction of certain performance criteria[1] based on the achievement of a target growth in earnings per share. If the performance criteria are not met when initially tested, in some instances they may be reassessed during the term of the option. From 2005 executive share option grants have been replaced by awards made under the Long Term Incentive Plan, as described in (ii). There are no cash settlement alternatives.

(ii) Long Term Incentive Plan (LTIP)
The LTIP was introduced in 2005 on the recommendation of the Remuneration Committee to replace the annual award under the Executive Share Option Plan to Executive Directors and to certain senior employees. Under the LTIP a Performance Award to acquire a specified number of free shares may be made to the employee or Director. In addition a Matching Award may be made, as described in (iii). Performance conditions are attached to the vesting of Performance and Matching Awards based on both the achievement of target growth in earnings per share and the relative total shareholder return (TSR) of the Company against a comparator group of companies. If the performance conditions are met Performance and Matching Awards vest on the third anniversary of the grant date and remain exercisable for a period of up to six months following the vesting date. There are no cash settlement alternatives at present.

(iii) Share Matching Plan (the Plan)
The Share Matching Plan was introduced in 2005 as part of the new Long Term Incentive Plan arrangements described in (ii). Under the Plan a Matching Award to acquire a specified number of shares for free may be made if the employee pledges a number of shares as investment shares which are then matched by the Company on either a 1:1 or 2:1 basis with the number of shares that could have been purchased with the pre-tax equivalent of the amount invested. The Matching Awards vest on the third anniversary of the grant date and remain exercisable for a period of up to six months following the vesting date. There are no cash settlement alternatives at present.

(iv) Deferred Annual Share Bonus Plan
The Deferred Annual Share Bonus Plan is a discretionary scheme which forms part of the bonus arrangements for certain senior employees. Under the scheme part of any bonus may be received in cash whilst the remainder is used to make an award of nil cost options which vest three years after the award date. The options must be exercised within six months of vesting. There are no cash settlement alternatives at present.

(v) West Midlands Travel Ltd ("WMT") Long Service Option Scheme
The WMT Long Service Option Scheme utilises a fixed amount of shares set aside for this purpose following the acquisition of WMT in 1995 and is open to all WMT employees who have been in service for more than 25 years. The options are exercisable between three and ten years following the grant date. There are no cash settlement alternatives.

(vi) TWM Share Incentive Plan (the "SIP")
The TWM SIP exists for the benefit of WMT employees. At the end of the year, 1,439 (2007:1,540) National Express Group PLC shares were held for the benefit of the Trustee. Dividends on shares held in the SIP forfeited shares account are waived. There are no cash settlement alternatives.

(vii) Savings Related Share Option Scheme (Sharesave Scheme)
The National Express Group approved Sharesave Scheme enables eligible UK employees, including Executive Directors, to acquire shares in the Company through monthly savings over a three-year period, at the end of which they also receive a tax free bonus. The savings and bonus may be used to purchase shares at a discounted option price set at the beginning of the savings contract. The options mature three years after the grant date and may be exercised for a period of up to six months after this date. There are no cash settlement alternatives.

[1] Performance criteria for Executive Share Option Plan:
(a) Options granted under the 2002 National Express Group Executive Share Option Plan Part 2 Unapproved.
(b) The performance condition is as follows: (a) for awards up to 50% of salary; EPS growth of RPI + 4% pa, (b) for awards between 51% of salary and up to 100% of salary; EPS growth of RPI + 6% pa, (c) for awards between 101% of salary and up to 150% of salary; EPS growth of RPI + 8% pa, (d) for awards between 151% of salary and up to 200% of salary; EPS growth of RPI + 10% pa. Parts (a) and (b) are initially tested over years 0–3 with a facility to retest over years 0–4 and 0–5. Parts (c) and (d) are not subject to retesting. Straight-line vesting occurs between EPS levels.
(c) The performance condition is as follows: (a) for awards up to 50% of salary; EPS growth of RPI + 4% pa, (b) for awards between 51% of salary and up to 100% of salary; EPS growth of RPI + 5% pa, (c) for awards between 101% of salary and up to 150% of salary; EPS growth of RPI + 6% pa, (d) for awards between 151% of salary and up to 200% of salary; EPS growth of RPI + 10% pa. Performance is tested over years 0–3. Straight-line vesting occurs between EPS levels. Retesting is not permitted.

8 Share-based payment
The charge in respect of share-based payment transactions included in the Group's income statement for the year is as follows:

	2008 £m	2007 £m
Expense arising from share and share option plans – continuing operations	**4.3**	3.1

The share-based payment charge in respect of discontinued operations was £0.1m (2007: £0.1m).

During the year ended 31 December 2008, the Group had seven share-based payment arrangements, which are described in note 7(b).

Notes to the Consolidated Accounts continued

8 Share-based payment (continued)

For the following disclosure, share options with a nil exercise price have been disclosed separately to avoid distorting the weighted average exercise prices. The number of share options in existence during the year was as follows:

	2008		2007	
	Number of share options	**Weighted average exercise price p**	Number of share options	Weighted average exercise price p
Options without a nil exercise price:				
At 1 January	**394,452**	**814**	1,385,998	738
Granted during the year	**1,130,599**	**923**	19,343	1,108
Lapsed during the year	**(70,219)**	**846**	(62,908)	762
Exercised during the year	**(75,841)**	**746**	(947,981)	713
Outstanding at 31 December[1]	**1,378,991**	**906**	394,452	814
Exercisable at 31 December	**221,904**	**794**	307,795	773
Options with a nil exercise price:				
At 1 January	**1,514,355**	**nil**	1,424,804	nil
Granted during the year	**651,199**	**nil**	497,584	nil
Lapsed during the year	**(323,727)**	**nil**	(347,557)	nil
Exercised during the year	**(399,972)**	**nil**	(60,476)	nil
Outstanding at 31 December	**1,441,855**	**nil**	1,514,355	nil
Exercisable at 31 December	**3,647**	**nil**	–	–
Total outstanding at 31 December	**2,820,846**		1,908,807	
Total exercisable at 31 December	**225,551**		307,795	

[1] Included within this balance are options over 112,760 (2007: 180,920) shares for which no expense has been recognised in accordance with the transitional provisions of IFRS 2 as the options were granted before 7 November 2002 and have not been subsequently modified.

The options outstanding at 31 December 2008 had exercise prices that were between 398p and 1163p (2007: between 398p and 1224p) excluding options with a nil exercise price. The range of exercise prices for options was as follows:

Exercise price (p)	2008	2007
350–650	**57,196**	71,150
650–950	**1,231,999**	231,059
950–1250	**89,796**	92,243
	1,378,991	394,452

The options have a weighted average contractual life of three years (2007: three years). Options were exercised regularly throughout the year and the weighted average share price at exercise was 891p (2007: 1153p).

The weighted average fair value of the share options granted during the year was calculated using a stochastic model, with the following assumptions and inputs:

	Share options without nil exercise price		Share options with nil exercise price	
	2008	2007	**2008**	2007
Risk free interest rate	**4.2%–4.9%**	5.0%–5.2%	**–**	–
Expected volatility	**26.8%–27.2%**	27.0%–27.3%	**25.1%–32.0%**	19.0%
Peer group volatility	**–**	–	**30.8%**	25.7%–25.9%
Expected option life in years	**3–6 years**	6 years	**3 years**	3 years
Expected dividend yield	**3.4%–4.0%**	3.1%	**3.8%–7.2%**	2.7%–2.8%
Weighted average share price	**884p–1135p**	1071p–1175p	**547p–972p**	1236p–1295p
Weighted average exercise price	**922p–1163p**	1093p–1153p	**0p**	0p
Weighted average fair value of options granted	**140p–211p**	215p–262p	**166p–868p**	684p–1194p

8 Share-based payment (continued)
Experience to date has shown that approximately 15% (2007: 15%) of options are exercised early, principally due to redundancies. This has been incorporated into the calculation of the expected option life for the share options without nil exercise price.

Expected volatility in the table above was determined from historic volatility over the last nine years, adjusted for one-off events that were not considered to be reflective of the volatility of the share price going forward. The expected dividend yield represents the dividends declared in the 12 months preceding the date of the grant divided by the average share price in the month preceding the date of the grant.

For share options granted during the year under the LTIP, the TSR targets have been reflected in the calculation of the fair value of the options above.

9 Net finance costs

	Normalised 2008 £m	Exceptional 2008 £m	Total 2008 £m	Normalised 2007 £m	Exceptional 2007 £m	Total 2007 £m
Bank interest payable	(59.0)	(11.5)	(70.5)	(37.9)	–	(37.9)
Finance lease interest payable	(6.7)	–	(6.7)	(5.0)	–	(5.0)
Other interest payable	(0.1)	–	(0.1)	(0.1)	–	(0.1)
Unwind of provision discounting	(3.1)	–	(3.1)	(3.0)	–	(3.0)
Finance costs	(68.9)	(11.5)	(80.4)	(46.0)	–	(46.0)
Finance income: Bank interest receivable	17.4	–	17.4	17.0	–	17.0
Net finance costs	(51.5)	(11.5)	(63.0)	(29.0)	–	(29.0)
Of which, from financial instruments:						
Cash and cash equivalents	17.4	–	17.4	17.0	–	17.0
Financial liabilities measured at amortised cost	(62.7)	–	(62.7)	(43.4)	–	(43.4)
Financial liabilities at fair value through profit or loss	(2.3)	(5.8)	(8.1)	(0.9)	–	(0.9)
Derivatives used for hedging	(1.1)	(5.7)	(6.8)	0.3	–	0.3
Loan fee amortisation	(1.6)	–	(1.6)	(0.9)	–	(0.9)

The 2008 exceptional charge of £11.5m relates to interest rate swaps that ceased to qualify for hedge accounting, as the underlying currency borrowings which the interest rate swaps were hedging were switched into sterling.

10 Taxation
(a) Analysis of taxation charge/(credit) in the year

	2008 £m	2007 £m
Current taxation:		
UK corporation tax	19.0	24.9
Overseas taxation	10.5	9.7
Current income tax charge	29.5	34.6
Adjustments with respect to prior years – UK	4.8	(2.0)
Total current income tax	34.3	32.6
Deferred taxation (note 27):		
Origination and reversal of temporary differences – continuing operations	(56.9)	–
Total tax (credit)/charge	(22.6)	32.6
The tax (credit)/charge in the income statement is disclosed as follows:		
Income tax expense on continuing operations	(23.2)	37.4
Income tax charge/(credit) on discontinued operations	0.6	(4.8)
	(22.6)	32.6
The tax expense on continuing operations is disclosed as follows:		
Tax charge on profit before intangible asset amortisation and exceptional items	52.3	49.5
Tax credit on intangible asset amortisation and exceptional items	(75.5)	(12.1)
	(23.2)	37.4

Notes to the Consolidated Accounts continued

10 Taxation (continued)
(b) Tax on items charged to equity

	2008 £m	2007 £m
Current taxation:		
Credit on exchange movements offset in reserves	**16.1**	14.3
Credit on share-based payment	**–**	0.9
	16.1	15.2
Deferred taxation:		
Deferred tax charge on share-based payment	**(1.6)**	(0.5)
Deferred tax credit/(charge) on actuarial gains	**7.0**	(3.5)
Deferred tax credit on exchange movements offset in reserves	**1.5**	–
Deferred tax credit/(charge) on cash flow hedges	**24.8**	(6.1)
	31.7	(10.1)

(c) Reconciliation of the total tax charge

	2008 £m	2007 £m
Profit from continuing operations before income tax	**109.9**	149.3
Loss from discontinued operations before income tax	**(12.8)**	(11.1)
Accounting profit before income tax	**97.1**	138.2
Notional charge at UK corporation tax rate of 28.5% (2007: 30%)	**27.7**	41.5
Non-deductible goodwill impairment and intangible amortisation	**0.9**	0.8
Utilisation of unrecognised tax losses	**–**	(0.6)
Prior year adjustments within current and deferred tax	**6.4**	(0.4)
Spanish reinvestment relief	**(4.3)**	(4.3)
Effect of overseas tax rates	**3.7**	1.3
Effect of rate reductions	**–**	(0.3)
Deferred tax on Spanish goodwill and intangibles (note 10d)	**(66.6)**	–
Effect of removal of Industrial Buildings Allowances (note 10e)	**14.4**	–
Non-taxable profit on sale of non-current assets	**–**	(4.2)
Overseas financing deduction	**(6.8)**	(1.8)
Non-deductible expenditure	**2.0**	0.6
Total tax charge reported in the income statement (note 10a)	**(22.6)**	32.6

On 1 April 2008 the standard rate of corporation tax in the UK was changed to 28%. For the year ended 31 December 2008 the average corporation tax rate was therefore 28.5%. Deferred tax has been provided at 28%.

(d) Deferred tax on Spanish goodwill and intangibles
A reorganisation of the Spanish group structure during the year gave rise to future goodwill amortisation for tax purposes on which a deferred tax asset has been recognised to the extent that the realisation of the deferred tax benefit against future tax profits is probable. In addition, a deferred tax liability in relation to intangible asset amortisation, set up on acquisition of Continental Auto, has been released.

(e) Removal of Industrial Buildings Allowances
Industrial Buildings Allowances ("IBAs") are being phased out from April 2008 to March 2011. As a result, deferred tax on future IBAs has been adjusted to its new future value, resulting in a cost to the group of £14.4m.

(f) Temporary differences associated with Group investments
No deferred tax (2007: £nil) is recognised on the unremitted earnings of subsidiaries, associates and joint ventures, as the Group has determined that these undistributed profits will not be distributed in the near future. The temporary differences associated with investments in subsidiaries, associates and joint ventures, for which a deferred tax liability has not been recognised, aggregate to £86.9m (2007: £51.1m).

(g) Unrecognised tax losses
Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit against future taxable profits is probable. Overseas deferred tax assets that the Group has not recognised in the accounts amount to £52.2m (2007: £36.6m), which arise in tax jurisdictions where the Group does not expect to generate sufficient suitable future profits. In addition, there are capital losses of £34.2m (2007: £22.3m) which have not been recognised, recoverability of which is dependent on capital gains arising.

10 Taxation (continued)

(h) Deferred tax included in the income statement

	2008 £m	2007 £m
Accelerated capital allowances	**19.7**	(3.3)
Short-term temporary differences	**(79.4)**	(3.4)
Utilisation of losses	**2.8**	6.7
	(56.9)	–

Details on the balance sheet position of deferred tax are included in note 27.

11 Discontinued operations

On 24 October 2008, the Group announced that it planned to exit the Dot2Dot business. On 9 January 2009, the Group completed the sale of the Dot2Dot business and it has been classified as a discontinued operation for the year ended 31 December 2008, and the results for the year ended 31 December 2007 restated for the presentation of Dot2Dot as a discontinued operation. The 2008 results include a charge to the income statement in respect of the discontinued operations of Dot2Dot of £9.7m. In addition, a deferred tax asset of £3.7m recognised in relation to the North America Public Transit liability (note 26) has been written off.

The results of the Group's discontinued operations in 2008 are presented below together with the comparative data for 2007 and arise solely from Dot2Dot and North America, together with the taxation charges in respect of North America:

	Dot2Dot		North America Public Transit		Total	
	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m
Revenue	**5.1**	3.1	–	–	**5.1**	3.1
Operating costs, before goodwill impairment, intangible amortisation and exceptional items	**(13.4)**	(7.9)	–	–	**(13.4)**	(7.9)
Normalised operating loss	**(8.3)**	(4.8)	–	–	**(8.3)**	(4.8)
Normalised loss before tax	**(8.3)**	(4.8)	–	–	**(8.3)**	(4.8)
Tax credit on normalised loss	**2.8**	1.4	–	–	**2.8**	1.4
Normalised loss from discontinued operations	**(5.5)**	(3.4)	–	–	**(5.5)**	(3.4)
Goodwill impairment	**(0.7)**	–	–	–	**(0.7)**	–
Exceptional items	**(3.8)**	–	–	(6.3)	**(3.8)**	(6.3)
	(4.5)	–	–	(6.3)	**(4.5)**	(6.3)
Tax on exceptional items	**0.3**	–	**(3.7)**	3.4	**(3.4)**	3.4
	(4.2)	–	**(3.7)**	(2.9)	**(7.9)**	(2.9)
Loss from discontinued operations	**(9.7)**	(3.4)	**(3.7)**	(2.9)	**(13.4)**	(6.3)
Loss per share						
Basic from discontinued operations					**(8.9p)**	(4.1p)
Diluted from discontinued operations					**(8.7p)**	(4.1p)
Net cash (outflow) from:						
Operating activities	**(10.2)**	(3.2)	**–**	–	**(10.2)**	(3.2)
Investing activities	**(0.6)**	(0.7)	**(6.1)**	(1.9)	**(6.7)**	(2.6)

The Group acquired the entire share capital of Hotelink Limited in March 2007, and subsequently renamed the business National Express Dot2Dot Limited. Goodwill recognised on the acquisition totalled £0.7m. The goodwill impairment of £0.7m noted above reduces the carrying value of this goodwill to £nil as no value was recovered on the sale of Dot2Dot. The exceptional items of £3.8m reflect the charge the Group has incurred in order to complete the disposal of the business.

Assets in disposal group classified as held for sale of £0.7m represent trade and other receivables. Liabilities directly associated with disposal group assets classified as held for sale of £2.2m consist of provisions (£2.1m) and trade payables (£0.1m).

Notes to the Consolidated Accounts continued

12 Dividends paid and proposed

	2008 £m	2007 £m
Declared and paid during the year		
Ordinary final dividend for 2007 paid of 26.40p per share (2006: 24.00p per share)	**40.2**	36.4
Ordinary interim dividend for 2008 paid of 12.72p per share (2007: 11.56p per share)	**19.4**	17.6
	59.6	54.0
Proposed for approval (not recognised as a liability at 31 December)		
Ordinary final dividend for 2008 of 10.00p per share (2007: 26.40p per share)	**15.2**	40.2

13 Earnings per share

	2008	2007
Basic earnings per share – continuing operations	**86.8p**	73.3p
Basic loss per share – discontinued operations	**(8.9p)**	(4.1p)
Basic earnings per share – total	**77.9p**	69.2p
Normalised basic earnings per share	**94.3p**	84.4p
Diluted earnings per share – continuing operations	**86.1p**	72.8p
Diluted loss per share – discontinued operations	**(8.7p)**	(4.1p)
Diluted earnings per share – total	**77.4p**	68.7p
Normalised diluted earnings per share	**93.6p**	83.9p

Basic earnings per share is calculated by dividing the earnings attributable to equity shareholders of £118.8m (2007: £105.1m) by the weighted average number of ordinary shares in issue during the year, excluding those held by employee share ownership trusts and those held as treasury shares which are both treated as cancelled.

For diluted earnings per share, the weighted average number of ordinary shares in issue during the year is adjusted to include the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

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

	2008	2007
Basic weighted average shares	**152,457,518**	151,914,241
Adjustment for dilutive potential ordinary shares	**1,077,289**	976,000
Diluted weighted average shares	**153,534,807**	152,890,241

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

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

	2008			2007		
	£m	Basic EPS p	Diluted EPS p	£m	Basic EPS p	Diluted EPS p
Profit attributable to equity shareholders	**118.8**	**77.9**	**77.4**	105.1	69.2	68.7
Loss from discontinued operations	**13.4**	**8.9**	**8.7**	6.3	4.1	4.1
Profit from continuing operations attributable to equity shareholders	**132.2**	**86.8**	**86.1**	111.4	73.3	72.8
Intangible asset amortisation	**55.2**	**36.2**	**36.0**	32.9	21.7	21.6
Exceptional items	**30.9**	**20.3**	**20.1**	15.8	10.4	10.3
Profit on disposal of non-current assets	**(5.1)**	**(3.3)**	**(3.3)**	(16.2)	(10.7)	(10.6)
Finance cost	**11.5**	**7.5**	**7.5**	–	–	–
Tax relief on goodwill and exceptional items	**(75.5)**	**(49.5)**	**(49.2)**	(12.1)	(8.0)	(7.9)
Normalised profit from continuing operations	**149.2**	**98.0**	**97.2**	131.8	86.7	86.2
Normalised loss from discontinued operations	**(5.5)**	**(3.7)**	**(3.6)**	(3.4)	(2.3)	(2.3)
Normalised profit attributable to equity shareholders	**143.7**	**94.3**	**93.6**	128.4	84.4	83.9

14 Intangible assets

	Customer contracts £m	Rail franchise £m	Software £m	**Finite life assets £m**	Contractual relationships £m	Goodwill £m	**Indefinite life assets £m**	**Total £m**
Cost:								
At 1 January 2008	356.5	9.9	–	**366.4**	42.0	952.6	**994.6**	**1,361.0**
Additions through business combinations	7.9	–	–	**7.9**	4.8	8.7	**13.5**	**21.4**
Additions internally generated	–	–	8.2	**8.2**	–	–	**–**	**8.2**
Reclassification from tangible fixed assets	–	–	2.3	**2.3**	–	–	**–**	**2.3**
Impairment	–	–	–	**–**	–	(0.7)	**(0.7)**	**(0.7)**
Foreign exchange	107.2	–	2.6	**109.8**	10.8	245.2	**256.0**	**365.8**
At 31 December 2008	**471.6**	**9.9**	**13.1**	**494.6**	**57.6**	**1,205.8**	**1,263.4**	**1,758.0**
Amortisation and impairment:								
At 1 January 2008	63.7	3.6	–	**67.3**	–	86.8	**86.8**	**154.1**
Charge for year	54.1	1.1	–	**55.2**	–	–	**–**	**55.2**
Foreign exchange	29.1	–	–	**29.1**	–	–	**–**	**29.1**
At 31 December 2008	**146.9**	**4.7**	**–**	**151.6**	**–**	**86.8**	**86.8**	**238.4**
Net book value:								
At 31 December 2008	**324.7**	**5.2**	**13.1**	**343.0**	**57.6**	**1,119.0**	**1,176.6**	**1,519.6**
At 1 January 2008	292.8	6.3	–	299.1	42.0	865.8	907.8	1,206.9

The software intangible assets are expected to become operational in 2009 and have not been amortised during the year.

The annual impairment charge in 2008 of £0.7 million related to the goodwill arising on the acquisition of Dot2Dot. The net book value of this goodwill is £nil (note 11).

	Customer contracts £m	Rail franchise £m	Finite life assets £m	Contractual relationships £m	Goodwill £m	Indefinite life assets £m	Total £m
Cost:							
At 1 January 2007	190.8	11.7	202.5	18.0	596.7	614.7	817.2
Additions through business combinations	142.7	–	142.7	20.8	302.2	323.0	465.7
Disposals	(0.6)	(1.8)	(2.4)	–	–	–	(2.4)
Foreign exchange	23.6	–	23.6	3.2	53.7	56.9	80.5
At 31 December 2007	356.5	9.9	366.4	42.0	952.6	994.6	1,361.0
Amortisation and impairment:							
At 1 January 2007	28.5	4.3	32.8	–	86.8	86.8	119.6
Charge for year	31.8	1.1	32.9	–	–	–	32.9
Disposals	(0.6)	(1.8)	(2.4)	–	–	–	(2.4)
Foreign exchange	4.0	–	4.0	–	–	–	4.0
At 31 December 2007	63.7	3.6	67.3	–	86.8	86.8	154.1
Net book value:							
At 31 December 2007	292.8	6.3	299.1	42.0	865.8	907.8	1,206.9
At 1 January 2007	162.3	7.4	169.7	18.0	509.9	527.9	697.6

Notes to the Consolidated Accounts continued

14 Intangible assets (continued)

The allocation of the consideration paid to acquire Continental Auto and The Kings Ferry Limited to the fair value of the net assets acquired was completed during the year (see note 19). The 2007 amortisation charge on the Kings Ferry intangible assets acquired was immaterial.

Indefinite life intangible assets and goodwill have been allocated to individual cash-generating units for annual impairment testing on the basis of the Group's business operations. The carrying value of indefinite life intangible assets by cash-generating unit is as follows:

	2008 Contractual relationships £m	**2008 Goodwill £m**	**Total £m**	2007 Contractual relationships £m	2007 Goodwill £m	Total £m
UK Bus	**–**	**13.2**	**13.2**	–	13.2	13.2
UK Coach	**–**	**13.2**	**13.2**	–	13.9	13.9
North American Bus	**37.8**	**279.3**	**317.1**	26.6	211.9	238.5
European Coach & Bus	**19.8**	**813.3**	**833.1**	15.4	626.8	642.2
	57.6	**1,119.0**	**1,176.6**	42.0	865.8	907.8

The useful economic lives of contractual relationships in North America and Spain are deemed to be indefinite where historical experience has shown that these contracts are consistently renewed. The customer contract and rail franchise intangible assets are amortised over the finite duration of the contract or franchise as appropriate. All amortisation charges in the year have been charged to operating costs.

The recoverable amount of indefinite life intangible assets has been determined based on a value in use calculation using cash flow projections based on financial budgets and forecasts approved by senior management covering a three year period. Growth has then been extrapolated forward from the end of the forecasts.

The assumptions used for the cash-generating units, are as follows:

	Discount rate applied to cash flow projections		Growth rate used to extrapolate cash flows beyond three year period of management plan	
	2008	2007	**2008**	2007
UK Bus	**12.5%**	10.4%	**2.0%**	2.0%
UK Coach	**12.5%**	10.4%	**2.0%**	2.0%
North American Bus	**12.5%**	11.2–12.3%	**2.0%**	2.0%
European Coach & Bus	**10.5%**	11.3%	**2.0%**	2.0%

The discount rates represent the pre-tax risk adjusted weighted average cost of capital appropriate for the cash flow generated.

The calculation of value in use for each cash-generating unit is most sensitive to the assumptions over operating profit margin, discount rates and revenue growth rates.

The value in use of the North American division exceeds its carrying amount by £34m. Sensitivity analysis has been completed on each key assumption in isolation, and this indicates that the value in use of the division will be equal to its carrying amount following a reduction in operating profit margin of 75 basis points, an increase in the discount rate of 50 basis points and a reduction in revenue growth rates of 100 basis points.

The value in use of the Spain division exceeds its carrying amount by £233m. Sensitivity analysis has been completed on each key assumption in isolation, and this indicates that the value in use of the division will be equal to its carrying amount following a reduction in operating profit margin of 230 basis points, an increase in the discount rate of 145 basis points and a reduction in revenue growth rates of 260 basis points.

It is believed that any reasonably possible movement on assumptions will not lead to an impairment in the indefinite life intangible assets allocated to UK Bus and UK Coach.

The Directors consider the assumptions used to be consistent with the historical performance of each unit and to be realistically achievable in light of economic and industry measures and forecasts.

15 Property, plant and equipment

	Freehold land and buildings £m	Long leasehold property improvements £m	Public service vehicles £m	Plant and equipment, fixtures and fittings £m	**Total £m**
Cost:					
At 1 January 2008	88.8	4.1	683.7	166.8	**943.4**
Additions	6.6	1.0	105.1	28.3	**141.0**
Acquisitions of businesses	1.8	–	6.4	0.1	**8.3**
Disposals	(3.3)	(0.7)	(57.5)	(6.8)	**(68.3)**
Attributable to assets held for sale	–	–	–	(1.4)	**(1.4)**
Reclassifications	–	–	–	(2.3)	**(2.3)**
Foreign exchange	15.6	1.7	164.8	7.3	**189.4**
At 31 December 2008	**109.5**	**6.1**	**902.5**	**192.0**	**1,210.1**
Depreciation:					
At 1 January 2008	7.0	1.2	170.0	68.8	**247.0**
Charge for the year	1.8	0.6	68.5	25.1	**96.0**
Disposals	(0.6)	(0.1)	(28.1)	(4.1)	**(32.9)**
Attributable to assets held for sale	–	–	–	(0.3)	**(0.3)**
Foreign exchange	1.7	1.1	51.1	4.9	**58.8**
At 31 December 2008	**9.9**	**2.8**	**261.5**	**94.4**	**368.6**
Net book value:					
At 31 December 2008	**99.6**	**3.3**	**641.0**	**97.6**	**841.5**
At 1 January 2008	81.8	2.9	513.7	98.0	696.4

Plant and equipment held for sale relates to Dot2Dot.

	Freehold land and buildings £m	Long leasehold property improvements £m	Public service vehicles £m	Plant and equipment, fixtures and fittings £m	Total £m
Cost:					
At 1 January 2007	55.7	3.3	503.4	166.6	729.0
Additions	4.9	0.4	103.2	49.5	158.0
Acquisitions of businesses	25.2	0.5	88.0	3.0	116.7
Disposals	(0.7)	(0.2)	(30.5)	(53.3)	(84.7)
Foreign exchange	3.7	0.1	19.6	1.0	24.4
At 31 December 2007	88.8	4.1	683.7	166.8	943.4
Depreciation:					
At 1 January 2007	5.9	0.9	128.9	91.4	227.1
Charge for the year	1.3	0.5	54.3	23.5	79.6
Disposals	(0.2)	(0.2)	(17.2)	(46.4)	(64.0)
Foreign exchange	–	–	4.0	0.3	4.3
At 31 December 2007	7.0	1.2	170.0	68.8	247.0
Net book value:					
At 31 December 2007	81.8	2.9	513.7	98.0	696.4
At 1 January 2007	49.8	2.4	374.5	75.2	501.9

Notes to the Consolidated Accounts continued

15 Property, plant and equipment (continued)

Property, plant and equipment held under finance lease agreements are analysed as follows:

		2008 £m	2007 £m
Land and buildings	– cost	**1.9**	1.4
	– depreciation	**(0.1)**	–
Net land and buildings		**1.8**	1.4
Public service vehicles	– cost	**265.5**	217.7
	– depreciation	**(85.9)**	(64.9)
Net public service vehicles		**179.6**	152.8
Plant and equipment	– cost	**1.8**	2.4
	– depreciation	**(1.5)**	(2.0)
Net plant and equipment		**0.3**	0.4
Total net book value		**181.7**	154.6

Finance leased assets and assets under hire purchase contracts are pledged as security for the related finance lease and hire purchase liabilities.

16 Subsidiaries

The companies listed below include all those which principally affect the result and net assets of the Group. A full list of subsidiaries, joint ventures and associates will be annexed to the next Annual Return to Companies House. The principal country of operation in respect of 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 subsidiaries, of the companies. The Group's train passenger services in the UK are operated through franchises awarded by DfT Rail, as delegated by the UK Government.

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
National Express Rail Replacement Limited	Operation of coach services
The Kings Ferry Limited	Operation of coach services
West Midlands Travel Limited	Operation of bus services
Travel London Limited	Operation of bus services
Travel London (West) Limited	Operation of bus services
Travel London (Middlesex) Limited	Operation of bus services
c2c Rail Limited	Operation of train passenger services
Central Trains Limited	Operation of train passenger services (ceased operating** on 10 November 2007)
Gatwick Express Limited	Operation of train passenger services (ceased operating** on 22 June 2008)
London Eastern Railway Limited (trading as National Express East Anglia)	Operation of train passenger services
Maintrain Limited	Provision of train maintenance services (ceased operating** on 10 November 2007)
Midland Main Line Limited	Operation of train passenger services (ceased operating** on 10 November 2007)
National Express Trains Limited*	Holding company for train operating companies
NXEC Trains Limited (trading as National Express East Coast)	Operation of train passenger services (commenced trading on 9 December 2007)
Silverlink Train Services Limited	Operation of train passenger services (ceased operating** on 10 November 2007)

* Shares held by the Company. All other shares held by subsidiaries.

** These businesses ceased operating train passenger services or maintenance services on the dates noted above. However the companies continue to trade as going concerns.

16 Subsidiaries

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

Incorporated in Canada	
Stock Transportation Limited	Operation of school bus services

Incorporated in Spain	
Dabliu Consulting SLU***	Holding company for operating companies
Tury Express SA***	Holding company for operating companies
General Tecnica Industrial SLU***	Holding company for operating companies
Continental Auto SLU	Holding company for operating companies

*** The main holding companies of the Alsa Group.

17 Financial assets

	2008 £m	2007 £m
Available for sale investments – Unlisted ordinary shares	**9.2**	7.2
Derivative financial instruments – Interest rate swaps	**1.5**	1.7
Derivative financial instruments – Fuel price swaps	**–**	3.6
Financial assets included in non-current assets	**10.7**	12.5
Derivative financial instruments – Interest rate swaps	**1.5**	1.5
Derivative financial instruments – Fuel price swaps	**1.0**	8.5
Financial assets included in current assets	**2.5**	10.0

Further information on the Group's use of fuel price swaps, interest rate swaps and foreign exchange forward contracts is included in note 31.

Available for sale investments

	2008 £m	2007 £m
Cost or valuation:		
At 1 January	**8.0**	19.3
Disposals	**(0.1)**	(12.0)
Foreign exchange	**2.1**	0.7
At 31 December	**10.0**	8.0
Accumulated impairment:		
At 1 January	**(0.8)**	(5.8)
Disposals	**–**	5.0
At 31 December	**(0.8)**	(0.8)
Net carrying amount:		
At 31 December	**9.2**	7.2
At 1 January	**7.2**	13.5

Notes to the Consolidated Accounts continued

17 Financial assets (continued)
Available for sale investments (continued)

The principal available for sale investments are as follows:

Name	Country of registration	Class of share	Proportion held %
London & Continental Railways (LCR)	England and Wales	Ordinary shares	21
Prepayment Cards Limited (PCL)	England and Wales	Ordinary shares	23.5
Metros Ligeros de Madrid, S.A. (MLM)	Spain	Ordinary shares	15
Various investments within Alsa and Continental Auto	Spain	Ordinary shares	4–16

Disposals during the year relate to investments held by Alsa and Continental Auto.

Disposals during 2007 reflect the receipt of the final preference share dividend from Union Railways (South) Limited, and the subsequent redemption of these preference shares.

Although the Group holds more than 20% of the ordinary shares of PCL, it does not have a presence on the Board and is not in a position to exert significant influence over this investment. Although the Group holds more than 20% of the ordinary shares of LCR, it is not in a position to exert significant influence, as the company's debt holders are effectively in control of the company. The investment is held at nil value and the Group has no obligation to make further investments.

18 Investments accounted for using the equity method
Investments accounted for using the equity method are as follows:

	2008 £m	2007 £m
Joint ventures	2.2	2.1
Associates	5.7	9.7
Total investments accounted for under the equity method	7.9	11.8

The Group's share of post tax results from associates and joint ventures accounted for using the equity method is as follows:

	2008 £m	2007 £m
Share of joint ventures' profit/(loss)	0.1	(0.2)
Share of associates' (loss)/profit	(0.1)	0.6
Total share of results from associates and joint ventures	–	0.4

(a) Investments in joint ventures
The Group's interests in joint ventures are as follows:

Name	Country of registration	Activity	Proportion held %
Ibero – Eurosur SL	Spain	Holding company of Deutsche Touring	20

The financial information of this joint venture is summarised below:

	Ibero		Movelia*		Total	
Share of joint venture's balance sheet	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m
Non-current assets	4.2	3.2	–	0.5	4.2	3.7
Current assets	0.3	0.3	–	0.8	0.3	1.1
Share of gross assets	4.5	3.5	–	1.3	4.5	4.8
Non-current liabilities	(2.0)	(2.0)	–	–	(2.0)	(2.0)
Current liabilities	(0.3)	–	–	(0.7)	(0.3)	(0.7)
Share of gross liabilities	(2.3)	(2.0)	–	(0.7)	(2.3)	(2.7)
Share of net assets	2.2	1.5	–	0.6	2.2	2.1

18 Investments accounted for using the equity method (continued)
(a) Investments in joint ventures (continued)

Share of joint ventures' revenue and results	Ibero 2008 £m	Ibero 2007 £m	Movelia* 2008 £m	Movelia* 2007 £m	Total 2008 £m	Total 2007 £m
Revenue	**0.3**	–	**–**	0.3	**0.3**	0.3
Profit/(loss)	**0.1**	(0.1)	**–**	(0.1)	**0.1**	(0.2)

The carrying amount of the investment in joint ventures matches the Group's share of the net assets.

*Due to an increase in the Group's shareholding from 42% to 76%, Movelia Tecnologias SL, is now consolidated as a subsidiary.

(b) Investments in associates
The Group's interests in associates are as follows:

Name	Country of registration	Proportion held %
Inter-Capital and Regional Rail Limited	England and Wales	40
Spain associates	Spain	20–50

Inter-Capital and Regional Rail Limited ("ICRRL") is contracted to manage the operations of Eurostar UK until 2010. In 2006, an onerous contract provision was recognised in relation to the Group's obligation to fund the losses of ICRRL (note 26). As a result, the Group has ceased to recognise the share of results of ICRRL.

Spain's associates are generally involved in the operation of coach and bus services, management of bus stations and similar operations.

The associates' financial information is summarised below:

Share of associates' balance sheets	Held by Spain 2008 £m	Held by Spain 2007 £m
Non-current assets	**6.1**	11.6
Current assets	**8.7**	12.6
Share of gross assets	**14.8**	24.2
Non-current liabilities	**(3.7)**	(4.6)
Current liabilities	**(5.4)**	(9.9)
Share of gross liabilities	**(9.1)**	(14.5)
Share of net assets	**5.7**	9.7

The Group's net investment in associates is £5.7m (2007: £9.7m) which comprises associates held by Spain only. The decrease in the year stems from the acquisition of the remaining 75% share capital of Transportes Colectivos SA, which is now consolidated as a subsidiary (note 19).

Share of associates' revenue and results	Revenue 2008 £m	Revenue 2007 £m	Profit/(loss) 2008 £m	Profit/(loss) 2007 £m
Spain associates	**18.2**	14.4	**(0.1)**	0.6

Notes to the Consolidated Accounts continued

19 Business combinations

(a) Acquisitions

2008 Acquisitions

Transportes Colectivos SA

On 21 November 2008 the Group acquired the remaining 75% share capital of Transportes Colectivos, S.A. (TCSA), a coach company based in Spain, which operates regional services in the Basque Country. Consideration of £21.4m was satisfied by cash, and in addition the Group had already paid £5.1m in 2006 for the initial investment in 25% of the share capital.

Net assets at date of acquisition:	Book value £m	Fair value adjustments £m	**Fair value total £m**
Intangible assets	–	6.2	**6.2**
Property, plant and equipment	6.7	(0.2)	**6.5**
Inventories	0.7	(0.3)	**0.4**
Trade and other receivables	6.5	–	**6.5**
Current tax	0.1	–	**0.1**
Cash and cash equivalents	22.0	–	**22.0**
Trade and other payables	(10.7)	(0.3)	**(11.0)**
Provisions	(5.3)	4.0	**(1.3)**
Net financial liabilities	(5.1)	–	**(5.1)**
Deferred tax liability	–	(1.9)	**(1.9)**
Net assets	14.9	7.5	**22.4**
Goodwill on acquisition			**4.1**
Total consideration			**26.5**
Less: initial investment of the 25% made in 2006			**(5.1)**
Less: net cash acquired			**(22.0)**
Net cash (inflow)			**(0.6)**

The acquisition balance sheet has been adjusted to reflect fair value adjustments. The adjustments represent:

a) the recognition of a customer contract acquired with TCSA (£6.2m) which reflects the expected renewal of this contract in Spain. The customer contract is amortised over the life of the contract;

b) a decrease in the value of passenger transportation fleet (£0.2m) and spare parts inventories (£0.3m);

c) an increase in payables in relation to accrued holiday pay;

d) an adjustment in provisions to reflect only liabilities existing as at the acquisition date, such as agreed redundancy payments (£1.3m);

e) the deferred tax liability associated with the contract acquired.

From the date of acquisition, TCSA has contributed £0.4m to the operating profit of the Group. If the combination had taken place at the beginning of the year, the operating profit for the Group would have been £168.2m and revenue from continuing operations would have been £2,808.5m.

Included in the goodwill recognised above are certain intangible assets that cannot be separately identified and measured due to their nature. This includes control over the acquired businesses and assembled workforce and increased scale in our Spanish regional operations. Management believes that goodwill represents value to the Group for which the recognition of a discrete intangible asset is not permitted.

19 Business combinations (continued)
(a) Acquisitions (continued)
Other 2008 acquisitions
During the year ended 31 December 2008, in Canada, the Group acquired the entire share capital of school bus operators Alouette (North Bay Alouette Bus Lines Inc) on 7 January 2008. In the United States, the Group acquired the entire share capital of school bus operators A&E (A&E Transport Services Inc) on 28 February 2008.

	Book value				
Net assets at date of acquisition:	Alouette £m	A&E £m	Total £m	Fair value adjustments £m	**Fair value Total £m**
Intangible assets	0.1	–	0.1	6.4	**6.5**
Property, plant and equipment	0.1	1.6	1.7	0.1	**1.8**
Trade and other receivables	–	1.2	1.2	–	**1.2**
Cash and cash equivalents	–	0.6	0.6	–	**0.6**
Trade and other payables	–	(0.3)	(0.3)	–	**(0.3)**
Deferred tax liability	–	–	–	(1.8)	**(1.8)**
Net assets acquired	0.2	3.1	3.3	4.7	**8.0**
Goodwill on acquisition					**4.6**
Total consideration					**12.6**
Net consideration					**12.5**
Acquisition costs					**0.1**
Total consideration					**12.6**
Less: net cash acquired					**(0.6)**
Net cash outflow					**12.0**

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

a) the elimination of the book value of Alouette's intangible assets (£0.1m), the recognition of customer contracts acquired with A&E (£1.7m), and customer relationships acquired with Allouette (£4.2m) and A&E (£0.6m). The customer contracts are amortised over the life of the contracts, whilst customer relationships are not amortised, but are tested for impairment on an annual basis;

b) a £0.1m increase in the value of property, plant and equipment at Alouette following a review of the vehicle fleet;

c) the deferred tax liability associated on the customer contracts acquired with A&E (£0.5m), and the customer relationships acquired with Alouette (£0.2m) and A&E (£1.1m).

Total consideration was £0.9m for Alouette (including £0.1m acquisition costs) and £11.7m for A&E.

From their respective dates of acquisition Alouette and A&E have contributed £0.3m and £1.6m respectively to operating profit of the Group. If these combinations had taken place at the beginning of the year the Group operating profit would have been £168.2m and revenue from continuing operations would have been £2,769.4m.

Included in the goodwill recognised above are certain intangible assets that cannot be separately identified and measured due to their nature. This includes control over the acquired businesses and assembled workforce and increased scale in our North American school bus operations. Management believes that goodwill represents value to the Group for which the recognition of a discrete intangible asset is not permitted. The majority of the value was assessed to comprise of synergy benefits expected to be achieved by merging the businesses acquired into the Group's North American operations.

Notes to the Consolidated Accounts continued

19 Business combinations (continued)
(a) Acquisitions (continued)
2007 acquisitions
Continental Auto

The project to allocate the consideration paid on 4 October 2007 to purchase Continental Auto's entire share capital to the fair value of assets acquired was completed in the first half of 2008 and reported in the interim financial statements. However, the fair values of the contracts acquired have been updated.

Net assets at date of acquisition:	Book value as reported 31 December 2007 £m	Fair value adjustments as reported 31 December 2007 £m	Provisional fair value as reported 31 December 2007 £m	Final fair value adjustments £m	**Final fair value Total £m**
Intangible assets	92.2	(92.2)	–	154.6	**154.6**
Property, plant and equipment	87.5	(1.9)	85.6	17.7	**103.3**
Investments accounted for under the equity method	1.9	–	1.9	–	**1.9**
Inventories	1.5	–	1.5	–	**1.5**
Trade and other receivables	17.0	–	17.0	–	**17.0**
Cash and cash equivalents	4.1	–	4.1	–	**4.1**
Trade and other payables	(16.7)	–	(16.7)	–	**(16.7)**
Provisions	(1.4)	–	(1.4)	–	**(1.4)**
Fixed asset grants	(3.0)	–	(3.0)	–	**(3.0)**
Net financial liabilities	(22.8)	–	(22.8)	–	**(22.8)**
Current tax	(1.3)	–	(1.3)	–	**(1.3)**
Deferred tax liability	(11.7)	0.6	(11.1)	(51.7)	**(62.8)**
Net assets	147.3	(93.5)	53.8	120.6	**174.4**
Goodwill on acquisition			409.4	(120.6)	**288.8**
Total consideration			463.2	–	**463.2**
Net consideration					**459.8**
Acquisition costs					**3.4**
Total consideration					**463.2**
Less: net cash acquired					**(4.1)**
Net cash outflow					**459.1**

The adjustments represent:

a) the recognition of customer contracts (£140.1m) and contractual relationships (£14.5m) acquired with Continental Auto which reflects the expected renewal of these contracts in Spain. The customer contracts are amortised over the life of the contracts, whilst contractual relationships are not amortised, but are tested for impairment on an annual basis;

b) an increase in the value of property, plant and equipment following a valuation of the assets acquired;

c) the deferred tax liability associated on the contracts acquired, as well as on the revaluation of the property.

From the date of acquisition, Continental Auto has contributed £5.8m to the normalised operating profit of the Group. If the combination had taken place at the beginning of the year, the normalised operating profit for the Group would have been £220.9m and revenue from continuing operations would have been £2,708.4m.

19 Business combinations (continued)
(a) Acquisitions (continued)
In accordance with IFRS3, the Group income statement for 2007 has been restated to reflect the amortisation of customer contracts now recognised in the updated fair value review, as follows:

	Audited Year to 31 December Total 2007	Adjustments Year to 31 December Total 2007	**Restated** **Year to** **31 December** **Total** **2007**
Continuing operations			
Revenue	2,615.4	–	**2,615.4**
Operating costs before intangible asset amortisation & exceptional items	(2,409.8)	–	**(2,409.8)**
Intangible asset amortisation	(27.5)	(5.4)	**(32.9)**
Exceptional items	(15.8)	–	**(15.8)**
Total operating costs	(2,453.1)	(5.4)	**(2,458.5)**
Group operating profit	162.3	(5.4)	**156.9**
Profit on disposal of non-current assets	16.2	–	**16.2**
Profit from operations	178.5	–	**173.1**
Share of post tax results from associates and joint ventures accounted for using the equity method	0.4	–	**0.4**
Finance income	17.0	–	**17.0**
Finance costs	(46.0)	–	**(46.0)**
Profit before tax	149.9	(5.4)	**144.5**
Tax expense	(37.6)	1.6	**(36.0)**
Profit after tax for the period from continuing operations	112.3	(3.8)	**108.5**
Loss for the period from discontinued operations	(2.9)	–	**(2.9)**
Profit for the period	109.4	(3.8)	**105.6**
Profit attributable to equity shareholders	108.9	(3.8)	**105.1**
Profit attributable to minority interests	0.5	–	**0.5**
	109.4	(3.8)	**105.6**
Earnings per share – Basic	71.7p	(2.5)p	**69.2p**
Earnings per share – Diluted	71.2p	(2.5)p	**68.7p**

This restated position represents the 2007 results before Dot2Dot was classified as a discontinued operation.

Notes to the Consolidated Accounts continued

19 Business combinations (continued)
(a) Acquisitions (continued)
2007 acquisitions
In accordance with IFRS3 the Group balance sheet as at December 2007 has been restated to reflect the fair value and amortisation adjustments relating to Continental Auto and the goodwill adjustment relating to The Kings Ferry Limited as follows:

	Audited 30 December 2007 £m	Kings Ferry goodwill value adjustment £m	Continental Auto fair value adjustments £m	Continental Auto intangible assets amortisation £m	Foreign exchange on adjustments £m	**Restated 31 December 2007 £m**
Non-current assets						
Intangible assets	1,173.9	3.0	34.0	(5.4)	1.4	**1,206.9**
Property, plant and equipment	678.7	(1.0)	17.7	–	1.0	**696.4**
Financial assets – Available for sale	7.2					**7.2**
Financial assets – Derivative financial instruments	5.3					**5.3**
Investments accounted for using the equity method	11.8					**11.8**
Other receivables	10.0					**10.0**
	1,886.9	2.0	51.7	(5.4)	2.4	**1,937.6**
Current assets	469.1	–	–	–	–	**469.1**
Total assets	2,356.0	2.0	51.7	(5.4)	2.4	**2,406.7**
Non-current liabilities						
Financial liabilities – Borrowings	(652.3)					**(652.3)**
Financial liabilities – Derivative financial instruments	(5.4)					**(5.4)**
Deferred tax liability	(104.0)	(1.3)	(51.7)	1.6	(2.7)	**(158.1)**
Other non-current liabilities	(3.7)					**(3.7)**
Defined benefit pension liability	(29.8)					**(29.8)**
Provisions	(43.5)					**(43.5)**
	(838.7)	(1.3)	(51.7)	1.6	(2.7)	**(892.8)**
Current liabilities	(1,076.2)	(0.7)	–	–	–	**(1,076.9)**
Total liabilities	(1,914.9)	(2.0)	(51.7)	1.6	(2.7)	**(1,969.7)**
Net assets	441.1	–	–	(3.8)	(0.3)	**437.0**
Shareholders' equity						
Called up share capital	7.7					**7.7**
Share premium account	195.3					**195.3**
Capital redemption reserve	0.2					**0.2**
Own shares	(16.3)					**(16.3)**
Other reserves	30.7				(0.3)	**30.4**
Retained earnings	219.6			(3.8)		**215.8**
Total shareholders' equity	437.2			(3.8)	(0.3)	**433.1**
Minority interest in equity	3.9					**3.9**
Total equity	441.1	–	–	(3.8)	(0.3)	**437.0**

19 Business combinations (continued)
(a) Acquisitions (continued)
Other 2007 acquisitions
During the year ended 31 December 2007, in Canada, the Group acquired the entire share capital of school bus operators Dundas (Dundas Bus Service Ltd) on 30 March 2007 and Hogan (Hogan Bus Service Ltd) on 31 May 2007. In the United States, the Group acquired the entire share capital of school bus operators Murphy (Murphy Transportation Inc) on 30 July 2007.

The Group also acquired the entire share capital of Hotelink Limited (now renamed National Express Dot2Dot Limited) on 31 March 2007 and The Kings Ferry Limited on 8 November 2007. These acquired entities operate coach services in the UK. The fair value of the net assets of The Kings Ferry Limited have been updated in the year ended 31 December 2008.

	Book value							
Net assets at date of acquisition:	Dundas £m	Hogan £m	Murphy £m	Hotelink £m	Kings Ferry £m	Total £m	Fair value adjustments £m	**Fair value Total £m**
Intangible assets	–	–	–	–	–	–	8.9	**8.9**
Property, plant and equipment	0.5	0.2	4.9	–	8.5	14.1	(0.7)	**13.4**
Inventories	–	–	0.2	–	0.1	0.3	–	**0.3**
Trade and other receivables	–	–	1.5	0.2	1.2	2.9	–	**2.9**
Cash and cash equivalents	–	–	0.6	0.2	–	0.8	–	**0.8**
Trade and other payables	–	–	(0.4)	(0.2)	(1.7)	(2.3)	(0.8)	**(3.1)**
Financial liabilities – Borrowings	–	–	–	–	(5.0)	(5.0)	–	**(5.0)**
Deferred tax liability	–	–	–	–	–	–	(3.7)	**(3.7)**
Net assets acquired	0.5	0.2	6.8	0.2	3.1	10.8	3.7	**14.5**
Goodwill on acquisition								**13.4**
Total consideration								**27.9**
Net consideration								**27.6**
Acquisition costs								**0.3**
Total consideration								**27.9**
Less: deferred consideration								**(1.1)**
Less: acquisition costs accrued								**(0.1)**
Less: net cash acquired								**(0.8)**
Net cash outflow								**25.9**

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

a) the recognition of customer contracts acquired with Murphy (£1.8m) and The Kings Ferry Limited (£0.8m), and customer relationships acquired with Dundas (£1.0m), Hogan (£0.3m) and Murphy (£5.0m) which reflects the expected indefinite renewal of these school bus contracts in North America. The customer contracts are amortised over the life of the contracts, whilst customer relationships are not amortised, but are tested for impairment on an annual basis;

b) following a review of the vehicle fleet, the value of the property, plant and equipment was increased in Murphy and decreased in The Kings Ferry Limited;

c) an increase in payables of £0.1m at Hotelink; and

d) the deferred tax liability associated on the customer contracts acquired with Murphy (£0.5m) and The Kings Ferry Limited (£0.2m), the customer relationships acquired with Dundas (£0.3m), Hogan (£0.1m) and Murphy (£1.5m) and finance leases acquired with The Kings Ferry Limited (£1.1m).

Consideration was £1.5m for Dundas (including £0.1m deferred consideration), £0.6m for Hogan, £16.3m for Murphy (including £0.1m acquisition costs and £1.0m deferred consideration), £0.9m for Hotelink Limited (including £0.1m acquisition costs), and £8.6m for The Kings Ferry Limited (including £0.1m acquisition costs).

From their respective dates of acquisition to 31 December 2007, Dundas, Hogan, Murphy, Hotelink Limited and The Kings Ferry Limited have contributed £0.3m, £0.1m, £1.4m, a loss of £4.8m and £0.1m respectively to the operating profit of the Group. If these combinations, excluding Hotelink Limited, had taken place at the beginning of 2007 the Group operating profit would have been £163.5m, and revenue from continuing operations would have been £2,627.2m. Hotelink Limited would have contributed £3.5m of revenue and an operating loss of £5.0m.

Included in the goodwill recognised above are certain intangible assets that cannot be separately identified and measured due to their nature. This includes control over the acquired businesses and assembled workforce and increased scale in our North American school bus operations and UK Coach operations. Management believes that goodwill represents value to the Group for which the recognition of a discrete intangible asset is not permitted. The majority of the value was assessed to comprise of synergy benefits expected to be achieved by merging the businesses acquired into the Group's operations.

Notes to the Consolidated Accounts continued

19 Business combinations (continued)

(b) Disposals

In 2008, the Group disposed of the Portuguese transport business and one Spanish concession held by Alsa within the European Coach & Bus division. The disposal proceeds were £8.3m comprising of £5.4m cash received in 2008 and £2.9m deferred consideration to be received in 2009 and 2010. The net assets were £3.2m resulting in £5.1m profit on disposal.

In 2007, the Group disposed of the trade and business of Stewart International Airport for gross proceeds of £36.4m resulting in £16.2m profit on the sale of the business.

20 Non-current assets – Other receivables

	2008 £m	2007 £m
Prepayments and accrued income	**2.8**	4.6
Other receivables	**4.2**	5.4
	7.0	10.0

21 Inventories

	2008 £m	2007 £m
Raw materials and consumables	**24.4**	20.0

The movement on the provision for slow moving and obsolete inventory is immaterial.

22 Current assets – Trade and other receivables

	2008 £m	2007 £m
Trade receivables	**227.7**	170.3
Less: provision for impairment of receivables	**(11.8)**	(6.5)
Trade receivables – net	**215.9**	163.8
Amounts due from associates and joint ventures	**1.4**	3.7
Amounts owed by other related parties	**1.2**	1.0
Other receivables	**45.0**	42.8
Prepayments and accrued income	**68.8**	61.1
	332.3	272.4

An analysis of the provision for impairment of receivables is provided below:

	2008 £m	2007 £m
At 1 January	**(6.5)**	(5.6)
Provided in the year	**(5.3)**	(0.9)
At 31 December	**(11.8)**	(6.5)

Credit risk with respect to trade receivables is low as a large proportion of the Group's trading is with public or quasi-public organisations.

23 Cash and cash equivalents

	2008 £m	2007 £m
Cash at bank and in hand	**52.0**	68.0
Overnight deposits	**3.5**	14.6
Other short term deposits	**50.4**	74.6
Cash and cash equivalents	**105.9**	157.2

Cash and cash equivalents include restricted balances of £49.7m (2007: £55.2m) held by the UK Train subsidiaries. Under the terms of the train franchise agreements, cash can only be distributed by the TOCs either up to the amount of retained profits or the amount determined by prescribed liquidity ratios. The restricted cash represents that which is not available for distribution or the amount required to satisfy the liquidity ratio at the balance sheet date.

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates. Short term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term deposit rates. The fair value of cash and cash equivalents is equal to the carrying value.

24 Current liabilities – Trade and other payables

	2008 £m	2007 £m
Trade payables	**228.6**	218.8
Amounts owed to associates and joint ventures	**1.2**	1.4
Amounts owed to other related parties	**0.7**	0.6
Other tax and social security payable	**28.8**	34.1
Accruals and deferred income	**185.0**	196.7
Other payables	**113.0**	122.4
	557.3	574.0

Trade payables are non-interest bearing and are normally settled on 30 day terms and other payables are non-interest bearing and have an average term of two months. Included within other payables are deferred fixed asset grants from government or other public bodies of £3.4m (2007: £5.0m).

25 Other non-current liabilities

	2008 £m	2007 £m
Other liabilities	**20.7**	3.7

Other non-current liabilities comprise deferred fixed asset grants of £6.0m (2007: £2.9m) and other liabilities of £14.7m (2007: £0.8m).

Notes to the Consolidated Accounts continued

26 Provisions

	Insurance claims[a] £m	Eurostar onerous contract provision[b] £m	Other[c] £m	Total £m
At 1 January 2008	42.1	27.9	18.3	88.3
Charged to income statement	16.4	–	6.8	23.2
Utilised in the year	(20.8)	(8.4)	(10.9)	(40.1)
Acquired in business combinations	–	–	1.3	1.3
Amortisation of discount	1.1	2.0	–	3.1
Exchange difference	4.5	–	3.0	7.5
At 31 December 2008	**43.3**	**21.5**	**18.5**	**83.3**
Current 31 December 2008	17.5	8.6	18.2	44.3
Non-current 31 December 2008	25.8	12.9	0.3	39.0
	43.3	**21.5**	**18.5**	**83.3**
Current 31 December 2007	18.1	8.4	18.3	44.8
Non-current 31 December 2007	24.0	19.5	–	43.5
	42.1	27.9	18.3	88.3

a) 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 comprises provisions for existing claims arising in the UK and North America.

b) A provision was recognised in 2006 for the Group's onerous contract for Eurostar with ICRRL. £8.4m (2007: £8.4m) was paid to ICRRL during the year. The provision will be utilised over the period to the end of the Group's contract in 2010, with the final payment being made in February 2011.

c) The following items are included within other provisions:

i. A provision was recognised for the expected liabilities in relation to the discontinued North American Public Transit business as disclosed in note 11. These liabilities have arisen as the Group is a party to an industry-wide litigation in respect of working time regulations. A provision has been recognised for the expected value of the settlement, but the total amount of the provisions recognised by the Group is not disclosed as this may prejudice the Group's position in this matter. The whole provision is expected to be paid in 2009.

ii. A provision was recognised in the year in the UK for redundancy costs as a result of a significant restructuring exercise undertaken at the end of 2008. The provision is expected to be fully paid in 2009.

iii. All other remaining provisions are expected to be paid within 2009.

When the effect is material, the provisions are discounted to their net present value.

27 Deferred tax

	2008 £m	2007 £m
Net deferred tax liability brought forward	**(158.1)**	(73.7)
Acquisition of subsidiaries	**(3.7)**	(66.5)
Credit to income statement	**56.9**	–
Credit/(charge) to reserves	**31.7**	(10.1)
Goodwill value adjustment	**–**	(1.3)
Exchange differences	**(31.7)**	(6.5)
Net deferred tax liability at 31 December	**(104.9)**	(158.1)

Based on current capital investment plans, the Group expects to be able to claim capital allowances in excess of depreciation in future years at a similar level to the current year.

Deferred tax assets and liabilities within the same jurisdiction have been offset.

Deferred tax assets	2008 £m	2007 £m
Accelerated tax depreciation	**(26.2)**	–
Losses carried forward	**–**	–
Other short-term temporary differences	**46.2**	–
Total	**20.0**	–

Deferred tax liabilities	2008 £m	2007 £m
Accelerated tax depreciation	**(87.9)**	(61.9)
Losses carried forward	**15.1**	2.6
Other short-term temporary differences	**(52.1)**	(98.8)
Total	**(124.9)**	(158.1)

28 Financial liabilities

	2008 £m	2007 £m
Non-current		
Bank loans	**1,132.7**	562.9
Finance lease obligations	**81.5**	89.4
Other debt payable	**0.8**	–
Financial liabilities – Interest-bearing loans and borrowings	**1,215.0**	652.3
Fuel price swaps	**28.2**	–
Interest rate swaps	**18.3**	5.4
Foreign exchange forward contracts	**12.8**	–
Financial liabilities – Derivative financial instruments	**59.3**	5.4
Non-current financial liabilities	**1,274.3**	657.7
Current		
Loan notes	**0.8**	0.8
Bank loans	**18.1**	384.5
Finance lease obligations	**52.4**	30.4
Other debt payable	**0.3**	–
Financial liabilities – Interest-bearing loans and borrowings	**71.6**	415.7
Fuel price swaps	**52.0**	–
Interest rate swaps	**14.9**	3.2
Foreign exchange forward contracts	**12.4**	14.5
Financial liabilities – Derivative financial instruments	**79.3**	17.7
Current financial liabilities	**150.9**	433.4

An analysis of interest-bearing loans and borrowings is provided in note 29. Further information on derivative financial instruments is provided in note 31.

Notes to the Consolidated Accounts continued

29 Interest-bearing loans and borrowings

The effective interest rates on loans and borrowings at the balance sheet date were as follows.

	2008 £m	Maturity	Effective interest rate	2007 £m	Maturity	Effective interest rate
Sterling loan notes	**0.8**	On demand	LIBOR + 1.0%	0.8	On demand	LIBOR + 1.0%
Loan notes	**0.8**			0.8		
Sterling bank loans	**17.9**	2012–2015	LIBOR + 0.2%	17.5	2012–2015	LIBOR + 0.2%
Sterling bank loans	**600.0**	June 2011	LIBOR + 0.5%	–	–	–
Short term Sterling bank loans	**10.0**	2009	LIBOR + 0.5%	–	–	–
Short term US dollar bank loans	**–**	–	–	5.0	January 2008	LIBOR + 1.0%
US dollar bank loans subject to interest rate hedge	**–**	–	–	50.0	June 2011	7.3%
US dollar bank loans unhedged	**–**	–	–	25.0	June 2011	LIBOR + 0.4%
Euro bank loans unhedged	**8.0**	2009–2015	EURIBOR + 0.6%	8.7	2008	EURIBOR + 0.5%
Euro bank loans unhedged	**–**	–	–	216.8	April 2008	EURIBOR + 0.5%
Euro bank loans subject to interest rate hedge	**–**	–	–	150.7	April 2008	4.6%
Euro bank loans subject to interest rate hedge	**514.9**	September 2010	4.9%	473.7	June 2011	4.6%
Bank loans	**1,150.8**			947.4		
US dollar finance leases at fixed rate	**40.3**	2009–2012	4.0%	18.1	2009–2012	3.6%
US dollar finance leases at floating rate	**26.1**	November 2009	LIBOR – 0.3%	21.9	2009–2012	LIBOR – 0.3%
Euro finance leases at floating rate	**36.9**	2009–2016	EURIBOR + 0.5%	40.3	2008–2013	EURIBOR + 0.5%
Sterling finance leases at fixed rate	**30.6**	2009–2018	5.4%	34.1	2008–2018	5.4%
Sterling finance leases at floating rate	**–**	–	–	5.4	2008	LIBOR + 3.0%
Finance leases	**133.9**			119.8		
Euro loans	**1.1**	2009–2011	–	–	–	–
Other debt payable	**1.1**			–		
Total	**1,286.6**			1,068.0		

During the year €604.0m and $150.0m of debt were exchanged for £600.0m of sterling debt to reduce the Group's exposure to changing foreign exchange rates. Additionally, the euro facility was further extended to September 2009, with a one year extension to September 2010 at the Group's option.

Details of the Group's interest rate management strategy and interest rate swaps are included in notes 30 and 31.

The Group is subject to a number of covenants in relation to its borrowing facilities which, if contravened, would result in its loans becoming immediately repayable. These covenants specify maximum net debt to EBITDA and minimum EBITDA to interest.

The following table sets out the carrying amount, by maturity of the Group's financial instruments that are exposed to interest rate risk.

As at 31 December 2008	< 1 year £m	1–2 years £m	2–3 years £m	3–4 years £m	4–5 years £m	> 5 years £m	Total £m
Fixed rate							
Bank loans	**–**	**(514.9)**	**–**	**–**	**–**	**–**	**(514.9)**
Finance leases	**(10.4)**	**(9.8)**	**(11.2)**	**(7.2)**	**(6.8)**	**(25.5)**	**(70.9)**
Net interest rate swaps	**(13.4)**	**(11.4)**	**(2.0)**	**(3.4)**	**–**	**–**	**(30.2)**
Other debt payable	**(0.3)**	**(0.6)**	**(0.2)**	**–**	**–**	**–**	**(1.1)**
Floating rate							
Cash assets	**105.9**	**–**	**–**	**–**	**–**	**–**	**105.9**
Loan notes	**(0.8)**	**–**	**–**	**–**	**–**	**–**	**(0.8)**
Bank loans	**(18.1)**	**(6.3)**	**(607.6)**	**(2.4)**	**(0.7)**	**(0.8)**	**(635.9)**
Finance leases	**(42.0)**	**(10.2)**	**(5.6)**	**(2.1)**	**(1.1)**	**(2.0)**	**(63.0)**

29 Interest-bearing loans and borrowings (continued)

As at 31 December 2007	< 1 year £m	1–2 years £m	2–3 years £m	3–4 years £m	4–5 years £m	> 5 years £m	Total £m
Fixed rate							
Bank loans	(155.7)	–	–	(523.6)	–	–	(679.3)
Finance leases	(9.5)	(5.7)	(5.3)	(4.6)	(3.3)	(23.8)	(52.2)
Net interest rate swaps	(1.7)	–	(4.5)	–	0.8	–	(5.4)
Floating rate							
Cash assets	157.2	–	–	–	–	–	157.2
Loan notes	(0.8)	–	–	–	–	–	(0.8)
Bank loans	(228.8)	(4.9)	(2.7)	(27.6)	(2.6)	(1.5)	(268.1)
Finance leases	(20.9)	(14.4)	(10.0)	(6.9)	(4.5)	(10.9)	(67.6)

30 Financial risk management objectives and policies

Financial risk factors and management

The Group's multinational operations and significant debt financing expose it to a variety of financial risks, the most material of which are the effects of changes in foreign currency exchange rates, interest rates and changes in fuel prices. The Group has in place a risk management programme that seeks to limit the adverse effects of these risks on the financial performance of the Group by using financial instruments including borrowings, forward exchange contracts, fuel price and interest rate swaps.

The Board of Directors have delegated to a sub-committee, the Treasury committee, the responsibility for implementing the risk management policies laid down by the Board. The policies are implemented by the central treasury department that receives regular reports from all the operating companies to enable prompt identification of financial risks so that appropriate actions may be taken. The treasury department has a policy and procedures manual that sets out specific guidelines to manage foreign currency exchange risk, interest rate risk and credit risk including the use of financial instruments.

Foreign currency

The Group has major operations in the US, Canada, Spain and residual assets in Australia and as a result is exposed to foreign exchange risks on translation of net assets and on earnings denominated in foreign currency. The Group finances overseas investments mainly through the use of foreign currency borrowings to hedge the net asset investment and from time to time enters into foreign exchange forward contracts. During the year, the Group closed out all foreign currency borrowings and foreign exchange forward contracts except for a €540.0m Euro facility and a cross-currency swap of $85.0m. The swap contract term runs for a period up to 2.5 years. At the end of the year, the Group's policy is to hedge 0% to 50% its foreign currency denominated net assets (2007: 50% and 100%). At 31 December 2008, 14% (2007: 81%) of the Group's exposure to US dollar assets were hedged, nil% (2007: 71%) of the exposure to Canadian dollar assets, nil% (2007: nil%) of the exposure to Australian dollar assets and 39% (2007: 97%) of the exposure to euro assets.

The table below demonstrates the sensitivity of the Group's financial instruments to a reasonably possible change in foreign currency exchange rates, with all other variables held constant. This would affect the Group's profit before tax and translation reserve. The effect on the translation reserve represents the movement in the translated value of the foreign currency denominated loans and change in fair value of forward contracts. These movements would be offset by an opposite movement in the translated value of the Group's overseas net investments.

		2008		2007	
As at 31 December	Strengthening/ (weakening) in currency	**Effect on profit before tax £m**	**Effect on translation reserve £m**	Effect on profit before tax £m	Effect on translation reserve £m
US dollar	10%	**–**	**(5.3)**	–	(19.9)
Euro	10%	**–**	**(46.9)**	–	(87.2)
Canadian dollar	10%	**–**	**–**	–	(8.8)
Australian dollar	10%	**–**	**–**	–	–
US dollar	(10)%	**–**	**5.3**	–	19.9
Euro	(10)%	**–**	**46.9**	–	87.2
Canadian dollar	(10)%	**–**	**–**	–	8.8
Australian dollar	(10)%	**–**	**–**	–	–

Notes to the Consolidated Accounts continued

30 Financial risk management objectives and policies (continued)

Interest rate risk

The Group is exposed to interest rate risk on both interest-bearing assets and interest-bearing liabilities. It is the Group's policy to maintain an appropriate balance between fixed and floating interest rates on borrowings in order to provide certainty as to the level of 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 floating interest rate debt is based on LIBOR or EURIBOR and, to achieve the above objectives, the Group has entered into a series of interest rate swaps that have the effect of converting floating rate debt to fixed rate debt. The net effect of these transactions was that as at 31 December 2008 the Group was hedged against interest rate movements on £525.6m (2007: £731.5m) of gross debt for an average of 2.5 (2007: 3.0) years.

The table below demonstrates the sensitivity of the Group's financial instruments to a reasonably possible change in interest rates, with all other variables held constant, on the Group's profit before tax and on the Group's hedging reserve. The effect on profit before tax arises through movements in interest on floating rate financial instruments. The effect on the hedging reserve represents the movement in the fair value of the Group's interest rate swaps which are accounted for as hedging instruments under IAS 39.

The sensitivity analysis covers all floating rate financial instruments, including the interest rate swaps.

		2008		2007	
As at 31 December	Increase/ (decrease) in basis points	**Effect on profit before tax £m**	**Effect on hedging reserve £m**	Effect on profit before tax £m	Effect on hedging reserve £m
Sterling	100	**(5.6)**	**–**	1.0	–
US dollars	50	**0.5**	**–**	(0.2)	0.6
Euro	75	**(0.2)**	**8.2**	(1.9)	9.5
Sterling	(100)	**5.6**	**–**	(1.0)	–
US dollars	(50)	**(0.5)**	**–**	0.2	(0.6)
Euro	(75)	**0.2**	**(8.2)**	1.9	(9.5)

Commodity prices

The Group is exposed to commodity price risk as a result of fuel usage. It is the Group's policy to hedge this exposure in order to provide certainty as to the level of 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 which are expected to be highly effective. As at 31 December 2008, the Group had hedged approximately 100% of its 2009 expected usage and 23.4% of its expected usage in 2010 and 2011.

The table below demonstrates the sensitivity of the Group's financial instruments to a reasonably possible change in fuel prices, with all other variables held constant, on the Group's profit before tax and on the Group's hedging reserve.

The sensitivity analysis includes all fuel price swaps. The effect on the hedging reserve arises through movements on the fair value of the Group's fuel price swaps.

		2008		2007	
As at 31 December	Increase/ (Decrease) in price	**Effect on profit before tax £m**	**Effect on hedging reserve £m**	Effect on profit before tax £m	Effect on hedging reserve £m
Sterling denominated ULSD	20%	**–**	**7.2**	–	5.5
US dollar denominated gasoil	20%	**–**	**5.6**	–	2.2
Euro denominated ULSD	20%	**–**	**3.2**	–	6.2
Sterling denominated ULSD	(20%)	**–**	**(7.2)**	–	(5.5)
US dollar denominated gasoil	(20%)	**–**	**(5.6)**	–	(2.2)
Euro denominated ULSD	(20%)	**–**	**(3.2)**	–	(6.2)

Credit risk

The maximum credit risk exposure of the Group is the gross carrying value of each of its financial assets. This risk is mitigated by a number of factors. The majority of the Group's receivables are public (or quasi-public) bodies, both national (DfT Rail and Network Rail in the UK) and local (school boards in North America, municipal authorities in Spain and Morocco, Transport for London and Centro in the UK). The Group does not consider these counterparties to pose a significant credit risk. Outside of this the Group does not consider it has significant concentrations of credit risk. The Group has implemented policies that require appropriate credit checks on potential customers before sales commence.

The counterparties for financial assets other than investments and trade receivables are subject to pre-approval by the Treasury Committee and such approval is limited to financial institutions with an A rating or better. The amount of exposure to any individual counterparty is subject to a limit, which is reassessed annually by the Treasury Committee.

30 Financial risk management objectives and policies (continued)

Credit risk (continued)

The only element of the Group's financial assets which are not impaired but are past due are certain trade receivable items. An ageing of the assets which are past due is included below.

			Of which: not impaired and past due in the following periods			
	Carrying amount £m	Of which: neither impaired nor past due £m	Less than 30 days £m	Between 30 and 60 days £m	Between 61 and 90 days £m	Over 90 days £m
Trade receivables at 31 December 2008	**215.9**	**129.7**	**26.3**	**23.0**	**14.5**	**22.4**
Trade receivables at 31 December 2007	163.8	94.5	15.3	19.2	9.0	25.8

Liquidity risk

The Group actively maintains a mixture of long term and short term committed facilities that are designed to ensure the Group has sufficient available funds to meet current and forecast financial requirements as cost effectively as possible. As at 31 December 2008 the Group had committed borrowing facilities of £1,363.8m (2007: £1,167.5m) of which £143.8m (2007: £199.4m) were undrawn. The Group's primary bank facilities expire in September 2009 with an option to extend to September 2010 at the Group's discretion and June 2011 and the lease facilities at various times in line with their terms.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2008 and 2007 based on the contractual undiscounted payments.

Year ended 31 December 2008	**On demand £m**	**Less than 1 year £m**	**1–5 years £m**	**> 5 years £m**	**Total £m**
Loan notes	**0.8**	**–**	**–**	**–**	**0.8**
Bank loans	**–**	**52.3**	**1,182.0**	**0.8**	**1,235.1**
Finance lease obligations	**–**	**57.8**	**63.3**	**29.3**	**150.4**
Other debt payable	**–**	**0.3**	**0.8**	**–**	**1.1**
Net Interest rate swaps	**–**	**8.9**	**11.5**	**–**	**20.4**
Fuel price swaps	**–**	**49.7**	**32.1**	**–**	**81.8**
Foreign exchange forward contracts	**–**	**15.9**	**14.9**	**–**	**30.8**
Trade and other payables	**–**	**439.2**	**14.7**	**–**	**453.9**
ICRRL onerous contract obligation	**–**	**8.6**	**15.7**	**–**	**24.3**
	0.8	**632.7**	**1,335.0**	**30.1**	**1,998.6**

Year ended 31 December 2007	On demand £m	Less than 1 year £m	1–5 years £m	> 5 years £m	Total £m
Loan notes	0.8	–	–	–	0.8
Bank loans	–	421.5	619.8	–	1,041.3
Finance lease obligations	–	37.5	68.3	34.9	140.7
Net interest rate swaps	–	2.4	5.6	–	8.0
Foreign exchange forward contracts	–	14.2	–	–	14.2
Trade and other payables	–	464.4	0.8	–	465.2
ICRRL onerous contract obligation	–	8.4	24.4	–	32.8
	0.8	948.4	718.9	34.9	1,703.0

Notes to the Consolidated Accounts continued

31 Financial instruments (including cash, trade receivables and payables)

Fair values

The fair value of foreign exchange forward contracts, fuel price swaps and interest rate swaps has been determined by the third party financial institution with which the Group holds the instrument, in line with the market value of similar financial instruments.

The fair value of the Group's financial assets and liabilities is equal to the carrying value, except for available-for-sale investments where there is no active market. In the absence of any other reliable external information, these assets are carried at cost or amortised cost. The Group has no current plans to dispose of these assets.

Classification of financial instruments As at 31 December 2008	Loans and receivables £m	Available-for-sale assets £m	Derivatives used for hedging £m	Liabilities measured at amortised cost £m	At fair value through profit or loss £m	Total £m
Assets						
Investments	–	9.2	–	–	–	9.2
Interest rate swaps	–	–	–	–	3.0	3.0
Fuel price swaps	–	–	1.0	–	–	1.0
Cash and cash equivalents	105.9	–	–	–	–	105.9
Trade and other receivables	308.0	–	–	–	–	308.0
	413.9	9.2	1.0	–	3.0	427.1
Liabilities						
Loan notes	–	–	–	(0.8)	–	(0.8)
Bank loans	–	–	–	(1,150.8)	–	(1,150.8)
Finance lease obligations	–	–	–	(133.9)	–	(133.9)
Other debt payable	–	–	–	(1.1)	–	(1.1)
Interest rate swaps	–	–	(17.5)	–	(15.7)	(33.2)
Fuel price swaps	–	–	(80.2)	–	–	(80.2)
Foreign exchange forward contracts	–	–	(25.2)	–	–	(25.2)
Trade and other payables	–	–	–	(453.9)	–	(453.9)
ICRRL onerous contract obligation	–	–	–	(21.5)	–	(21.5)
	–	–	(122.9)	(1,762.0)	(15.7)	(1,900.6)

Classification of financial instruments As at 31 December 2007	Loans and receivables £m	Available-for-sale assets £m	Derivatives used for hedging £m	Liabilities measured at amortised cost £m	At fair value through profit or loss £m	Total £m
Assets						
Investments	–	7.2	–	–	–	7.2
Interest rate swaps	–	–	3.2	–	–	3.2
Fuel price swaps	–	–	12.1	–	–	12.1
Cash and cash equivalents	157.2	–	–	–	–	157.2
Trade and other receivables	240.6	–	–	–	–	240.6
	397.8	7.2	15.3	–	–	420.3
Liabilities						
Loan notes	–	–	–	(0.8)	–	(0.8)
Bank loans	–	–	–	(947.4)	–	(947.4)
Finance lease obligations	–	–	–	(119.8)	–	(119.8)
Interest rate swaps	–	–	(7.7)	–	(0.9)	(8.6)
Foreign exchange forward contracts	–	–	(14.5)	–	–	(14.5)
Trade and other payables	–	–	–	(465.2)	–	(465.2)
ICRRL onerous contract obligation	–	–	–	(27.9)	–	(27.9)
	–	–	(22.2)	(1,561.1)	(0.9)	(1,584.2)

The financial liabilities at fair value through profit or loss are held for trading. There is no difference between the fair value and the amount that would be required to settle the liability.

Other receivables and other payables are to be settled in cash in the currency they are held in.

In accordance with IAS 39, "Financial Instruments: Recognition and Measurement", the Group has reviewed all contracts for embedded derivatives that are required to be separately accounted for. No embedded derivatives have been identified.

31 Financial instruments (including cash, trade receivables and payables) (continued)

Hedging activities

The movement on derivative financial instruments is detailed below:

	Interest rate swaps £m	Foreign exchange forward contracts £m	Fuel swaps £m	Total £m
Net (liability)/asset at 1 January 2008	**(5.4)**	**(14.5)**	**12.1**	**(7.8)**
Cash settlements	**1.1**	**33.0**	**(16.0)**	**18.1**
Revaluation through income statement	**(6.0)**	**–**	**–**	**(6.0)**
Revaluation through SORIE	**(19.0)**	**(0.2)**	**(63.8)**	**(83.0)**
Exchange differences	**(0.9)**	**(43.5)**	**(11.5)**	**(55.9)**
Net (liability) at 31 December 2008	**(30.2)**	**(25.2)**	**(79.2)**	**(134.6)**

During the year a £2.1m finance charge was incurred on the close out of euro interest rate swaps. In addition, fuel swap put options were sold. The gain of £3.6m was recognised in the hedging reserve and will be transferred to the income statement in 2009.

	Interest rate swaps £m	Foreign exchange forward contracts £m	Fuel swaps £m	Total £m
Net (liability)/asset at 1 January 2007	(6.0)	6.6	(6.9)	(6.3)
Cash settlements	(0.2)	–	(0.8)	(1.0)
Revaluation through income statement	(0.9)	–	–	(0.9)
Revaluation through SORIE	1.6	0.4	19.5	21.5
Exchange differences	0.1	(21.5)	0.3	(21.1)
Net (liability)/asset at 31 December 2007	(5.4)	(14.5)	12.1	(7.8)

The movement on the hedging reserve is detailed below:

	2008 £m	2007 £m
At 1 January	**5.4**	(9.0)
Transferred to income statement – operating costs	**(16.0)**	(0.7)
Transferred to income statement – net finance costs	**6.8**	(0.3)
Revaluation, net of tax	**(54.6)**	15.4
At 31 December	**(58.4)**	5.4

Interest hedges

The Group has a number of interest rate swaps in place to hedge the cash flow risk in relation to interest rates. These instruments are summarised below:

a) An interest rate swap of US$100m that was entered into in September 2000 fixed at 6.9% and a separate US$100m interest rate swap that has the effect of fixing the accrued loss on the first swap. These instruments do not qualify for hedge accounting. The cumulative fair value loss in the hedging reserve was transferred to the income statement.

b) A cash flow hedge with a total principal of US$100m that was entered into in September 2000 fixed at 6.8545% until September 2010. The underlying USD debt was exchanged into sterling debt during the year and this instrument ceased to qualify for hedge accounting on 15 December 2008. The cumulative fair value loss in the hedging reserve was transferred to the income statement.

The above financial instruments are classified as fair value through the profit or loss. A total loss of £9.4m was recognised in the income statement comprising £5.7m transferred from the hedging reserve and a £3.7m fair market value loss for the year. Any future impact on the income statement is expected to be immaterial.

c) A cash flow hedge with a principal of €300m that was entered into in November 2007 fixed at 4.26% until August 2010.

d) A cash flow hedge with a principal of €250m that was entered into in November 2007 fixed at 4.27% until May 2012.

The following swaps were closed out in 2008 with the fair market value of £2.1m being charged to the income statement.

- A cash flow hedge with a principal of €150m that was entered into in January 2008 fixed at 3.94%.
- A cash flow hedge with a principal of €150m that was entered into in December 2007 fixed at 4.24%.

The conditions of all swaps remaining in place at 31 December 2008 coincide with the material conditions of the underlying loans. The underlying cash flows are expected to take place periodically from 2009 to 2012 and will affect profit or loss over the same period of time.

The benchmark rate for floating rate financial liabilities is the relevant interbank borrowing rate.

During the year £6.8m (2007: £0.2m) has been transferred from the hedging reserve to the income statement in respect of interest rate swaps.

Notes to the Consolidated Accounts continued

31 Financial instruments (including cash, trade receivables and payables) (continued)

Hedge of net investments in foreign entities

Included in bank loans are borrowings of US$nil (£nil) (2007: US$150.0m (£75.6m)), CAN$nil (£nil) (2007: CAN$nil (£nil)) and €540m (£516.1m) (2007: €1,145.0m (£841.6m)) which have been designated as a hedge of net investments in the foreign currency denominated net assets of the Group and are being used to reduce the exposure to foreign exchange risk. In addition the Group has synthetic debt in the form of foreign exchange forward contracts in place split between US$85.0m (£56.7m) (2007: US$283.8m (£143.0m)), CAN$nil (£nil) (2007: CAN$192.1m (£97.1m)), and €nil (£nil) (2007: €160.0m (£117.6m)) to complete the post-tax hedge of the net investment in foreign entities. The portion of the gain or loss on the foreign exchange forward contracts that is determined to be an effective hedge is recognised directly in equity and, to this extent, offsets any gains or losses on translation of the net investments in the subsidiaries. No ineffectiveness has been recognised in the income statement.

Fuel price hedges

The Group has a number of fuel price swaps in place to hedge the different types of fuel used in each division. Ultra low sulphur diesel used in the UK Bus, UK Coach and European Coach & Bus divisions and gasoil as used in the UK Trains division are hedged by swaps in the same type of fuel. Diesel used in the North American division is hedged by heating oil swaps. The timing of the swap cash flows will match the underlying fuel purchases from 2009 through to 2011.

During the year £16.0m (2007: £0.7m) has been transferred from the hedging reserve, of which a £8.5m (2007: £4.3 m debit) was recognised in the hedging reserve at 1 January 2008 and the remainder was generated during the year due to the movement in market fuel prices.

Fuel price swaps can be analysed as follows:

	31 December 2008 Fair value £m	31 December 2007 Fair value £m	**31 December 2008 Volume million litres**	31 December 2007 Volume million litres
Sterling denominated fuel swaps – UK Bus, UK Coach and UK Trains	**(12.8)**	4.7	**111.2**	57.0
US dollar denominated fuel swaps – North American Bus	**(10.6)**	1.5	**66.1**	23.3
Euro denominated fuel swaps – European Coach & Bus	**(27.6)**	2.3	**94.1**	48.8
Fuel price swaps included in current (liabilities)/assets	**(51.0)**	8.5	**271.4**	129.1
Sterling denominated fuel swaps – UK Bus, UK Coach and UK Trains	**(2.8)**	1.7	**32.4**	24.0
US dollar denominated fuel swaps – North American Bus	**(16.5)**	0.4	**45.4**	11.4
Euro denominated fuel swaps – European Coach & Bus	**(8.9)**	1.5	**48.0**	34.5
Fuel price swaps included in non-current (liabilities)/assets	**(28.2)**	3.6	**125.8**	69.9
Total fuel price swaps	**(79.2)**	12.1	**397.2**	199.0

Interest swap at fair value through profit or loss

The Group has entered into a series of six month (2007: one year) basis swaps, where the Company pays six month EURIBOR less a margin and receives one month EURIBOR. These swaps were entered into in July 2008 (2007: November) and expire at various times in the first half of 2009 (2007: November 2008.) The Group did not apply hedge accounting for these instruments. The fair value at 31 December 2008 was a liability of £3.2m (2007: £0.9m).

32 Called-up share capital

	2008 £m	2007 £m
At 31 December:		
Authorised:		
200,000,000 (2007: 200,000,000) ordinary shares of 5p each	**10.0**	10.0
Issued called-up and fully paid:		
154,687,284 (2007: 154,627,671) ordinary shares of 5p each	**7.7**	7.7

Movement in ordinary shares during the year:	£m	Number of shares
At 1 January 2007	7.7	153,835,012
Exercise of share options	–	792,659
At 1 January 2008	7.7	154,627,671
Exercise of share options	–	59,613
At 31 December 2008	7.7	154,687,284

The total number of share options exercised in the year was 475,813 (2007: 1,008,457) of which 59,613 (2007: 792,659) exercises were satisfied by newly issued shares and 416,200 (2007: 215,798) exercises were satisfied by transferring shares from the National Express Employee Benefit Trust.

33 Share capital and reserves

	Share capital £m	Share premium £m	Capital redemption reserve £m	Own shares £m	Other reserves (note 34) £m	Retained earnings £m	Total £m	Minority interests £m	Total equity £m
At 1 January 2008	**7.7**	**195.3**	**0.2**	**(16.3)**	**30.4**	**215.8**	**433.1**	**3.9**	**437.0**
Shares issued	**–**	**0.4**	**–**	**–**	**–**	**–**	**0.4**	**–**	**0.4**
Shares purchased	**–**	**–**	**–**	**(1.7)**	**–**	**–**	**(1.7)**	**–**	**(1.7)**
Own shares released to satisfy employee share schemes	**–**	**–**	**–**	**2.8**	**–**	**(2.8)**	**–**	**–**	**–**
Total recognised income and expense	**–**	**–**	**–**	**–**	**103.3**	**99.4**	**202.7**	**2.2**	**204.9**
Share-based payments	**–**	**–**	**–**	**–**	**–**	**4.4**	**4.4**	**–**	**4.4**
Dividends	**–**	**–**	**–**	**–**	**–**	**(59.6)**	**(59.6)**	**–**	**(59.6)**
Acquisition of minority interest	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**0.4**	**0.4**
Dividends paid to minority interest	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(0.4)**	**(0.4)**
At 31 December 2008	**7.7**	**195.7**	**0.2**	**(15.2)**	**133.7**	**257.2**	**579.3**	**6.1**	**585.4**

	Share capital £m	Share premium £m	Capital redemption reserve £m	Own shares £m	Other reserves (note 34) £m	Retained earnings £m	Total £m	Minority interests £m	Total equity £m
At 1 January 2007	7.7	189.8	0.2	(16.7)	7.9	153.3	342.2	3.3	345.5
Shares issued	–	5.5	–	–	–	–	5.5	–	5.5
Own shares released to satisfy employee share schemes	–	–	–	0.4	–	(0.4)	–	–	–
Total recognised income and expense	–	–	–	–	22.5	113.7	136.2	0.7	136.9
Share-based payments	–	–	–	–	–	3.2	3.2	–	3.2
Dividends	–	–	–	–	–	(54.0)	(54.0)	–	(54.0)
Dividends paid to minority interest	–	–	–	–	–	–	–	(0.1)	(0.1)
At 31 December 2007	7.7	195.3	0.2	(16.3)	30.4	215.8	433.1	3.9	437.0

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

Treasury shares include 1,825,000 (2007: 1,825,000) ordinary shares in the Company. No additional (2007: nil) shares have been added as treasury shares within equity for future issue under the Group's share schemes or cancellation. No shares were cancelled during the year (2007: nil). The market value of these shares at 31 December 2008 was £9.0m (2007: £22.7m).

Own shares include 185,103 (2007: 447,770) ordinary shares in the Company that have been purchased by the Trustees of the National Express Employee Benefit Trust (the "Trust"). During the year, the Trust purchased 153,533 (2007: nil) shares and 416,200 (2007: 215,798) shares were used to satisfy options granted under a number of the Company's share schemes. The value of shares within the Trust has been recognised as an investment in treasury shares. The market value of these shares at 31 December 2008 was £0.9m (2007: £5.6m). The dividends payable on these shares have been waived.

34 Other reserves

	Merger reserve £m	Hedging reserve £m	Translation reserve £m	Total £m
At 1 January 2008	**15.4**	**5.4**	**9.6**	**30.4**
Hedge movements, net of tax	**–**	**(63.8)**	**–**	**(63.8)**
Exchange differences, net of tax	**–**	**–**	**167.1**	**167.1**
At 31 December 2008	**15.4**	**(58.4)**	**176.7**	**133.7**

Notes to the Consolidated Accounts continued

34 Other reserves (continued)

	Merger reserve £m	Hedging reserve £m	Translation reserve £m	Total £m
At 1 January 2007	15.4	(9.0)	1.5	7.9
Hedge movements, net of tax	–	14.4	–	14.4
Exchange differences, net of tax	–	–	8.1	8.1
At 31 December 2007	15.4	5.4	9.6	30.4

The nature and purpose of the other reserves are as follows:

- The merger reserve includes the premium on shares issued to satisfy the purchase of Prism Rail PLC in 2000. The reserve is not distributable.
- The hedging reserve records the movements on designated hedging items, offset by any movements recognised directly in equity on underlying hedged items.
- The translation reserve records exchange differences arising from the translation of the accounts of foreign currency denominated subsidiaries offset by the movements on loans and derivatives used to hedge the net investment in foreign subsidiaries.

35 Pensions and other post-employment benefits

(a) Summary of pension benefits and assumptions

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

Subsidiaries in North America contribute to a number of defined contribution plans. The Group also provides certain additional unfunded post-employment benefits to employees in North America and Spain, which are disclosed in section c) in the Other category.

The total pension cost for the year was £23.5m (2007: £27.5m), of which £3.9m (2007: £3.2m) relates to the defined contribution schemes.

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

	2008 £m	2007 £m
UK Bus	**(3.6)**	(5.1)
UK Coach	**(1.2)**	(4.9)
UK Trains	**(38.7)**	(18.8)
Other	**(1.5)**	(1.0)
Total	**(45.0)**	(29.8)

The valuations conducted for financial reporting purposes are based on the triennial actuarial valuations. A summary of the latest triennial actuarial valuations, and assumptions made, is as follows. The triennial valuation of the Railways Pension Scheme has taken place during the year, however the results have not yet been finalised.

	UK Bus		UK Coach	UK Train
Date of actuarial valuation	Tayside 31 March 2008	Travel West Midlands 31 March 2007	5 April 2007	31 December 2004
Actuarial method used	Attained age*	Attained age*	Projected unit	Projected unit
Rate of investment returns per annum	7.8%	5.4%–6.4%	4.7%–5.5%	4.8%–6.8%
Increase in earnings per annum	5.2%	4.6%	4.0%	4.3%
Scheme assets taken at market value	£40.5m	£374.0m	£39.8m	£638.9m
Funding level	92%	93%	77%	86%–95%

*Amounts included in the income statement, statement of recognised income and expense and the balance sheet are calculated using the projected unit method.

The range of funding levels for UK Trains reflects the range of funding levels in the various sections of the RPS. The plans do not provide medical benefits.

35 Pensions and other post-employment benefits (continued)
(a) Summary of pension benefits and assumptions (continued)

The most recent triennial valuations are then updated by independent professionally qualified actuaries for financial reporting purposes, in accordance with IAS 19. The main actuarial assumptions underlying the IAS 19 valuations are:

	2008			2007		
	UK Bus	UK Coach	UK Trains	UK Bus	UK Coach	UK Trains
Rate of increase in salaries	3.8%	3.8%	3.8%	4.3%	4.3%	4.8%
Rate of increase of pensions	2.8%	2.8%	2.8%	3.3%	3.3%	3.3%
Discount rate	6.5%	6.3%	6.3%	5.8%	5.8%	5.8%
Inflation assumption	2.8%	2.8%	2.8%	3.3%	3.3%	3.3%
Expected rates of return on scheme assets						
Equities	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Bonds	6.1%	6.1%	6.1%	5.8%	5.8%	5.8%
Properties	5.9%	5.9%	5.9%	6.3%	6.3%	6.3%
Other	1.3%	1.3%	1.3%	4.8%	4.8%	4.8%
Post-retirement mortality in years:						
Current pensioners at 65 – male	19.4	21.9		19.4	21.9	17.8
Current pensioners at 65 – male, pension under £8,500 pa or pensionable pay under £30,000 pa			19.8			
Current pensioners at 65 – male – others			21.5			
Current pensioners at 65 – female	22.2	24.8		22.2	24.8	20.1
Current pensioners at 65 – female, pension under £3,000 pa or pensionable pay under £30,000 pa			21.7			
Current pensioners at 65 – female – others			22.7			
Future pensioners at 65 – male	20.4	23.0		20.3	23.0	18.8
Future pensioners at 65 – male, pension under £8,500 pa or pensionable pay under £30,000 pa			22.2			
Future pensioners at 65 – male – others			23.7			
Future pensioners at 65 – female	23.1	25.8		23.1	25.8	21.3
Future pensioners at 65 – female, pension under £3,000 pa or pensionable pay under £30,000 pa			23.2			
Future pensioners at 65 – female – others			24.2			

The demographic assumptions reflect those included in the most recent triennial valuation. For the UK Bus and UK Coach schemes improvements in mortality are in line with medium cohort tables. For the UK Trains scheme, mortality assumptions are based on the recent experience of the scheme with an allowance for future improvements in mortality as follows:

Age	Year	Under 85	85–105	Over 105
Males & females	2008–2012	3.0% pa	3.0% pa tapering to 0.6% pa	0.6% pa
Males	2013 onwards	1.5% pa	1.5% pa tapering to 0.3% pa	0.3% pa
Females	2013 onwards	1.0% pa	1.0% pa tapering to 0.2% pa	0.2% pa

The Directors regard the assumption around the discount rate to be the key assumption in the IAS19 valuation, and the following table provides an approximate sensitivity analysis of the impact of a 0.1% change in the discount rate assumption.

	UK Bus £m	UK Coach £m	UK Trains £m
Defined benefit pension (liability) at 31 December 2008	(3.6)	(1.2)	(38.7)
Effect of a 0.1% increase in the discount rate	5.5	0.9	0.1
Current service (cost) for the year ended 31 December 2008	(4.8)	(1.2)	(21.0)
Effect of a 0.1% increase in the discount rate	0.1	–	0.4

Scheme assets are stated at their market values at the respective balance sheet dates. The expected rate of return on scheme assets is determined based on market returns on each category of scheme assets.

Notes to the Consolidated Accounts continued

35 Pensions and other post-employment benefits (continued)

(b) Accounting for the Railways Pension Scheme

The majority of employees of the UK Train companies are members of the appropriate section of the RPS, a funded defined benefit scheme. The RPS is a shared cost scheme, which means that costs are formally shared 60% employer and 40% employee. To date, the Group has experienced ten changes of UK Train franchise ownership where the current owner has funded the scheme during the franchise term and the pension deficit at franchise exit has transferred to the new owner, without cash settlement. However, although the Group's past experience has proven otherwise, our legal advisors have opined that in certain situations, the liability for the deficit on the relevant sections of the RPS could theoretically crystallise for funding by an individual TOC at the end of the franchise. By entering into the franchise contract, the TOC becomes the designated employer for the term of the contract and under the rules of the RPS must fund its share of the pension liability in accordance with the schedule of contributions agreed with the Scheme trustees and actuaries and for which there is no funding cap set out in the franchise contract.

To comply with IAS 19, the Group is required to account for its legal obligation under the formal terms of the RPS and its constructive obligation that arises under the terms of each franchise agreement.

In determining the appropriate accounting policy for the RPS to ensure that the Group's accounts present fairly its financial position, financial performance and cash flows, management has consulted with TOC industry peers and has concluded that the Group's constructive but not its legal RPS defined benefit obligations should be accounted for in accordance with IAS 19. This accounting policy, which in all other respects is consistent with that set out in this note for the Group's other defined benefit schemes, means that the Group's accounts reflect that element of the deficits anticipated to be settled by the Group during the franchise term and will prevent gains arising on transfer of the existing RPS deficits to a new owner at franchise exit.

In calculating the Group's constructive obligations in respect of the RPS, the Group has calculated the total pension deficits in each of the RPS sections in accordance with IAS 19 and the assumptions set out above. These deficits are reduced by a "franchise adjustment" which is that portion of the deficit projected to exist at the end of the franchise and for which the Group will not be required to fund. The franchise adjustment, which has been calculated by the Group's actuaries, is offset against the present value of the RPS liabilities so as to fairly present the financial performance, position and cash flows of the Group's obligations.

The franchise adjustment increased from £2.3m at 31 December 2007 to £28.2m at 31 December 2008. The increase is caused by interest on the franchise adjustment of £0.2m, net actuarial movements of £25.2m and £0.5m relating to the franchise exit. In the prior year, the franchise adjustment decreased by £42.1m from £44.4m at 1 January 2007 to £2.3m at 31 December 2007. The decrease was caused by interest on the franchise adjustment of £2.1m offset by net actuarial movements in scheme liabilities of £29.4m and by £14.8m relating to franchise exits.

If the Group had accounted for its legal obligation in respect of the RPS instead of the constructive obligation, the following adjustments would have been made to the financial information:

	2008 £m	2007 £m
Balance sheet		
Defined benefit pension deficit	**(28.2)**	(2.3)
Deferred tax asset	**6.5**	–
Intangible asset	**2.4**	3.0
Net (reduction)/increase in net assets	**(19.3)**	0.7
Statement of recognised income and expense		
Actuarial (losses)/gains	**(25.2)**	29.4
Tax on actuarial gains and losses	**6.4**	(9.8)
Net (decrease)/increase in actuarial gains	**(18.8)**	19.6
Income statement		
Interest on franchise adjustment	**(0.2)**	(2.1)
Curtailment gain on franchise exit	**(0.5)**	14.8
Intangible asset amortisation	**(0.5)**	(0.3)
Deferred tax credit/(charge)	**0.1**	(3.8)
Net (decrease)/increase in income	**(1.1)**	8.6

35 Pensions and other post-employment benefits (continued)

(c) Financial results for pension benefits

The amounts charged to the Group income statement and Group statement of recognised income and expense for the years ended 31 December 2008 and 2007 are set out in the following tables. The restriction on surplus in 2008 arose on the Travel West Midlands UK Bus scheme and in 2007 arose on the Tayside UK Bus scheme.

Group income statement	**UK Bus 2008 £m**	**UK Coach 2008 £m**	**UK Trains 2008 £m**	**Other 2008 £m**	**Total 2008 £m**
Amounts charged to normalised operating profit:					
Current service cost	**(4.8)**	**(1.2)**	**(21.0)**	**(0.5)**	**(27.5)**
Past service cost	**(0.4)**	**–**	**–**	**–**	**(0.4)**
Expected return on pension scheme assets	**26.4**	**3.0**	**28.0**	**–**	**57.4**
Interest on pension liabilities	**(23.4)**	**(2.8)**	**(23.1)**	**–**	**(49.3)**
Interest on franchise adjustment	**–**	**–**	**0.2**	**–**	**0.2**
Total charge to income statement	**(2.2)**	**(1.0)**	**(15.9)**	**(0.5)**	**(19.6)**
Actual return on plan assets	**(36.4)**	**(4.8)**	**(93.4)**	**–**	**(134.6)**

Group statement of recognised income and expense	**UK Bus 2008 £m**	**UK Coach 2008 £m**	**UK Trains 2008 £m**	**Other 2008 £m**	**Total 2008 £m**
Actual return less expected return on pension scheme assets	**(62.8)**	**(7.8)**	**(121.4)**	**–**	**(192.0)**
Other actuarial gains and losses	**61.7**	**8.7**	**101.1**	**–**	**171.5**
Adjustment for unrecognised surplus	**(4.3)**	**–**	**–**	**–**	**(4.3)**
Actuarial (losses)/gains	**(5.4)**	**0.9**	**(20.3)**	**–**	**(24.8)**

Group income statement	UK Bus 2007 £m	UK Coach 2007 £m	UK Trains 2007 £m	Other 2007 £m	Total 2007 £m
Amounts charged to normalised operating profit:					
Current service cost	(5.1)	(1.5)	(30.2)	(0.3)	(37.1)
Past service credit	0.7	–	–	–	0.7
Expected return on pension scheme assets	25.2	2.6	31.9	–	59.7
Interest on pension liabilities	(21.1)	(2.7)	(25.9)	–	(49.7)
Interest on franchise adjustment	–	–	2.1	–	2.1
Total charge to income statement	(0.3)	(1.6)	(22.1)	(0.3)	(24.3)
Actual return on plan assets	20.0	2.0	35.1	–	57.1

Group statement of recognised income and expense	UK Bus 2007 £m	UK Coach 2007 £m	UK Trains 2007 £m	Other 2007 £m	Total 2007 £m
Actual return less expected return on pension scheme assets	(5.2)	(0.6)	3.2	–	(2.6)
Other actuarial gains and losses	12.6	7.5	(2.6)	–	17.5
Adjustment for unrecognised surplus	(3.2)	–	–	–	(3.2)
Actuarial gain	4.2	6.9	0.6	–	11.7

Notes to the Consolidated Accounts continued

35 Pensions and other post-employment benefits (continued)
(c) Financial results for pension benefits (continued)
The amounts recognised in the balance sheet at 31 December are:

As at 31 December 2008	UK Bus 2008 £m	UK Coach 2008 £m	UK Trains 2008 £m	Other 2008 £m	Total 2008 £m
Equities	152.3	20.8	370.9	–	544.0
Bonds	202.1	20.8	39.7	–	262.6
Property	3.1	–	34.1	–	37.2
Other	5.3	0.5	–	–	5.8
Fair value of scheme assets	362.8	42.1	444.7	–	849.6
Present value of scheme liabilities	(357.4)	(43.3)	(554.9)	(1.5)	(957.1)
Franchise adjustment	–	–	28.2	–	28.2
Defined benefit obligation	(357.4)	(43.3)	(526.7)	(1.5)	(928.9)
Restriction on surplus	(9.0)	–	–	–	(9.0)
Members' share of deficit	–	–	43.3	–	43.3
Defined benefit pension deficit	(3.6)	(1.2)	(38.7)	(1.5)	(45.0)

As at 31 December 2007	UK Bus 2007 £m	UK Coach 2007 £m	UK Trains 2007 £m	Other 2007 £m	Total 2007 £m
Equities	228.0	21.4	510.0	–	759.4
Bonds	175.0	21.9	62.4	–	259.3
Property	4.0	–	47.4	–	51.4
Other	5.0	0.4	0.5	–	5.9
Fair value of scheme assets	412.0	43.7	620.3	–	1,076.0
Present value of scheme liabilities	(412.4)	(48.6)	(655.4)	(1.0)	(1,117.4)
Franchise adjustment	–	–	2.3	–	2.3
Defined benefit obligation	(412.4)	(48.6)	(653.1)	(1.0)	(1,115.1)
Restriction on surplus	(4.7)	–	–	–	(4.7)
Members' share of deficit	–	–	14.0	–	14.0
Defined benefit pension deficit	(5.1)	(4.9)	(18.8)	(1.0)	(29.8)

The movement in the present value of the defined benefit obligation in the year is as stated below. For UK Trains, the RPS is a shared cost scheme, which means that costs are formally shared 60% employer and 40% employee.

The Group's defined benefit obligation comprises £927.4m (2007: £1,114.1m) arising from plans that are wholly or partly funded and £1.5m (2007: £1.0m) from unfunded plans.

	UK Bus £m	UK Coach £m	UK Trains £m	Other £m	Total £m
Defined benefit obligation at 1 January 2008	(412.4)	(48.6)	(653.1)	(1.0)	(1,115.1)
Current service cost	(4.8)	(1.2)	(21.0)	(0.5)	(27.5)
Past service cost	(0.4)	–	–	–	(0.4)
Franchise exit	–	–	25.6	–	25.6
Benefits paid	23.3	1.0	21.0	–	45.3
Contributions by employees	(1.4)	(0.4)	(11.0)	–	(12.8)
Finance charge	(23.4)	(2.8)	(23.1)	–	(49.3)
Interest on franchise adjustment	–	–	0.2	–	0.2
Members' share of movement on liabilities	–	–	33.6	–	33.6
Actuarial gain recognised in statement of recognised income and expense	61.7	8.7	101.1	–	171.5
Defined benefit obligation at 31 December 2008	(357.4)	(43.3)	(526.7)	(1.5)	(928.9)

35 Pensions and other post-employment benefits (continued)
(c) Financial results for pension benefits (continued)

	UK Bus £m	UK Coach £m	UK Trains £m	Other £m	Total £m
Defined benefit obligation at 1 January 2007	(421.8)	(52.6)	(808.2)	(1.7)	(1,284.3)
Current service cost	(5.1)	(1.5)	(30.2)	(0.3)	(37.1)
Past service credit	0.7	–	–	–	0.7
Franchise entry	–	–	(277.6)	–	(277.6)
Franchise exit	–	–	419.3	–	419.3
Curtailment	–	–	55.9	–	55.9
Benefits paid	23.7	1.1	21.5	1.0	47.3
Contributions by employees	(1.4)	(0.4)	(13.7)	–	(15.5)
Finance charge	(21.1)	(2.7)	(25.9)	–	(49.7)
Interest on franchise adjustment	–	–	2.1	–	2.1
Members' share of movement on liabilities	–	–	6.3	–	6.3
Actuarial gain/(loss) recognised in statement of recognised income and expense	12.6	7.5	(2.6)	–	17.5
Defined benefit obligation at 31 December 2007	(412.4)	(48.6)	(653.1)	(1.0)	(1,115.1)

The movement in the fair value of scheme assets is as follows:

	UK Bus £m	UK Coach £m	UK Trains £m	**Total £m**
Fair value of scheme assets at 1 January 2008	412.0	43.7	620.3	**1,076.0**
Expected return on plan assets	26.4	3.0	28.0	**57.4**
Franchise exit	–	–	(25.6)	**(25.6)**
Cash contributions – Employer	9.1	3.8	16.3	**29.2**
Cash contributions – Employee	1.4	0.4	11.0	**12.8**
Benefits paid	(23.3)	(1.0)	(21.0)	**(45.3)**
Members' share of return on assets	–	–	(62.9)	**(62.9)**
Actuarial loss recognised in statement of recognised income and expense	(62.8)	(7.8)	(121.4)	**(192.0)**
Fair value of scheme assets at 31 December 2008	362.8	42.1	444.7	**849.6**

	UK Bus £m	UK Coach £m	UK Trains £m	Total £m
Fair value of scheme assets at 1 January 2007	406.0	39.9	743.4	1,189.3
Expected return on plan assets	25.2	2.6	31.9	59.7
Franchise entry	–	–	277.6	277.6
Franchise exit	–	–	(419.3)	(419.3)
Curtailment	–	–	(55.9)	(55.9)
Cash contributions – Employer	8.3	2.5	23.8	34.6
Cash contributions – Employee	1.4	0.4	13.7	15.5
Benefits paid	(23.7)	(1.1)	(21.5)	(46.3)
Members' share of return on assets	–	–	23.4	23.4
Actuarial gain/(loss) recognised in statement of recognised income and expense	(5.2)	(0.6)	3.2	(2.6)
Fair value of scheme assets at 31 December 2007	412.0	43.7	620.3	1,076.0

Notes to the Consolidated Accounts continued

35 Pensions and other post-employment benefits (continued)
(c) Financial results for pension benefits (continued)

The Group expects to contribute £24.9m to its defined benefit pension plans in 2009.

History of experience gains and losses:	2008 £m	2007 £m	2006 £m	2005 £m
UK Bus				
Fair value of scheme assets	**362.8**	412.0	406.0	385.8
Present value of defined benefit obligation	**(357.4)**	(412.4)	(421.8)	(423.6)
Restriction on surplus	**(9.0)**	(4.7)	(1.5)	–
Deficit in the scheme	**(3.6)**	(5.1)	(17.3)	(37.8)
Experience adjustments arising on liabilities	**(3.3)**	(4.6)	(3.0)	(3.3)
Experience adjustments arising on assets	**(62.8)**	(5.2)	7.5	35.3
UK Coach				
Fair value of scheme assets	**42.1**	43.7	39.9	35.7
Present value of defined benefit obligation	**(43.3)**	(48.6)	(52.6)	(50.6)
Deficit in the scheme	**(1.2)**	(4.9)	(12.7)	(14.9)
Experience adjustments arising on liabilities	**–**	(2.2)	(1.6)	–
Experience adjustments arising on assets	**(7.8)**	(0.6)	–	2.5
UK Trains				
Fair value of scheme assets	**444.7**	620.3	743.4	796.4
Present value of defined benefit obligation	**(526.7)**	(653.1)	(808.2)	(900.7)
Members' share of deficit	**43.3**	14.0	43.7	70.1
Deficit in the scheme	**(38.7)**	(18.8)	(21.1)	(34.2)
Experience adjustments arising on liabilities	**16.9**	(5.3)	(25.5)	(53.8)
Experience adjustments arising on assets	**(121.4)**	3.2	32.6	54.4
Other				
Fair value of scheme assets	**–**	–	–	–
Present value of defined benefit obligation	**(1.5)**	(1.0)	(1.7)	(1.9)

The cumulative amount of actuarial gains and losses recognised in the statement of recognised income and expense since 1 January 2004 is £26.8m loss (2007: £2.0m loss). The Directors are unable to determine how much of the pension scheme deficit recognised on transition to IFRSs and taken directly to equity of £51.9m is attributable to actuarial gains and losses since inception of those pension schemes. Consequently the Directors are unable to determine the amount of actuarial gains and losses that would have been recognised in the statement of recognised income and expense before 1 January 2004.

36 Commitments and contingencies
Operating lease commitments

The Group's total operating lease commitments are as follows:

		2008 £m	2007 £m
Future minimum rentals payable under non-cancellable operating leases:			
Within one year:	Land and buildings	**212.7**	364.8
	Plant and equipment	**206.3**	198.4
		419.0	563.2
After one year but not more than five years:	Land and buildings	**401.1**	1,031.4
	Plant and equipment	**575.9**	563.6
		977.0	1,595.0
More than five years:	Land and buildings	**12.1**	13.5
	Plant and equipment	**1.0**	121.6
		13.1	135.1
		1,409.1	2,293.3

36 Commitments and contingencies (continued)

Operating lease commitments (continued)

The majority of the Group's commitments arise in the UK Trains division. Trains division companies 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. The TOCs' obligations to fulfil these commitments exist only as part of their franchise agreement. The table below reflects the commitments up to the current franchise end dates unless an extension or new franchise agreement has been signed. The commitments are based on charges advised by the Rail Regulator for the period starting on 1 April 2004. Commitments for future minimum rental payments under these contracts are shown below:

		Land and buildings		Plant and equipment	
UK Trains division commitments		**2008 £m**	2007 £m	**2008 £m**	2007 £m
Future minimum rentals payable under non-cancellable operating leases:					
Within one year:	Fixed track access	**148.9**	302.9	**–**	–
	Rolling stock	**–**	–	**200.6**	191.9
	Other	**49.6**	50.3	**1.5**	1.8
		198.5	353.2	**202.1**	193.7
After one year but not more than five years:	Fixed track access	**253.1**	866.5	**–**	–
	Rolling stock	**–**	–	**563.7**	551.6
	Other	**118.9**	139.2	**3.7**	3.9
		372.0	1,005.7	**567.4**	555.5
More than five years:	Fixed track access	**–**	–	**–**	–
	Rolling stock	**–**	–	**–**	120.8
	Other	**0.4**	–	**0.1**	0.7
		0.4	–	**0.1**	121.5
		570.9	1,358.9	**769.6**	870.7

Fixed track access agreements have an average remaining life of 4.1 years (2007: 4.2 years), other land and buildings have an average duration of 4.0 years (2007: 3.6 years). Rolling stock agreements have an average life of 3.6 years (2007: 5.1 years) and other plant and equipment 4.2 years (2007: 4.8 years).

Outside of the UK Trains division the Group has entered into operating leases on certain properties, public service vehicles and various items of plant and equipment. Commitments for future minimum rental payments under cancellable operating leases are shown below:

	Land and buildings		Public service vehicles		Other	
Other divisions' commitments	**2008 £m**	2007 £m	**2008 £m**	2007 £m	**2008 £m**	2007 £m
Within one year	**14.2**	11.6	**3.9**	3.6	**0.3**	1.1
After one year but not more than five years	**29.1**	25.7	**6.9**	6.5	**1.6**	1.6
More than five years	**11.7**	13.5	**0.9**	0.1	**–**	–
	55.0	50.8	**11.7**	10.2	**1.9**	2.7

The average remaining life of operating lease commitments in the "Other Divisions" is 5.8 years (2007: 7.6 years) for land and buildings, 3.3 years (2007: 2.8 years) for public service vehicles and 1.4 years (2007: 2.9 years) for other plant and equipment.

Operating lease agreements where the Group is the lessor

The Group receives rent on properties as follows:

	2008 £m	2007 £m
Future minimum rentals receivable under non-cancellable operating leases:		
Within one year	**9.1**	2.5
After one year but not more than five years	**8.2**	9.1
More than five years	**–**	2.8
	17.3	14.4

The leases have an average unexpired duration of 2.5 years (2007: 5.7 years).

Notes to the Consolidated Accounts continued

36 Commitments and contingencies (continued)

Finance lease commitments

The Group has finance leases for public service vehicles and various items of plant and equipment. These leases have terms of renewal but no purchase options and escalation clauses. Renewals are at the option of the specific entity that holds the lease.

	2008		2007	
	Minimum payments £m	**Present value of payments £m**	Minimum payments £m	Present value of payments £m
Within one year	**57.8**	**52.4**	37.5	30.4
After one year but not more than five years	**63.3**	**54.0**	68.3	54.7
More than five years	**29.3**	**27.5**	34.9	34.7
Total minimum lease payments	**150.4**	**133.9**	140.7	119.8
Less future financing charges	**(16.5)**	**–**	(20.9)	–
Present value of minimum lease payments	**133.9**	**133.9**	119.8	119.8

Capital commitments

	2008 £m	2007 £m
Contracted	**42.7**	34.2

The Group is committed to vehicle purchases and various land and buildings improvements.

Contingent liabilities

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 2008, there were UK Train performance bonds of £57.2m (2007: £78.3m) and UK Train season ticket bonds of £86.0m (2007: £79.4m). The Group has other performance bonds which include the £16.1m (2007: £15.5m) performance bond in respect of Inter-Capital and Regional Rail Limited, performance bonds in respect of businesses in the US of £76.6m (2007: £63.4m) and the rest of Europe of £24.7m (2007: £19.7m). Letters of credit have been issued to support insurance retentions of £86.2m (2007: £74.8m).

Claims

The Directors' Report discloses that Ray O'Toole is a defendant in proceedings being brought before the Supreme Court of New South Wales. These proceedings relate to a period of time when Ray O'Toole was a director of Bosnjak Holdings Pty Ltd, which was a subsidiary of the Group. The Company is also a defendant to these proceedings. The Directors believe no liabilities will arise from these proceedings and therefore no provision has been made at 31 December 2008 and 31 December 2007.

37 Related party transactions

	Amount of transactions		Amounts due from related parties		Amounts due to related parties	
	2008 £m	2007 £m	**2008 £m**	2007 £m	**2008 £m**	2007 £m
Associates						
ICRRL	**8.4**	8.4	**–**	–	**–**	–
Spain associates	**2.5**	1.1	**1.4**	2.0	**(1.2)**	(1.2)
Joint ventures						
Spain joint ventures	**–**	0.6	**–**	1.7	**–**	(0.2)
Trade investments						
Spain trade investments	**2.6**	1.5	**0.8**	0.7	**(0.5)**	(0.1)
Property transactions						
Stock	**0.3**	0.3	**–**	–	**–**	–
Spain	**3.4**	3.7	**0.4**	0.3	**(0.2)**	(0.5)
Durham	**0.3**	0.3	**–**	–	**–**	–
Total associates and joint ventures	**10.9**	10.1	**1.4**	3.7	**(1.2)**	(1.4)
Total other related parties	**6.6**	5.8	**1.2**	1.0	**(0.7)**	(0.6)
Total	**17.5**	15.9	**2.6**	4.7	**(1.9)**	(2.0)

Amounts due to ICRRL are included in provisions as disclosed in note 26.

A provision of £0.6m (2007: £nil) has been booked against amounts due from Spain associates, which are presented net.

37 Related party transactions (continued)

Property transactions

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 £0.3m (2007: £0.3m) are made to Stock Properties Limited and Stock Realty Limited, of which Brian Stock is a related party.

A number of Spain companies have leased properties from companies related to the Cosmen family. Jorge Cosmen is a Non Executive Director of the Group and was appointed as Deputy Chairman in October 2008. These leases were in place before the Group's acquisition of Alsa and are for appropriate market rates.

Compensation of key management personnel of the Group

	2008 £m	2007 £m
Total compensation paid to key management personnel (note 7)	3.4	3.9

Directors' interests in employee share plans are disclosed in the Directors' Remuneration Report.

38 Cash flow statement

The net cash inflows from operating activities include outflows of £27.6m (2007: £11.3m) from continuing operations which are related to exceptional costs.

(a) Reconciliation of Group profit before tax to cash generated from operations

Total Operations	2008 £m	2007 £m
Net cash inflow from operating activities		
Profit before tax from continuing operations	109.9	149.3
Loss before tax from discontinued operations	(12.8)	(4.8)
Net finance costs	63.0	29.0
Profit on disposal of non-current assets	(5.1)	(16.2)
Share of post tax results under the equity method	–	(0.4)
Depreciation of property, plant and equipment – continuing operations	96.0	79.6
Depreciation of property, plant and equipment – discontinued operations	0.3	–
Amortisation of leasehold property prepayment	0.1	0.1
Goodwill impairment	0.7	–
Intangible asset amortisation	55.2	32.9
Amortisation of fixed asset grants	(1.8)	(1.3)
Profit on disposal of non-current assets (in operating profit)	(2.0)	(4.3)
Share-based payments – continuing operations	4.3	3.1
Share-based payments – discontinued operations	0.1	0.1
Increase in inventories	(1.0)	(2.1)
(Increase)/decrease in receivables	(0.2)	17.7
(Decrease)/increase in payables	(69.4)	5.9
Decrease in provisions	(19.1)	(16.5)
Cash generated from operations	218.2	272.1

Notes to the Consolidated Accounts continued

38 Cash flow statement (continued)

(b) Analysis of changes in net debt

Net debt at 31 December 2008 comprises cash and cash equivalents of £105.9m (2007: £157.2m) as disclosed in note 23, other debt receivables of £0.9m (2007: £nil), current interest-bearing loans and borrowings of £71.6m (2007: £415.7m) and non-current interest-bearing loans and borrowings of £1,215.0m (2007: £652.3m) as disclosed in note 28.

	At 1 January 2008 £m	Cash flow £m	Acquisitions/ disposals £m	Exchange differences £m	Other movements £m	**At 31 December 2008 £m**
Cash	68.0	(24.2)	–	8.2	–	**52.0**
Overnight deposits	14.6	(11.9)	–	0.8	–	**3.5**
Other short term deposits	74.6	(24.2)	–	–	–	**50.4**
Cash and cash equivalents	157.2	(60.3)	–	9.0	–	**105.9**
Other debt receivables	–	0.9	–	–	–	**0.9**
Borrowings:						
Loan notes	(0.8)	–	–	–	–	**(0.8)**
Bank loans	(947.4)	19.0	–	(220.8)	(1.6)	**(1,150.8)**
Finance lease obligations	(119.8)	32.8	(5.1)	(26.0)	(15.8)	**(133.9)**
Other debt payable	–	(0.9)	–	(0.2)	–	**(1.1)**
Total borrowings	(1,068.0)	50.9	(5.1)	(247.0)	(17.4)	**(1,286.6)**
Net debt	(910.8)	(8.5)	(5.1)	(238.0)	(17.4)	**(1,179.8)**

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

The £19.0m cash outflow (2007: £424.9m inflow) within bank loans comprises of £33.0m (2007: £nil) of payments for the maturity of foreign currency swaps and £14.0m of net loans advanced (2007: £424.9m) to the Group.

Other non-cash movements in net debt represent finance lease additions of £15.8m (2007: £0.2m) and £1.6m (2007: £0.9m) amortisation of loan arrangement fees.

	At 1 January 2007 £m	Cash flow £m	Acquisitions/ disposals £m	Exchange differences £m	Other movements £m	At 31 December 2007* £m
Cash	43.7	22.4	–	1.9	–	68.0
Overnight deposits	21.6	(7.0)	–	–	–	14.6
Other short term deposits	78.3	(4.9)	–	1.2	–	74.6
Cash and cash equivalents	143.6	10.5	–	3.1	–	157.2
Borrowings:						
Loan notes	(0.8)	–	–	–	–	(0.8)
Bank loans	(478.1)	(424.9)	14.1	(57.6)	(0.9)	(947.4)
Finance lease obligations	(103.1)	26.3	(41.9)	(0.9)	(0.2)	(119.8)
Total borrowings	(582.0)	(398.6)	(27.8)	(58.5)	(1.1)	(1,068.0)
Net debt	(438.4)	(388.1)	(27.8)	(55.4)	(1.1)	(910.8)

*The 2007 balances for bank loans and finance leases have been restated with a reclassification of £18.5m from bank loans to finance leases.

38 Cash flow statement (continued)
(c) Reconciliation of net cash flow to movement in net debt

	2008 £m	2007 £m
(Decrease)/increase in cash and cash equivalents in the year	**(60.3)**	10.5
Cash outflow from movement in other debt receivables	**0.9**	–
Cash outflow/(inflow) from movement in debt and finance leases	**50.9**	(398.6)
Change in net debt resulting from cash flows	**(8.5)**	(388.1)
Change in net debt resulting from acquisitions and disposals	**(5.1)**	(27.8)
Change in net debt resulting from non-cash movements	**(255.4)**	(56.5)
Movement in net debt in the year	**(269.0)**	(472.4)
Opening net debt	**(910.8)**	(438.4)
Net debt	**(1,179.8)**	(910.8)

39 Post balance sheet events
On 24 October 2008, the Group announced that it planned to exit the Dot2Dot business. On 9 January 2009, the Group completed the sale of the Dot2Dot business and it has been classified as a discontinued operation for the year ended 31 December 2008. Further details are contained in note 11.

Independent Auditor's Report to the Members of National Express Group PLC

We have audited the parent company financial statements of National Express Group PLC for the year ended 31 December 2008 which comprise the Company Balance Sheet and the related notes 1 to 19. These parent company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

We have reported separately on the Group financial statements of National Express Group PLC for the year ended 31 December 2008.

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 auditor's 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' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the parent company financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the parent company financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the parent company Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes the specific information presented in the Operating and Financial Review that is cross referred from the Business Review section of the directors' report.

In addition we report to you if, in our opinion, 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 regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited parent company financial statements. The other information comprises only the Chairman's Statement, the Operating and Financial Review, the Corporate Governance Report, the unaudited part of the Directors' Remuneration Report and the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the company'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 parent company financial statements and the part of the Directors' Remuneration Report 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 parent company financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion
In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2008;
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the parent company financial statements.

Ernst & Young LLP
Registered Auditor
London
26 February 2009

Company Balance Sheet
At 31 December 2008

	Note	2008 £m	2007 £m
Fixed assets			
Tangible assets	4	**1.2**	0.9
Financial assets – Investments	5	**873.0**	873.0
		874.2	873.9
Current assets			
Debtors	7	**1,631.3**	1,385.0
Financial assets – Derivative financial instruments	6	**3.0**	3.2
Cash at bank and in hand	8	**3.0**	11.1
		1,637.3	1,399.3
Creditors: amounts falling due within one year	9	**(1,009.3)**	(1,245.0)
Financial liabilities – Derivative financial instruments	6	**(27.3)**	(17.7)
Current tax liabilities		**(5.7)**	–
Net current assets		**595.0**	136.6
Total assets less current liabilities		**1,469.3**	1,010.5
Creditors: amounts falling due after more than one year	10	**(1,114.9)**	(548.6)
Financial liabilities – Derivative financial instruments	6	**(31.1)**	(5.4)
Provisions for liabilities and charges	11	**(24.9)**	(31.1)
Net assets		**298.3**	425.4
Shareholders' equity			
Called-up share capital	14	**7.7**	7.7
Share premium account	15	**195.7**	195.3
Capital redemption reserve	15	**0.2**	0.2
Own shares	15	**(15.2)**	(16.3)
Hedging reserve	15	**(11.9)**	(3.0)
Profit and loss account	15	**121.8**	241.5
Shareholders' equity		**298.3**	425.4

S R Bowker CBE Group Chief Executive
J K Maiden Group Finance Director
26 February 2009

Notes to the Company Accounts

1 Accounting policies

Basis of preparation

The separate accounts of the parent Company are presented as required by the Companies Act 1985. The accounts have been prepared under the historic cost convention, except for the recognition of derivative financial instruments and available for sale investments detailed below, and in accordance with applicable accounting standards in the United Kingdom.

In applying these policies management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the accounts and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

No profit and loss account is presented by the Company as permitted by Section 230 of the Companies Act 1985.

The retained loss of the Company for the year is £59.0m (2007: £45.8m).

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except for the following:

The Group adopted UITF 44 “FRS 20 – Group and Treasury Share Transactions” as of 1 January 2008. This abstract requires arrangements whereby an employee is granted rights to an entity’s equity instruments to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments needed. There was no impact on the financial performance or position of the Company.

Leases

Leases of tangible fixed assets where substantially all the risks and rewards of ownership of the asset have passed to the Company, are classified as finance leases and the assets are capitalised in the balance sheet as plant and equipment. Finance leases are capitalised at the present value of the minimum lease payments. 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. Assets acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

Leases of assets where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Rentals paid under operating leases are charged to the profit and loss account on a straight-line basis over the term of the lease. Incentives received under operating leases and initial direct costs in negotiating the lease are amortised to the profit and loss account on a straight-line basis over the term of the lease, or to the first review if shorter.

Tangible fixed assets

Tangible fixed assets are stated at historic cost less accumulated depreciation and any impairment. Tangible fixed assets are depreciated on a straight-line basis over their estimated useful lives as follows:

Plant and equipment – 3 to 5 years

The carrying value of fixed assets is reviewed for impairment if events or changes in circumstances indicate that the current carrying value may not be recoverable, and are written down immediately to their recoverable amount. Repairs and maintenance are charged to the profit and loss account during the financial period in which they are incurred.

Investments in subsidiaries

Investments are held at historic cost less any provision for impairment.

Available for sale investments

Available for sale financial assets are non-derivative financial assets that are designated as such, or that are not classified as a loan or receivable, held to maturity or at fair value through profit or loss. After initial recognition these assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or the investment is determined to be impaired, at which time the previously reported cumulative gain or loss is included in the income statement.

Interest bearing loans and borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of issue costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Hedge accounting is adopted where derivatives such as fixed to floating interest rate swaps are held as fair value hedges against fixed interest rate borrowings. Under fair value hedge accounting, fixed interest rate borrowings are revalued at each balance sheet date by the change in fair value attributable to the interest rate being hedged.

Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Company expects a provision to be reimbursed the reimbursement is recognised as a separate asset but only when reimbursement is virtually certain.

1 Accounting policies (continued)

Pensions

The Company participates in both the National Express Group multi-employer funded defined benefit scheme and a defined contribution scheme. The Company is unable to identify its share of the underlying assets and liabilities of the multi-employer scheme on a consistent and reasonable basis, and therefore has accounted for the scheme as if it were a defined contribution scheme under the requirements of FRS 17, "Retirement Benefits".

Share-based payment

In accordance with the transition provisions, FRS 20 has been applied to all grants after 7 November 2002 that were unvested as of 1 January 2005.

The Company awards equity-settled share-based payment to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant by an external valuer using a stochastic model. Non-market-based performance-related vesting conditions are not taken into account when estimating the fair value; instead those non-market conditions are taken into account in calculating the current best estimate of the number of shares that will eventually vest and at each balance sheet date before vesting. The cumulative expense is calculated based on that estimate. Market-based performance conditions are taken into account when determining the fair value and at each balance sheet date before vesting, the cumulative expense is calculated irrespective of whether or not the market conditions are satisfied, provided that all other performance conditions are met.

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 that there will be suitable taxable profits from which the future reversal of underlying timing differences can be deducted.

Foreign currencies

Foreign currency assets and liabilities are translated into sterling at the rates of exchange ruling at the year end. 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.

Derivative financial instruments

The Company uses derivative financial instruments such as foreign currency contracts and interest rate swaps to hedge its risks associated with foreign currency and interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value and subsequently remeasured to fair value for the reported balance sheet. The fair value of forward exchange contracts and interest rate swaps is calculated by reference to market exchange rates and interest rates at the period end.

In relation to cash flow hedges which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity, and the ineffective portion in the profit and loss account. The gains or losses deferred in equity in this way are recycled through the profit and loss account in the same period in which the hedged underlying transaction or firm commitment is recognised in the profit and loss account.

For derivatives that do not qualify for hedge accounting, including the foreign currency contracts, gains or losses are taken directly to the profit and loss account in the period.

Hedge accounting is discontinued when the hedging instrument expires, is sold, terminated or exercised, or no longer qualifies for hedge accounting.

The Company has taken advantage of the exemption under FRS 29 for parent company accounts. The disclosures are included within the Group accounts.

2 Exchange rates

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

	2008 Closing rate	**2008 Average rate**	2007 Closing rate	2007 Average rate
US dollar	**1.46**	**1.85**	1.98	2.00
Canadian dollar	**1.78**	**1.96**	1.98	2.15
Euro	**1.05**	**1.26**	1.36	1.46

3 Directors' emoluments

Detailed information concerning Directors' emoluments, shareholdings and options is shown in the Directors' Remuneration Report.

Notes to the Company Accounts continued

4 Tangible fixed assets

	Plant and equipment £m
Cost:	
At 1 January 2008	3.1
Additions	0.6
Disposals	(0.5)
At 31 December 2008	**3.2**
Depreciation:	
At 1 January 2008	2.2
Charge for the year	0.2
Disposals	(0.4)
At 31 December 2008	**2.0**
Net book value:	
At 31 December 2008	**1.2**
At 31 December 2007	0.9

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

	2008 £m	2007 £m
Plant and equipment		
– cost	**0.2**	0.2
– depreciation	**(0.2)**	(0.2)
	–	–

Leased assets and assets under hire purchase contracts are pledged as security for the related finance lease and hire purchase liabilities.

5 Financial assets: Investments

	Investments in subsidiaries £m	Available for sale investments £m	Total £m
Cost or valuation:			
At 1 January 2008 and at 31 December 2008	**1,271.9**	**0.8**	**1,272.7**
Provisions:			
At 1 January 2008 and at 31 December 2008	**(398.9)**	**(0.8)**	**(399.7)**
Net carrying amount:			
At 31 December 2008	**873.0**	**–**	**873.0**
At 31 December 2007	873.0	–	873.0

5 Financial assets: Investments (continued)

The information provided below is given for the Company's principal subsidiaries. A full list of subsidiaries and investments will be annexed to the next Annual Return to Companies House. The principal country of operation in respect of 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, unless indicated otherwise. The Group's train passenger services in the UK are operated through franchises awarded by DfT Rail, as delegated by the UK Government.

The following holdings are 100% held directly by the Company:

Incorporated in England and Wales	
National Express Holdings Limited	Holding company for UK Coach operating companies
National Express Group Holdings Limited	Holding company for US operating companies
National Express Overseas Limited	Holding company for discontinued Australian business
National Express Trains Limited	Holding company for UK Train operating companies
National Express Transport Holdings Limited	Holding company for UK Bus and Canadian operating companies
National Express European Holdings Limited	Holding company for Spanish operating companies

Incorporated in Guernsey	
National Express Guernsey Limited	Insurance captive

Other investments include:

Name	Country of registration	Class of share	Proportion held %
Inter-Capital and Regional Rail Limited (ICRRL)	England and Wales	Ordinary shares	40
London & Continental Railways Limited	England and Wales	Ordinary shares	21
Prepayment Cards Limited	England and Wales	Ordinary shares	23.5

6 Derivatives

	2008 £m	2007 £m
Interest rate swaps	**1.5**	1.7
Financial assets due over one year	**1.5**	1.7
Interest rate swaps	**1.5**	1.5
Financial assets due under one year	**1.5**	1.5
Interest rate swaps	**(18.3)**	(5.4)
Foreign exchange forward contracts	**(12.8)**	–
Financial liabilities due over one year	**(31.1)**	(5.4)
Interest rate swaps	**(14.9)**	(3.2)
Foreign exchange forward contracts	**(12.4)**	(14.5)
Financial liabilities due under one year	**(27.3)**	(17.7)

Full details of the Group's financial risk management objectives and policies can be found in note 30 of the Group accounts. As the holding company for the Group, the Company faces similar risks over foreign currency and interest rate movements.

The Company has taken advantage of the exemption under FRS 29 for parent company accounts. The disclosures are included within the Group accounts.

Notes to the Company Accounts continued

7 Debtors

	2008 £m	2007 £m
Trade debtors	**0.3**	0.9
Amounts owed by subsidiary undertakings	**1,622.9**	1,368.4
Corporation tax recoverable	**–**	11.8
Deferred tax asset (see note 12)	**5.6**	0.9
Other debtors	**1.4**	1.7
Prepayments and accrued income	**1.1**	1.3
	1,631.3	1,385.0

Included within prepayments is £0.5m (2007: £0.5m) which is recoverable after more than one year.

8 Cash at bank and in hand

	2008 £m	2007 £m
Other short-term deposits	**–**	8.1
Cash at bank	**3.0**	3.0
	3.0	11.1

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Company, and earn interest at the respective short-term deposit rates. The fair value of cash equals the carrying value.

9 Creditors: amounts falling due within one year

	2008 £m	2007 £m
Bank overdraft	**74.8**	37.7
Bank loans	**10.0**	367.5
Trade creditors	**7.8**	1.9
Amounts owed to subsidiary undertakings	**898.3**	819.6
Accruals and deferred income	**8.8**	9.0
Other creditors	**9.6**	9.3
	1,009.3	1,245.0

Trade creditors are non-interest bearing and are normally settled on 30 day terms and other creditors are non-interest bearing and have an average term of six months.

10 Creditors: amounts falling due after more than one year

	2008 £m	2007 £m
Bank loans	**1,114.9**	548.6

11 Provisions for liabilities and charges

	Insurance claims(a) £m	Eurostar onerous contract(b) £m	Exceptional redundancy provision(c) £m	Total £m
At 1 January 2008	1.7	27.9	1.5	31.1
Provided in the year	1.9	–	–	1.9
Amortisation of discount	–	2.0	–	2.0
Utilised in the year	(0.2)	(8.4)	(1.5)	(10.1)
At 31 December 2008	**3.4**	**21.5**	**–**	**24.9**

(a) 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 comprise provisions for existing claims arising in the UK and North America.

(b) A provision was recognised in 2006 for the Company's onerous contract for Eurostar with ICRRL. £8.4m was paid to ICRRL during the year. The provision will be utilised during the period up to the end of our contract in 2010, with the final payment being made in February 2011.

(c) This provision stems from the reorganisation of the Group's operations in the UK, announced in 2007 which settled during 2008.

12 Deferred tax

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

	2008 £m	2007 £m
Accelerated capital allowances	**(0.2)**	–
Other timing differences	**5.8**	0.9
Net deferred tax asset at 31 December 2008	**5.6**	0.9

The reconciliation of deferred tax balances is as follows:

	£m
Deferred tax asset at 1 January 2008	0.9
Credited to profit and loss	2.6
Credited to equity in relation to cash flow hedges	2.1
Deferred tax asset at 31 December 2008	**5.6**

Timing differences associated with Group investments

No deferred tax (2007: £nil) is recognised on the unremitted earnings of subsidiaries and associates, as no dividends have been accrued as receivable, and no binding agreement to distribute the past earnings in future has been entered into by the subsidiaries.

Notes to the Company Accounts continued

13 Interest-bearing loans and borrowings

The effective interest rates at the balance sheet date were as follows:

	2008 £m	Maturity	Effective interest rate	2007 £m	Maturity	Effective interest rate
Current						
Bank overdraft	**74.8**	On demand	BASE + 1.0%	37.7	On demand	BASE + 1.0%
Short term sterling bank loans	**10.0**	2009	LIBOR + 0.5%	–	–	–
Euro bank loans unhedged	**–**	–	–	216.8	April 2008	EURIBOR + 0.5%
Euro bank loans subject to interest hedge	**–**	–	–	150.7	April 2008	4.6%
Bank loans	**10.0**			367.5		
Total current	**84.8**			405.2		
Non-current						
Sterling bank loans	**600.0**	June 2011	LIBOR + 0.5%	–	–	–
US dollar bank loans subject to interest rate hedge	**–**	–	–	50.0	June 2011	7.3%
US dollar bank loans unhedged	**–**	–	–	25.0	June 2011	LIBOR + 0.4%
Euro bank loans subject to interest rate hedge	**514.9**	September 2010	4.9%	473.6	June 2011	4.6%
Bank loans	**1,114.9**			548.6		
Total non-current	**1,114.9**			548.6		

During the year €604.0m and $150.0m of debt were exchanged for £600.0m of sterling debt to reduce the Group's exposure to changing foreign exchange rates. Additionally, the euro facility was further extended to September 2009, with a one year extension to September 2010 at the Group's option.

Details of the Company's interest rate management strategy and interest rate swaps are included in note 30 and note 31 of the Group accounts.

14 Called-up share capital

	2008 £m	2007 £m
At 31 December:		
Authorised:		
200,000,000 (2007: 200,000,000) ordinary shares of 5p each	**10.0**	10.0
Issued called-up and fully paid:		
154,687,284 (2007: 154,627,671) ordinary shares of 5p each	**7.7**	7.7

Movement in ordinary shares during the year	£m	Number of shares
At 1 January 2007	7.7	153,835,012
Exercise of share options	–	792,659
At 1 January 2008	7.7	154,627,671
Exercise of share options	–	59,613
At 31 December 2008	**7.7**	**154,687,284**

The total number of share options exercised in the year by employees of the Group was 475,813 (2007: 1,008,457) of which 59,613 (2007: 792,659) exercises were satisfied by newly issued shares and 416,200 (2007: 215,798) exercises were satisfied by transferring shares from the National Express Employee Benefit Trust.

15 Shareholders' funds and statement of changes in shareholders' equity

	Share capital £m	Share premium £m	Capital redemption reserve £m	Own shares £m	Hedging reserve £m	Profit and loss account £m	**Total £m**
At 1 January 2008	7.7	195.3	0.2	(16.3)	(3.0)	241.5	**425.4**
Shares issued	–	0.4	–	–	–	–	**0.4**
Shares purchased	–	–	–	(1.7)	–	–	**(1.7)**
Shares utilised	–	–	–	2.8	–	(2.8)	**–**
Share-based payments	–	–	–	–	–	1.6	**1.6**
Tax on share-based payments credited to reserves	–	–	–	–	–	0.1	**0.1**
Hedge movements	–	–	–	–	(8.9)	–	**(8.9)**
Dividends	–	–	–	–	–	(59.6)	**(59.6)**
Loss for the year	–	–	–	–	–	(59.0)	**(59.0)**
At 31 December 2008	**7.7**	**195.7**	**0.2**	**(15.2)**	**(11.9)**	**121.8**	**298.3**

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

Treasury shares include 1,825,000 (2007: 1,825,000) ordinary shares in the Company. No additional shares have been added as treasury shares within equity for future issue under the Group's share schemes or cancellation. No shares were cancelled during the year (2007: nil). The market value of these shares at 31 December 2008 was £9.0m (2007: £22.7m).

Own shares include 185,103 (2007: 447,770) ordinary shares in the Company that have been purchased by the Trustees of the National Express Employee Benefit Trust (the "Trust"). During the year, the Trust purchased 153,533 (2007: nil) shares and 416,200 (2007: 215,798) shares were used to satisfy options granted under a number of the Company's share schemes. The market value of these shares at 31 December 2008 was £0.9m (2007: £5.6m). The dividends payable on these shares have been waived.

	Share capital £m	Share premium £m	Capital redemption reserve £m	Own shares £m	Hedging reserve £m	Profit and loss account £m	Total £m
At 1 January 2007	7.7	189.8	0.2	(16.7)	(4.1)	339.3	516.2
Shares issued	–	5.5	–	–	–	–	5.5
Shares utilised	–	–	–	0.4	–	(0.4)	–
Share-based payments	–	–	–	–	–	1.5	1.5
Tax on share-based payments credited to reserves	–	–	–	–	–	0.9	0.9
Hedge movements	–	–	–	–	1.1	–	1.1
Dividends	–	–	–	–	–	(54.0)	(54.0)
Loss for the year	–	–	–	–	–	(45.8)	(45.8)
At 31 December 2007	7.7	195.3	0.2	(16.3)	(3.0)	241.5	425.4

16 Retirement benefits

The Company participates in both the National Express Group Staff Pension Fund (a multi-employer funded defined benefit scheme) and the WM Pension Scheme (a defined contribution scheme). The Company is unable to identify its share of the underlying assets and liabilities of the multi-employer scheme on a consistent and reasonable basis, and therefore has accounted for the scheme as if it were a defined contribution scheme under the requirements of FRS 17, "Retirement Benefits". Contributions to this scheme are determined by independent professionally qualified actuaries. The details of the latest actuarial valuation are detailed in note 35 to the Group accounts.

The pension charge for the year amounted to £2.5m (2007: £0.8m).

Notes to the Company Accounts continued

17 Share-based payment

During the year ended 31 December 2008, the Company had the following share-based payment arrangements, which are described in note 7(b) to the Group accounts.

For the following disclosure, share options with a nil exercise price have been disclosed separately to avoid distorting the weighted average exercise prices. The number of share options in existence during the year was as follows:

	2008		2007	
	Number of share options	**Weighted average exercise price (p)**	Number of share options	Weighted average exercise price (p)
Options without a nil exercise price:				
At 1 January	**52,131**	**759**	493,123	689
Granted during the year	**6,697**	**922**	–	–
Lapsed during the year	**–**	**–**	(4,867)	630
Group transfers during the year	**(2,500)**	**863**	15,715	710
Exercised during the year	**(35,803)**	**793**	(451,840)	682
Outstanding at 31 December[1]	**20,525**	**742**	52,131	759
Exercisable at 31 December	**13,828**	**655**	52,131	759
Options with a nil exercise price:				
At 1 January	**815,840**	**nil**	930,791	nil
Granted during the year	**277,866**	**nil**	247,102	nil
Lapsed during the year	**(284,469)**	**nil**	(242,411)	nil
Group transfers during the year	**(10,733)**	**nil**	(82,016)	nil
Exercised during the year	**(224,084)**	**nil**	(37,626)	nil
Outstanding at 31 December	**574,420**	**nil**	815,840	nil
Exercisable at 31 December	**70,815**		–	
Total outstanding at 31 December	**594,945**		867,971	
Total exercisable at 31 December	**84,643**		52,131	

(1) Included within this balance are options over 3,000 (2007: nil) shares for which no expense has been recognised in accordance with the transitional provisions of FRS 20, as the options were granted before 7 November 2002 and have not been subsequently modified.

The options outstanding at 31 December 2008 had exercise prices that were between 398p and 922p (2007: between 398p and 862.5p) excluding options with a nil exercise price. The range of exercise prices for options was as follows:

Exercise price (p)	2008	2007
350–650	**3,191**	3,191
650–950	**17,334**	48,940
950–1250	**–**	–
	20,525	52,131

The options have a weighted average contractual life of two years (2007: two years). Options were exercised throughout the year and the weighted average share price at exercise was 863p (2007: 1144p).

17 Share-based payment (continued)
The weighted average fair value of the remaining share options granted during the year was calculated using a stochastic model, with the following assumptions and inputs:

	Share options without nil exercise price		Share options with nil exercise price	
	2008	2007	**2008**	2007
Risk free interest rate	**4.2%–4.9%**	–	**–**	–
Expected volatility	**26.8%–27.2%**	–	**25.1%–32.0%**	19.0%
Peer group volatility	**–**	–	**30.8%**	25.7%–25.9%
Expected option life in years	**3–6 years**	–	**3 years**	3 years
Expected dividend yield	**3.4%–4.0%**	–	**3.8%–7.2%**	2.7%–2.8%
Weighted average share price	**884p–1135p**	–	**547p–972p**	1236p–1295p
Weighted average exercise price	**922p–1163p**	–	**0p**	0p
Weighted average fair value of options granted	**140p–211p**	–	**166p–868p**	684p–1194p

There are no 2007 assumptions and inputs because there were no share options without nil exercise price granted during 2007 to Company employees.

Experience to date has shown that approximately 15% (2007: 15%) of options are exercised early, principally due to redundancies. This has been incorporated into the calculation of the expected option life for the share options without nil exercise price.

Expected volatility in the table above was determined from historic volatility over the last nine years, adjusted for one-off events that were not considered to be reflective of the volatility of the share price going forward. The expected dividend yield represents the dividends declared in the 12 months preceding the date of the grant divided by the average share price in the month preceding the date of the grant.

For share options granted during the year under the LTIP, the TSR targets have been reflected in the calculation of the fair value of the options above.

18 Commitments and contingencies
Operating lease commitments
The Company has entered into operating leases on certain properties. Annual commitments under non-cancellable operating leases are as follows:

	Land and buildings	
	2008 £m	2007 £m
Operating leases which expire:		
Within two to five years	**1.1**	0.6
Over five years	**–**	0.5

Contingent liabilities
(a) Guarantees
The Company has guaranteed credit facilities totalling £129.5m (2007: £76.4m) of certain subsidiaries.

(b) Bonds and letters of credit
In the ordinary course of business, the Company is required to issue counter-indemnities in support of its subsidiaries' operations. As at 31 December 2008, there were UK Train performance bonds of £57.2m (2007: £78.3m) and UK Train season ticket bonds of £86.0m (2007: £79.4m). The Company has other performance bonds which include the £16.1m (2007: £15.5m) performance bond in respect of Inter-Capital and Regional Rail Limited and performance bonds in respect of businesses in the United States of America of £76.6m (2007: £63.4m). Letters of credit have been issued to support insurance retentions of £86.2m (2007: £74.8m).

(c) Claims
The Directors' Report discloses that Ray O'Toole is a defendant in proceedings being brought before the Supreme Court of New South Wales. These proceedings relate to a period of time when Ray O'Toole was director of Bosnjak Holdings Pty Ltd, which was a subsidiary of the Group. The Company is also a defendant to these proceedings. The Directors believe no liabilities will arise from these proceedings and therefore no provision has been made at 31 December 2008 or 31 December 2007.

19 Related party transactions
The Company has taken advantage of the exemption in paragraph 3b of FRS 8, 'Related party disclosures' from disclosing transactions with related parties.

Five Year Summary

Year ended 31 December	**IFRS 2008 £m**	IFRS 2007 £m	IFRS 2006 £m	IFRS 2005 £m	IFRS 2004 £m
Revenue	**2,767.0**	2,612.3	2,525.5	2,216.0	2,354.5
Normalised* operating profit	**253.9**	210.4	184.8	155.5	143.3
Group operating profit	**167.8**	161.7	141.6	109.5	99.9
Profit before tax	**109.9**	149.3	104.1	89.3	77.9
Statistics					
Basic earnings/(loss) per share	**77.9p**	69.2p	50.7p	(2.0p)	45.7p
Normalised* diluted earnings per share	**93.6p**	83.9p	76.5p	76.3p	69.3p
Dividends per share	**22.72p**	37.96p	34.75p	32.25p	30.0p
Net assets	**585.4**	437.0	345.5	312.3	266.8
Net (debt)/funds					
Cash at bank and in hand	**105.9**	157.2	143.6	145.5	147.2
Other debt receivable	**0.9**	–	–	1.0	1.0
Loan notes	**(0.8)**	(0.8)	(0.8)	(0.8)	(7.5)
Bank and other loans	**(1,150.8)**	(947.4)	(478.1)	(594.5)	(215.5)
Bank overdrafts	**–**	–	–	(5.5)	–
Finance lease obligations	**(133.9)**	(119.8)	(103.1)	(109.1)	(61.8)
Other debt payable	**(1.1)**	–	–	–	–
	(1,179.8)	(910.8)	(438.4)	(563.4)	(136.6)

* Normalised results are defined as the statutory results before the following as appropriate: profit or loss on sale of businesses, exceptional profit or loss on sale of non-current assets and charges for goodwill impairment, intangible amortisation, property, plant and equipment impairments, exceptional items and tax relief on qualifying exceptional items.

Shareholder information

Shareholder electronic communications
By registering for electronic communications you can help us to conserve environmental resources by reducing print, paper and postage costs. Log on to www.shareview.co.uk if you would like to:

- register your e-mail so that future shareholder information, including the annual report and accounts, are sent to you electronically;
- check the balance of your shareholding;
- set up a dividend mandate online;
- change your registered postal address or your dividend mandate details; or
- submit your vote online prior to a general meeting.

To sign up for the first time you should click on "Register" and follow the simple instructions – you will need your shareholder reference number from your share certificate or dividend voucher or any other correspondence sent to you by Equiniti Limited (formerly Lloyds TSB Registrars).

Dividends paid direct to your bank account
Having dividends paid direct to your bank account has the following advantages:

- avoids the risk of cheques being lost and incurring a replacement fee;
- saves you time in presenting the cheque for payment; and
- the dividend is credited to your account on the payment date.

The tax voucher is sent to your registered address at the same time as the dividend is credited to your account. To set up a new dividend mandate please log on to www.shareview.co.uk or contact the Registrar, Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA. Shareholder helpline number: 0871 384 2152*.

* Calls to this number are charged at 8p per minute from a BT landline. Other telephone providers' costs may vary.

Share dealing service
A telephone and internet share dealing service, which provides a simple way to buy and sell shares, is available through our Registrars, Equiniti. For further information log on to www.shareview.co.uk/dealing or telephone 0845 603 7037*.

*Calls to this number are charged by BT at the local rate.

Company website
The company website at www.nationalexpressgroup.com has information about the Group, press releases, share price data and copies of the half year and annual report and accounts.

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 makes 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.

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, PO Box 9501, Nottingham NG80 1WD Tel: 0870 241 1713 or visit www.uar.co.uk.

Analysis of ordinary shareholdings at 26 February 2009

	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	7,884	55	1,368	1
501 – 1,000	2,344	16	1,752	1
1,001 – 5,000	2,938	20	6,661	4
5,001 – 50,000	1,093	8	12,127	8
50,001 – 1,000,000	186	1	46,848	30
Over 1,000,000	28	–	85,931	56
	14,473	100	154,687	100
By investor type				
Individuals	12,860	89	15,941	10
Institutional Investors	1,498	10	120,109	78
Other Corporate Investors	115	1	18,637	12
	14,473	100	154,687	100

Dividends and financial calendar

Final dividend ex dividend date	17 June 2009
Final dividend record date	19 June 2009
Annual General Meeting	6 May 2009
Final dividend payment date	3 July 2009
Half year results announced	30 July 2009
Interim dividend ex dividend date	September 2009
Interim dividend record date	September 2009
Interim dividend payment date	September 2009

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Glossary

AGM	Annual General Meeting
Combined Code	The Combined Code on Corporate Governance published by the Financial Reporting Council
CPI	Consumer Price Index
CR	Corporate Responsibility
The Company	National Express Group PLC
DfT	Department for Transport
DNA	The name for our leadership development strategy
EBT	Employee Benefit Trust
EBIT	Earnings Before Interest and Tax
EBITDA	Earnings Before Interest and Tax and also before depreciation and amortisation. It is calculated by taking normalised profit from operations and adding depreciation, fixed asset grant amortisation, normalised profit on disposal of non-current assets and share-based payments.
EPS	Earnings Per Share – The profit for the year attributable to shareholders, divided by the weighted average number of shares in issue, excluding those held by the Employee Benefit Trust and shares held in treasury which are treated as cancelled.
EU	European Union
The Group	The Company and its subsidiaries
IAS	International Accounting Standards
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
KPI	Key Performance Indicator
LTIP	Long Term Incentive Plan
Net capital expenditure	is the increase in net debt arising on the purchase of property, plant and equipment and intangible assets less proceeds from disposals of property, plant and equipment. It excludes capital expenditure arising from UK Rail franchise entry and exits and discontinued operations, which are included in these headings.
Net debt	is defined as cash and cash equivalents (cash overnight deposits, other short term deposits), and other debt receivables offset by borrowings (loan notes, bank loans and finance lease obligations) and other debt payable.
Net interest expense	is finance costs less finance income.
NXEA	National Express East Anglia
NXEC	National Express East Coast
Normalised diluted earnings per share	Earnings per share, excluding the profit or loss on sale of businesses, exceptional profit or loss on the disposal of non current assets and charges for goodwill impairment, intangible asset amortisation, exceptional items and tax relief on qualifying exceptional terms
Normalised profit (For the purposes of Directors' Remuneration)	Profit before tax, goodwill impairment, intangible asset amortisation and exceptional items
Normalised results	are defined as the statutory result before the following, as appropriate: profit or loss on the sale of businesses, exceptional profit or loss on the disposal of non-current assets and charges for goodwill impairment, intangible asset amortisation, exceptional items and tax relief on qualifying exceptional items.
Operating cash flow	is intended to be the cash flow equivalent to normalised operating profit. Operating cash flow is defined as the statutory cash flow including the following, as appropriate: cash generated from operations and proceeds from disposals of property, plant and equipment, and less the following, as appropriate: finance lease additions, purchase of property, plant and equipment, purchase of intangible assets, payments to associates, payments in relation to exceptional items, UK Rail franchise entry and exit cash flows and discontinued operations' cash flows.
OFR	Operating and Financial Review
RPS	Railway Pension Scheme
SPAD	Signal Passed at Danger
TfL	Transport for London
TOC	Train Operating Company
TSR	Total Shareholder Return – the growth in value of a shareholding over a specified period assuming that dividends are reinvested to purchase additional shares
UK GAAP	UK Generally Accepted Accounting Principles

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