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NATIONAL EXPRESS GROUP PLC.

National Express Group

Annual Report 2000

Contents

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

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

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

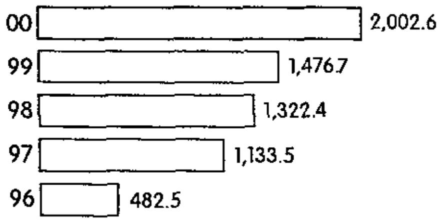
Our 40,000 employees are committed to improving the quality, value for money and the safety of all our services.

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

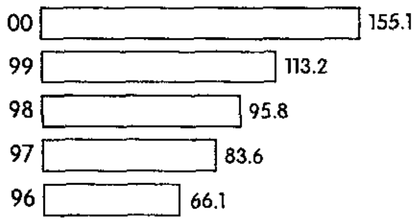
We are committed to taking advantage of the many opportunities for growth which exist in the international public transport market.

National Express Group PLC at a glance

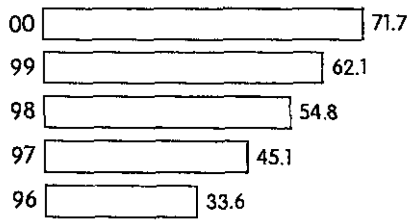
Turnover (£m)



Operating profit
before goodwill and exceptionals (£m)

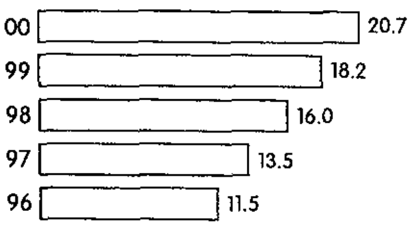


Diluted earnings per share
– normalised (p)

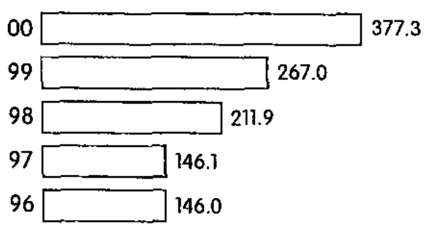


Divisions	Services
Buses	High-frequency urban bus services operating primarily in Birmingham and across the West Midlands – representing the largest single area bus network in the UK outside London. Also operator of the Midland Metro light-rail service.
Trains	Largest train operator in the UK. Nine train operating companies provide a range of intercity, urban and rural passenger train services and a dedicated train maintenance operation.
Coaches	Extensive and integrated network of scheduled and contracted coach services in three business segments – UK express coaches, airport services and European coaching.
USA	One of the largest private operators of student transportation bus services, public transit bus services and demand-response services.
Australia	Largest private operator of public transport in Australia. Provides bus services in Sydney, Melbourne, Perth and Brisbane, and train and tram operations in Melbourne and across the State of Victoria.

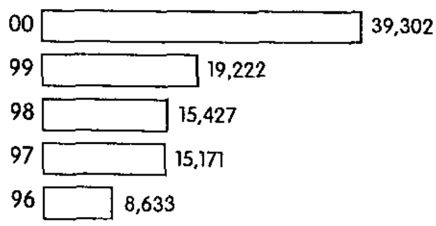
Dividends per share (p)



Net assets (£m)



Average number of employees



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

Highlights of the year

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

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

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

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

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

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

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

Airbus

Dunfermline CCTV opening

M>Train launch

Australian tram

Midland Mainline

Olympic flame

July

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

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

August

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

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

September

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

October

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

November

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

December

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

SS&L

Gatwick Express

Anna Barrett

c2c

Midland Metro

Chairman's statement

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

Financial results and dividend

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

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

Highlights

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

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

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

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

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

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

Michael Davies, Chairman,
in London, UK

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

Safety

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

Board changes

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

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

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

Outlook and current trading

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

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

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

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

Michael Davies *Chairman*

Chief Executive's statement

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

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

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

New businesses

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

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

New challenges

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

New assets

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

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

Phil White, Chief Executive,
in Melbourne, Australia

New franchises

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

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

New technology

New technology continues to drive the provision of information and ticketing to our customers. For example, the success of GoByCoach.com shows that passengers like easy methods of booking. We continue to invest to meet further demands in this area and, during the year, we purchased a 20% shareholding in Prepayment Cards Limited, whose other shareholders are FirstGroup, Stagecoach, Sema and ERG, to develop smartcards in the UK. On our bus services in Coventry, smartcard technology is to be trialled on 200 buses during 2001. We are gaining operational experience of the benefits of this initiative, enabling the eventual roll-out of the technology in due course.

New people

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

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

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

Phil White *Chief Executive*

Buses

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

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

Services

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

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

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

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

Integrating transport

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

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

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

Improvement

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

Security

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

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

Training

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

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

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

Security

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

The future

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

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

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

Trains

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

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

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

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

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

Integration

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

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

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

Comfort

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

Technology

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

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

Investment

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

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

Reliability and punctuality are the principal reasons why people choose to travel on public transport. During the year, we introduced initiatives to improve those of our services which operate on older infrastructure and rolling stock. At Valley Lines these resulted in reducing delays and cancellations by 50%, making it the UK's most improved train operator. ScotRail maintained its position as Britain's most punctual mainland operator.

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

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

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

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

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

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

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

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

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

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

Marketing

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

Safety and security

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

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

Training

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

The future

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

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

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

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

Integrated services

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

Convenience

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

Coaches

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

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

UK express coach services

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

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

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

Airport services

In February, we acquired the Brighton Shuttle services and the Airbus brand, which added a further dimension to our airport services. We are investing in improving our airport coach terminals, sales desks and lounge facilities at Heathrow, Gatwick and Stansted.

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

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

European coaching

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

The future

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

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

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

USA

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

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

Student transportation

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

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

Public transit

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

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

Airport management

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

The future

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

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

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

Safety

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

Technology

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

Australia

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

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

Rail

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

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

Buses

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

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

The future

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

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

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

Service
Twenty-five million people use Westbus services each year.

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

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

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

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

Industry involvement

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

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

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

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

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

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

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

Environmental initiatives

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

We will:

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

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

Sponsorship

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

Community involvement

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

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

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

Additional individual initiatives across subsidiaries continued:

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

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

In Australia, National Bus Company (NBC) became involved in the Federal Government's Greenhouse Challenge. Under this arrangement, NBC committed to making an active contribution to reducing greenhouse gases by measures such as energy conservation, the use of alternative energy and efficient resource management. As part of this initiative, a liquid petroleum gas (LPG) prototype vehicle was tested with encouraging results. A full commercial trial recently received backing from the Greenhouse Office with half the costs of conversion being met through Federal Government grants. NBC is pursuing this initiative as a real opportunity to demonstrate a commitment to the environment and to save fuel costs through LPG's lower market price and favourable taxation treatment. Trials have been in progress for 18 months and work is continuing toward a possible operational roll-out during 2001.

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

Community initiatives

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

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

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

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

Finance Director's report

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

Year at a glance

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

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

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

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

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

Post balance sheet event

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

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

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

Divisional review

Buses

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

Trains

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

William Rollason, Finance Director, in Austin, USA

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

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

Coaches

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

USA

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

Australia

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

Discontinued operations

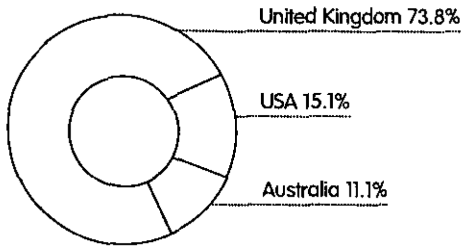
Airports

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

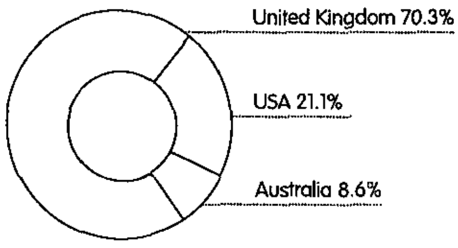
Share of operating losses of associated undertakings

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

Turnover
by geographical market



Operating profit
by geographical market



Interest

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

Goodwill and exceptional items

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

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

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

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

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

Tax

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

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

Cash flow

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

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

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

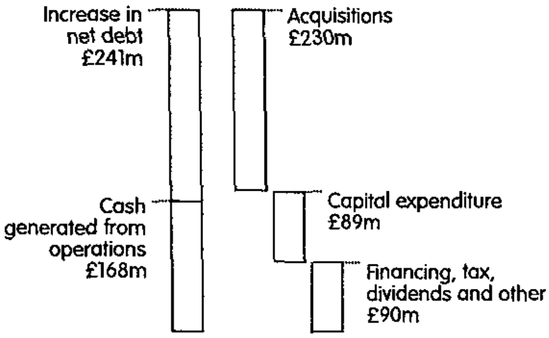
Overall there was a net cash outflow of £226.2m (1999: £308.8m).

Balance sheet

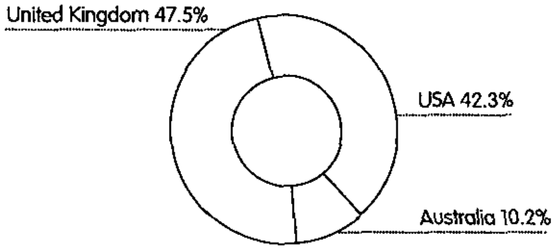
Net assets increased in total by £110.3m to £377.3m (1999: £267.0m) at 31 December 2000, due primarily to £25.1m of retained earnings and £80.5m of shares being issued as consideration for the acquisition of Prism.

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

Cash flow



Average number of employees by geographical location



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

Treasury

Financial risk management

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

Liquidity and funding

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

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

Interest rates

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

Currency rate risk

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

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

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

Commodity prices

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

Accounting policies

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

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

William Rollason *Finance Director*

Board of Directors

Michael Davies

Phil White

Richard Brown

Barry Gibson

Clive Myers

Ray O'Toole

William Rollason

David Ross

Tim Stevenson

James Watson

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

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

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

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

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

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

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

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

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

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

Directors' report

The Directors are pleased to present their Annual Report and the audited accounts for the year ended 31 December 2000.

Principal activities

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

Review of the business

A review of the Group's activities, the principal events during the year and the future development of the Group is given in the Chairman's statement, the Chief Executive's statement, the Review of operations, and the Finance Director's report set out on pages 6 to 33.

Profit and dividends

The profit on ordinary activities before tax for the year ended 31 December 2000 was £65.0m and retained profits of £25.1m were transferred to reserves.

The Directors recommend a final net dividend of 14.2p per share, which, together with the interim net dividend of 6.5p per share paid on 27 October 2000, gives a total net dividend for the year of 20.7p per share (1999: 18.2p). If approved by shareholders, the final dividend will be paid on 4 May 2001 to shareholders on the register at 6 April 2001.

Directors

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

Michael Davies
Phil White
Richard Brown
Alun Cathcart (resigned 4 September 2000)
Barry Gibson
Clive Myers
Ray O'Toole
William Rollason
James Watson

Michael Davies and Phil White will retire by rotation at the Annual General Meeting, and, being eligible, will offer themselves for re-election.

David Ross and Tim Stevenson, who were appointed Directors on 1 February 2001, will stand for election at the Annual General Meeting. Clive Myers and James Watson will stand down from the Board at the Annual General Meeting and will not seek re-election.

The names and brief biographies of the current Directors appear on page 35. Details of the remuneration of the Directors, their interests in shares of the Company and service contracts are contained in the report on Directors' remuneration on pages 40 to 43.

Employment policies

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

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

Employee involvement

The Group seeks to enhance the level of employee involvement in its affairs. Subsidiary companies produce a range of internal newsletters and circulars which keep employees abreast of developments. In addition, a Group-wide magazine introduced during the year keeps employees in touch with the worldwide activities of the Group. A senior management forum is held annually at which developments within the Group and matters of current concern are reviewed. Employees are encouraged to discuss matters of interest to them and subjects affecting day-to-day operations of the Group with management. Dialogue takes place regularly with the trade unions and other employee representatives on a wide range of issues. Employees are able to share in the Group's results through a number of profit sharing and share incentive schemes.

Environmental policy

The Group recognises that many of its businesses have an environmental dimension and is committed to ensuring that sound environmental management practices are integrated into its operations and that high but relevant standards are established across the Group. Further details of environmental initiatives and the Group's environment policy are to be found on pages 26 and 29.

Charitable and political contributions

Charitable donations made during the year totalled £212,614. It is the Group's policy not to make political contributions and accordingly none were made in the year.

Creditors' payment policy and practice

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

Trade creditor days of the Company for the year ended 31 December 2000 were 38 days (1999: 31 days), based on the ratio of Company trade creditors at the end of the year to the amounts invoiced during the year by trade creditors.

Substantial shareholdings

The Company has been notified of the following holders of 3% or more of its issued share capital for the purpose of Section 198 of the Companies Act 1985, as at 15 March 2001:

CGNU plc	7,628,328	5.88%*
Henderson Investment Funds Limited	6,938,720	5.99%*
WMT Employees Shareholding Trustees Limited	6,011,536	5.19%*

**Percentage as at date of notification*

Annual General Meeting

The Annual General Meeting will be held on 2 May 2001. Shareholders will be asked to approve five items of special business, details of which are given in the Notice of Meeting accompanying this report.

Going concern

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

By order of the Board

Tony McDonald *Secretary*
21 March 2001

Corporate governance

Statement of compliance with the Code of Best Practice

The Board has reviewed the Group's compliance with the Code of Best Practice as set out in Section 1 of the Combined Code annexed to the Listing Rules of the Financial Services Authority ("the Code"). The Company did not have an appointed Senior Independent Director following the resignation of Alun Cathcart on 4 September 2000 until the appointment of Tim Stevenson on 1 February 2001. Subject to this exception, in the opinion of the Directors the Group has complied with the Code throughout the year.

Application of principles of good governance

The Board and its committees

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

The Board comprises four Executive and six independent Non Executive Directors. The offices of Chairman and Chief Executive are held separately. Tim Stevenson is the Senior Independent Director. The Non Executive Directors bring strong independent judgement and considerable knowledge and experience to Board deliberations. Non Executive Directors do not participate in any of the Company's share option or bonus schemes and their service is non pensionable. Short biographies of the Directors are to be found on page 35.

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

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

Remuneration and Nomination Committee

The Remuneration and Nomination Committee is responsible for determining the contract terms, remuneration, pensions and other benefits of the Executive Directors and it reviews the Group's policies in relation to the remuneration of other senior managers, including performance related incentive schemes and executive share option schemes. It also considers eligible candidates for senior appointments. The Chairman does not attend Committee discussions concerning the review of his own remuneration. The report on Directors' remuneration is set out on pages 40 to 43.

Audit Committee

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

Safety Committee

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

Relations with shareholders

The Company maintains a regular dialogue with its institutional shareholders and fund managers with a variety of meetings and presentations throughout the year. The Annual General Meeting provides an opportunity for all shareholders to question the Chairman and Directors on a variety of topics, and information is provided at the Annual General Meeting on different aspects of the Group's activities. During the year written responses are given to letters received from shareholders and all shareholders receive copies of the Interim Report and the Annual Report and Accounts.

Accountability and audit

The Combined Code has extended the requirement that the Board reviews the effectiveness of the Group's system of internal financial control to cover all controls including financial, operational, compliance and risk management. Last year, the Company reported, under the transitional arrangements then available, that it had established procedures during 1999 to ensure full compliance with this requirement from 1 January 2000.

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

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

In particular, there are clear procedures for:

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

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

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

The Board is responsible for, and has reviewed the effectiveness of, the Group's system of internal control in operation during the year covered by this report. The systems are designed to safeguard both shareholders' investments and the assets of the Group. Its review comprises a continuous monitoring process supported by regular reports from management on the risks applicable to their areas of business. In addition, annual returns on control measures from local management are reviewed by the Group's internal auditors and provide further assurance to the Board in its review. A formal programme also exists to prioritise the key business risks facing each of the Group's various businesses, to seek to ensure that appropriately focused controls and monitoring procedures are in place to manage those risks and to deal with areas of improvement which come to management's or the Board's attention. This programme includes reviews of any changes in those risks and the controls in place to manage them and is used by management in the subsidiary companies in managing their businesses and by the Group in its review.

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

Report on Directors' remuneration

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

Policy

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

Individual components of remuneration

A detailed breakdown of Directors' remuneration appears on pages 41 to 43. In summary, the components are:

(i) Basic salary: the salary of individual Executive Directors is reviewed at 1 January each year. Account is taken of the performance of the individual concerned, together with any change in responsibilities that may have occurred and, as stated above, the rates for similar roles in comparable companies.

(ii) Performance-related bonus: a discretionary bonus scheme for the Executive Directors was first introduced in 1993. Payments are conditional on the achievement of year on year growth in earnings per share, on a graduated basis. For 2000, the Committee set the maximum bonus payable at 75% of basic salary.

(iii) Other benefits: Executive Directors receive a fully expensed car and private health insurance.

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

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

The two schemes are:

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

Following a review of the Company's long term incentive arrangements in conjunction with external consultants, a new incentive policy was proposed and approved by shareholders at last year's Annual General Meeting. Shares granted to Executive Directors under the Company's Executive Share Option Scheme will be phased up to an annual maximum of twice basic salary. Each grant will become exercisable after three years, subject to a sliding scale of compound annual growth in earnings per share. Each option is subject to a fixed three year performance period and will lapse at the end of that period if the performance conditions are not fulfilled.

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

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

(b) Long Term Share Incentive Scheme: shareholder approval was obtained at the 1997 Annual General Meeting for the introduction of a Long Term Share Incentive Scheme. In normal circumstances, shares may vest under this scheme no earlier than three years from the date of award. The number of shares which may vest is based on the total return to shareholders measured using share price and dividends over a three year performance period relative to the performance of a defined comparator group. As a result of the introduction of the long term incentive arrangement, outlined above, no further awards will be made, for the time being, to Directors under the Long Term Share Incentive Scheme.

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

Directors' service contracts

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

Outside appointments

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

Directors' remuneration

Directors' emoluments	Salary/fees £000	Performance related bonus £000	Benefits £000	Pension contributions £000	Total 2000 £000	Total 1999 £000
Executive Directors						
Phil White	350	233	19	140	**742**	589
Richard Brown	225	150	13	27	**415**	142
Ray O'Toole	225	150	14	45	**434**	184
William Rollason	225	150	18	45	**438**	124
Non Executive Directors						
Michael Davies	100	–	–	–	**100**	100
Barry Gibson	28	–	–	–	**28**	3
Clive Myers	49	–	–	–	**49**	56
James Watson	28	–	–	–	**28**	28
Former Non Executive Director						
Alun Cathcart (resigned 4 September 2000)	34	–	–	–	**34**	45

Notes

(i) The total emoluments of the highest paid Director for the year ended 31 December 2000 (including salary, bonus and gains on exercise of options, but excluding pension contributions) were £847,571. In the previous year the emoluments of the highest paid Director were £608,247.

(ii) Phil White, Ray O'Toole and William Rollason participate in defined contribution pension schemes.

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

	Age	Increase in accrued pension during the year £000	Transfer value of increase £000	Total accrued pension as at 31 December 2000 £000
Richard Brown	48	40	521	91

Report on Directors' remuneration

Directors' interests and transactions

The beneficial interests of the Directors in office as at 31 December 2000 are shown below:

Directors' shareholdings	At 31 December 2000	At 31 December 1999
Executive Directors		
Phil White	**115,408**	115,408
Richard Brown	**3,000**	–
Ray O'Toole	**1,500**	1,500
William Rollason	**3,000**	3,000
Non Executive Directors		
Michael Davies	**90,000**	90,000
Barry Gibson	**3,000**	3,000
Clive Myers	**12,500**	12,500
James Watson	**1,750**	1,750

Executive Directors

Directors' share options	Note	At 31 December 1999	During year Granted	During year Exercised	During year Lapsed	At 31 December 2000	Exercise price	Market price at date of exercise	Date from which exercisable†	Expiry date
Phil White	(i)	35,353	–	–	–	**35,353**	495p	–	12.09.99	12.09.03
	(i)	–	130,000	–	–	**130,000**	540p	–	27.04.03	27.04.10
	(ii)	75,944	–	27,184	6,796	**41,964**	nil	900p	17.03.01	15.03.06
Richard Brown	(i)	18,000	–	18,000	–	–	495p	815p	12.09.99	–
	(i)	25,000	–	–	–	**25,000**	525p	–	24.03.00	24.03.04
	(i)	–	85,000	–	–	**85,000**	540p	–	27.04.03	27.04.10
	(iii)	1,502	–	–	–	**1,502**	427p	–	01.12.02	01.06.03
Ray O'Toole	(i)	–	85,000	–	–	**85,000**	540p	–	27.04.03	27.04.10
William Rollason	(i)	–	85,000	–	–	**85,000**	540p	–	27.04.03	27.04.10

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

Notes

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

(ii) Awards under the Long Term Share Incentive Scheme: shares awarded under the Long Term Share Incentive Scheme are held in the Employee Benefit Trust and may be transferred to participants in the Scheme at the discretion of the Trustees, subject to certain performance criteria being met. In normal circumstances, no award under this scheme may vest until three years after the date of the award.

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

In addition to their individual interests in shares the Executive Directors were, for Companies Act purposes, regarded as interested in the 1,075,484 shares held at 15 March 2001 by the National Express Group QUEST ("QUEST"), established for satisfying exercises under the Group's Savings Related Share Option Scheme. All employees (including Executive Directors) are potential beneficiaries under this Trust.

David Ross and Tim Stevenson were appointed Directors of the Company on 1 February 2001 and as at this date held 574 and no shares respectively. No other change occurred in any of the interests held by Directors in office between 31 December 2000 and 15 March 2001. The Register of Directors' Interests maintained by the Company contains full details of the Directors' holdings of shares and options over shares in the Company. The aggregate difference between the exercise prices and the mid-market prices on the dates of exercise by Directors of all share options during the year was £302,256.

The mid-market price of the Company's ordinary shares at 31 December 2000 was 723p (1999: 730p) and the range during the year ended 31 December 2000 was 485.5p to 905p.

Statement of Directors' responsibilities

Company law requires the Directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss of the Group for that period. In preparing those accounts the Directors are required to:

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

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

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

Auditors' report

To the shareholders of National Express Group PLC

We have audited the accounts on pages 46 to 75 which have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 50 to 52.

Respective responsibilities of Directors and Auditors

The Directors are responsible for preparing the Annual Report. As described on page 44, this includes responsibility for preparing the accounts in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing rules of the Financial Services Authority and by our profession's ethical guidance.

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

We review whether the corporate governance statement on pages 38 and 39 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Stock Exchange, 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 either the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

Basis of audit opinion

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

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

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2000 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young

Ernst & Young *Registered Auditor*
London
21 March 2001

Group profit and loss account

for the year ended 31 December 2000	Note	Total before goodwill and exceptional items 2000 £m	Goodwill and exceptional items 2000 £m	Total 2000 £m	Total before goodwill and exceptional items 1999 £m	Goodwill and exceptional items 1999 £m	Total 1999 £m
Turnover							
– continuing operations		**1,797.0**	**–**	**1,797.0**	1,442.8	–	1,442.8
– acquisitions		**171.6**	**–**	**171.6**	–	–	–
– discontinued operations		**34.0**	**–**	**34.0**	33.9	–	33.9
Turnover	2	**2,002.6**	**–**	**2,002.6**	1,476.7	–	1,476.7
Other operating income	3	**13.4**	**–**	**13.4**	10.5	–	10.5
Other operating costs		**(1,860.9)**	**(30.6)**	**(1,891.5)**	(1,374.0)	(14.7)	(1,388.7)
Goodwill		**–**	**(22.7)**	**(22.7)**	–	(3.3)	(3.3)
Total operating costs	4	**(1,860.9)**	**(53.3)**	**(1,914.2)**	(1,374.0)	(18.0)	(1,392.0)
Operating profit		**155.1**	**(53.3)**	**101.8**	113.2	(18.0)	95.2
– continuing operations		**128.2**	**(41.0)**	**87.2**	100.3	(17.8)	82.5
– acquisitions		**13.8**	**(12.3)**	**1.5**	–	–	–
– discontinued operations		**13.1**	**–**	**13.1**	12.9	(0.2)	12.7
	2	**155.1**	**(53.3)**	**101.8**	113.2	(18.0)	95.2
Share of operating losses of associated undertakings		**(1.8)**	**–**	**(1.8)**	–	–	–
Profit on sale of investments		**–**	**–**	**–**	–	0.2	0.2
Loss on termination of business	14	**–**	**(1.0)**	**(1.0)**	–	–	–
Profit on ordinary activities before interest		**153.3**	**(54.3)**	**99.0**	113.2	(17.8)	95.4
Net interest payable	7	**(34.0)**	**–**	**(34.0)**	(5.8)	–	(5.8)
Profit on ordinary activities before taxation		**119.3**	**(54.3)**	**65.0**	107.4	(17.8)	89.6
Tax on profit on ordinary activities	8	**(25.7)**	**12.8**	**(12.9)**	(27.6)	4.8	(22.8)
Profit after tax		**93.6**	**(41.5)**	**52.1**	79.8	(13.0)	66.8
Minority interest		**(0.7)**	**–**	**(0.7)**	(0.2)	–	(0.2)
Profit attributable to shareholders		**92.9**	**(41.5)**	**51.4**	79.6	(13.0)	66.6
Dividends	10	**(26.3)**	**–**	**(26.3)**	(21.0)	–	(21.0)
Retained profit for the financial year		**66.6**	**(41.5)**	**25.1**	58.6	(13.0)	45.6

	Note	Normalised		Actual	Normalised		Actual
Earnings per share – diluted	11	**71.7p**		**39.7p**	62.1p		51.9p
– basic	11	**78.5p**		**43.4p**	69.7p		58.3p

Balance sheets

at 31 December 2000	Note	Group 2000 £m	Group 1999 £m	Company 2000 £m	Company 1999 £m
Fixed assets					
Intangible assets	12	**523.7**	242.6	**–**	–
Tangible assets	13	**653.6**	503.8	**3.4**	1.1
Investments and interests in associated undertakings	14	**27.3**	15.0	**915.3**	426.7
		1,204.6	761.4	**918.7**	427.8
Current assets					
Stock	16	**20.7**	14.8	**–**	–
Debtors	17	**327.1**	216.6	**515.4**	314.5
Cash at bank and in hand	18	**53.8**	101.0	**7.2**	32.0
		401.6	332.4	**522.6**	346.5
Creditors: amounts falling due within one year	19	**(751.1)**	(394.9)	**(312.5)**	(84.0)
Net current (liabilities)/assets		**(349.5)**	(62.5)	**210.1**	262.5
Total assets less current liabilities		**855.1**	698.9	**1,128.8**	690.3
Creditors: amounts falling due after more than one year	20	**(458.2)**	(408.8)	**(428.8)**	(362.8)
Provisions for liabilities and charges	22	**(19.6)**	(23.1)	**(8.1)**	(8.4)
		377.3	267.0	**691.9**	319.1
Capital and reserves					
Called-up share capital	24	**6.5**	5.8	**6.5**	5.8
Share premium account	25	**40.5**	35.7	**40.5**	35.7
Share capital to be issued	25	**0.4**	0.5	**0.4**	0.5
Merger reserve	25	**57.3**	–	**214.2**	205.8
Capital reserve	25	**17.0**	17.0	**52.1**	60.5
Revaluation reserve	25	**17.5**	17.9	**–**	–
Profit and loss account	25	**233.6**	185.9	**378.2**	10.8
Equity shareholders' funds		**372.8**	262.8	**691.9**	319.1
Equity minority interest		**4.5**	4.2	**–**	–
		377.3	267.0	**691.9**	319.1

P M White *Chief Executive*
W P Rollason *Finance Director*
21 March 2001

Group statement of cash flows

for the year ended 31 December 2000	Note	2000 £m	1999 £m
Net cash inflow from operating activities	31(a)	**167.5**	95.1
Interest received		**3.1**	6.2
Interest paid		**(20.7)**	(10.1)
Interest element of finance lease rentals		**(1.6)**	(0.8)
Returns on investments and servicing of finance		**(19.2)**	(4.7)
UK corporation tax paid		**(24.8)**	(13.7)
Overseas tax paid		**(1.8)**	(2.2)
Taxation		**(26.6)**	(15.9)
Payments to acquire tangible assets		**(89.3)**	(97.9)
Receipts from sale of tangible assets		**3.6**	7.5
Purchase of shares to satisfy employee share scheme		**(1.6)**	(7.8)
Payments to acquire other investments		**(13.1)**	(7.5)
Receipts from the sale of investments		**–**	0.1
Capital expenditure and financial investment		**(100.4)**	(105.6)
Payments to acquire subsidiary undertakings	15	**(283.0)**	(264.9)
Cash acquired in companies purchased	15	**52.6**	8.7
Deferred consideration for businesses acquired		**–**	(3.4)
Acquisitions		**(230.4)**	(259.6)
Equity dividends paid		**(22.0)**	(19.4)
Cash outflow before financing activities		**(231.1)**	(310.1)
Management of liquid resources			
Cash withdrawn from short term deposits		**19.4**	3.9
Financing			
Issue of share capital		**4.9**	1.3
Repayment of capital element of finance lease rentals		**(4.4)**	(4.9)
Repayment of loan notes		**–**	(9.9)
Movements on bank deposits relating to loan notes		**3.1**	(0.5)
Loans advanced		**187.5**	373.3
Loans repaid		**–**	(45.9)
Net cash inflow from financing		**191.1**	313.4
(Decrease)/increase in cash	31(b)	**(20.6)**	7.2

Group statement of total recognised gains and losses

for the year ended 31 December 2000	Note	2000 £m	1999 £m
Profit attributable to members of the parent company		**51.4**	66.6
Exchange differences on foreign currency net investments	25	**(0.5)**	–
Total recognised gains and losses for the year		**50.9**	66.6

Note of historical cost Group profits and losses

for the year ended 31 December 2000

There is no material difference between the result as disclosed in the profit and loss account and the result on an unmodified historical cost basis for the years ended 31 December 1999 and 31 December 2000.

Reconciliation of movements in Group equity shareholders' funds

for the year ended 31 December 2000	Note	2000 £m	1999 £m
Total recognised gains and losses		**50.9**	66.6
Dividends	10	**(26.3)**	(21.0)
New share capital issued for cash		**4.9**	5.3
New share capital issued for non cash consideration		**80.5**	–
Net addition to shareholders' funds		**110.0**	50.9
Equity shareholders' funds at 1 January		**262.8**	211.9
Equity shareholders' funds at 31 December		**372.8**	262.8

Notes to the accounts

1 Accounting policies

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

The true and fair override provisions of the Companies Act 1985 have been invoked in respect of investment properties (see page 51).

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

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

Businesses acquired	Date of acquisition
Forsythe & Associates Inc ("Forsythe")	6 January 2000
Blue Ribbon Bus Company Pty ("Blue Ribbon")	2 February 2000
Airbus	4 February 2000
Stewart International Airport ("Stewart")	1 April 2000
Capital Logistics	8 April 2000
School Services & Leasing Inc ("SS&L")	31 August 2000
Prism Rail PLC ("Prism")	19 September 2000

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

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

In accordance with Financial Reporting Standard 10, goodwill arising on acquisitions made after 1 January 1998 is capitalised within intangible fixed assets and amortised over its useful economic life up to a presumed maximum of 20 years or the life of the rail franchise, if shorter.

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

Finance lease obligations
Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives. The interest element of rental obligations is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding. Rentals paid under operating leases are charged to income on a straight-line basis over the term of the lease.

Stock
Stocks are valued at the lower of cost and net realisable value after making due allowance for obsolete or slow moving items. In the case of finished goods, cost consists of direct materials, labour and an appropriate proportion of overheads.

1 Accounting policies continued

Investment properties

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

(i) investment properties are revalued annually and the aggregate surplus or deficit is transferred to a revaluation reserve unless a deficit, or its reversal, on an individual investment property is expected to be permanent, in which case it is recognised in the profit and loss account for the year; and

(ii) no depreciation or amortisation is provided in respect of investment properties.

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

Depreciation and revaluations

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

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

Financial Reporting Standard 15, "Tangible Fixed Assets", was adopted during the year ended 31 December 2000. FRS 15 requires that each class of tangible fixed assets is either revalued regularly or not at all. The policy that has been adopted is not to revalue in the future, although as permitted by the standard, properties that have been revalued in the past have been retained at their existing book value. The last valuation was as at 31 December 1995. Adoption of this standard does not have a material impact on the Group.

Deferred taxation

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

Pension costs

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

Certain East Midlands Airport employees are required to retire from their current positions in advance of the normal retirement date, due to the physically demanding nature of their employment. On early retirement, these employees are entitled to receive one-off lump sum payments. Provision for the estimated cost of the early retirement of these employees is made on a systematic basis over their remaining service lives.

1 Accounting policies continued

Foreign currencies

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

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

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

	2000 Closing rate	2000 Average rate	1999 Closing rate	1999 Average rate
US dollar	**1.49**	**1.51**	1.61	1.61
Australian dollar	**2.69**	**2.63**	2.46	2.49

Company
Foreign currency assets and liabilities are translated into sterling at the rates of exchange ruling at the year end except where forward cover has been arranged, in which case the forward rate is used. Foreign currency transactions arising during the year are translated into sterling at the rate of exchange ruling on the date of the transaction. Any exchange differences so arising are dealt with through the profit and loss account.

Derivatives and other financial instruments

The Group uses interest rate swaps to hedge interest rate exposures. The Group considers its derivative instruments qualify for hedge accounting when certain criteria are met. The Group's criteria for interest rate swaps are:
- the instrument must be related to an asset, liability or future obligation; and
- it must change the character of the interest rate by converting a variable rate to a fixed rate or vice versa.

Interest differentials are recognised by accruing the net interest payable. Interest rate swaps are not revalued to fair value or shown on the Group balance sheet at the year end. If they are terminated early, the gain or loss is spread over the remaining maturity of the original instrument.

2 Turnover and segmental analysis

The turnover of the Group comprises revenue from road passenger transport, airport operations, train passenger services and related activities in the UK, USA and Australia. Within the trains division, franchise agreement payments from the Strategic Rail Authority and local Passenger Transport Executives within the West Midlands region and Scotland are treated as turnover. During the year franchise agreement payments amounted to £482.6m (1999: £468.2m) in the UK and £69.6m (1999: £27.9m) from the Victoria Department of Public Transport in Australia.

2 Turnover and segmental analysis continued

Analysis by class of business		Turnover 2000 £m	Turnover 1999 £m	Operating profit before goodwill and exceptional items 2000 £m	Operating profit before goodwill and exceptional items 1999 £m	Net assets 2000 £m	Net assets 1999 £m
Buses	– continuing	**200.1**	196.4	**50.6**	47.6	**119.8**	104.0
Trains	– continuing	**929.0**	921.8	**27.0**	28.0	**(45.8)**	(21.1)
	– acquisitions	**129.6**	–	**7.1**	–	**2.1**	–
		1,058.6	921.8	**34.1**	28.0	**(43.7)**	(21.1)
Coaches	– continuing	**186.8**	168.2	**11.3**	11.0	**37.6**	33.5
Airports	– discontinued	**34.0**	33.9	**13.1**	12.9	**173.8**	165.0
UK operations		**1,479.5**	1,320.3	**109.1**	99.5	**287.5**	281.4
USA	– continuing	**259.6**	64.6	**26.0**	9.5	**371.0**	288.0
	– acquisitions	**42.0**	–	**6.7**	–	**213.3**	–
		301.6	64.6	**32.7**	9.5	**584.3**	288.0
Australia	– continuing	**221.5**	91.8	**13.3**	4.2	**73.5**	66.2
		2,002.6	1,476.7	**155.1**	113.2	**945.3**	635.6
Exceptional items (see table below)				**(30.6)**	(14.7)		
Goodwill				**(22.7)**	(3.3)		
				101.8	95.2		
Unallocated net liabilities						**(572.5)**	(372.8)
						372.8	262.8
Equity minority interest						**4.5**	4.2
Total net assets						**377.3**	267.0

Exceptional items can be analysed as follows:	Buses £m	Trains £m	Airports £m	USA £m	Australia £m	Other £m	Total £m
2000							
New trains	–	2.4	–	–	–	–	2.4
Reorganisation	1.6	5.6	–	1.5	2.4	–	11.1
Abortive bid costs	–	–	–	0.6	–	–	0.6
Atlantic Express	–	–	–	–	–	16.5	16.5
	1.6	**8.0**	**–**	**2.1**	**2.4**	**16.5**	**30.6**
1999							
New trains	–	4.9	–	–	–	–	4.9
Year 2000	–	–	–	–	–	2.1	2.1
Reorganisation	1.5	5.8	0.2	0.2	–	–	7.7
	1.5	10.7	0.2	0.2	–	2.1	14.7

The exceptional expenditure on new trains is the costs associated with bringing the new trains into service. The exceptional expenditure of £16.5m is the settlement, with no admission of liability, of the litigation brought against the Group by Atlantic Express Group Inc. in the USA, and the associated professional fees. Of the total exceptional items of £30.6m (1999: £14.7m), £27.7m (1999: £14.5m) relates to continuing operations, £2.9m relates to acquisitions and nil (1999: £0.2m) relates to discontinued operations.

Goodwill amortisation of £22.7m (1999: £3.3m) is analysed as UK continuing £0.1m (1999: nil), UK acquisitions £6.1m, USA continuing £11.9m (1999: £2.4m), USA acquisitions £3.3m and Australia continuing £1.3m (1999: £0.9m).

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

3 Other operating income

	2000 £m	1999 £m
Rents receivable	**13.4**	10.5

Included in rents receivable is £1.2m of income from acquisitions during the year and £5.3m (1999: £5.0m) from discontinued operations.

4 Operating costs

	2000 £m	1999 £m
Materials and consumables	**92.8**	72.9
Staff costs	**649.5**	393.4
Depreciation – owned assets	**40.7**	24.4
– leased assets	**3.2**	2.2
Operating lease charges – plant and equipment	**141.5**	129.5
– land and buildings	**441.8**	387.1
External charges	**522.0**	379.2
Operating costs before goodwill amortisation	**1,891.5**	1,388.7
Goodwill amortisation	**22.7**	3.3
Total operating costs	**1,914.2**	1,392.0

Operating costs relating to acquisitions amount to £171.3m, including materials and consumables £9.0m, staff costs £60.7m, depreciation £5.2m, operating lease charges £22.2m, external charges £64.8m and goodwill £9.4m.

Operating costs relating to discontinued operations amount to £26.2m (1999: £26.2m), including materials and consumables £1.4m (1999: £1.4m), staff costs £11.0m (1999: £10.9m), depreciation £4.3m (1999: £3.6m), operating lease charges £0.2m (1999: £0.2m) and external charges £9.3m (1999: £10.1m).

Operating costs include £11.8m (1999: £9.8m) of franchise agreement payments to the Strategic Rail Authority.

Operating costs include exceptional costs of £30.6m (1999: £14.7m) being staff costs £9.5m (1999: £10.1m), external charges £21.0m (1999: £4.6m) and materials and consumables £0.1m (1999: nil).

Included within other external charges are fees paid to our auditors in respect of:

	2000 £m	1999 £m
Audit services	**0.7**	0.6
Non audit services – UK	**0.1**	0.1
– overseas	**0.2**	0.2

A further £1.4m (1999: £1.4m) has been capitalised with respect to acquisitions.

5 Staff costs

	2000 £m	1999 £m
Wages and salaries	**593.7**	357.7
Social security costs	**43.5**	26.0
Pension costs (see note 28)	**12.3**	9.7
	649.5	393.4

The average number of employees (including Executive Directors) during the year was as follows:	2000 Number	1999 Number
Managerial and administrative	**4,305**	1,581
Operational	**34,997**	17,641
	39,302	19,222

6 Directors' emoluments

	2000 £m	1999 £m
The emoluments of the Directors are as follows:		
Fees	**0.2**	0.2
Basic salaries	**1.0**	0.7
Benefits	**0.1**	0.3
Performance related bonuses	**0.7**	0.3
Pension contributions	**0.3**	0.3
Termination of employment	**–**	0.1
	2.3	1.9

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

7 Net interest payable

	2000 £m	1999 £m
Interest payable and similar charges:		
Bank loans and overdrafts	**(36.9)**	(9.5)
Other loans	**(0.9)**	(1.5)
Finance lease charges	**(1.6)**	(0.8)
	(39.4)	(11.8)
Interest receivable	**5.4**	6.0
Net interest payable	**(34.0)**	(5.8)

8 Taxation

	2000 £m	1999 £m
Current taxation:		
UK corporation tax	**22.9**	25.4
Overseas	**5.1**	2.2
Prior years	**(2.3)**	–
	25.7	27.6
Tax relief on goodwill and exceptional items:		
UK corporation tax	**(8.2)**	(4.7)
Overseas	**(4.6)**	(0.1)
Tax on profit on ordinary activities	**12.9**	22.8

9 Profit attributable to members of the parent company

The profit dealt with in the accounts of the parent company was £393.7m (1999: £23.5m) of which £318.5m (1999: nil) is non-distributable.

10 Dividends

	2000 £m	1999 £m
Ordinary – interim (paid) of 6.5p per share (1999: 5.75p)	**7.6**	6.6
– final (proposed) of 14.2p per share (1999: 12.45p)	**18.7**	14.4
	26.3	21.0

11 Earnings per share

	2000	1999
(i) Basic earnings per share	**43.4p**	58.3p

The calculation of basic earnings per share is based on earnings of £51.4m (1999: £66.6m) and on 118,393,605 (1999: 114,232,918) ordinary shares, being the weighted average number of ordinary shares in issue in the year.

	2000	1999
(ii) Normalised basic earnings per share	**78.5p**	69.7p

The calculation of normalised basic earnings per share is based on normalised earnings of £92.9m (1999: £79.6m) and on 118,393,605 (1999: 114,232,918) ordinary shares, being the weighted average number of shares in issue in the year.

	2000	1999
(iii) Diluted earnings per share	**39.7p**	51.9p

The calculation of diluted earnings per share is based on earnings of £51.4m (1999: £66.6m). An adjustment has been made to reflect the number of dilutive potential ordinary shares. The weighted average diluted number of shares in issue during the year was 129,584,841 (1999: 128,266,998).

	2000	1999
(iv) Normalised diluted earnings per share	**71.7p**	62.1p

The calculation of normalised diluted earnings per share is based on normalised earnings of £92.9m (1999: £79.6m) and on the weighted average number of dilutive potential ordinary shares in issue during the year, which was 129,584,841 (1999: 128,266,998).

Normalised profits after tax and minority interest are:	2000 £m	1999 £m
Profit after tax and minority interest	**51.4**	66.6
Exceptional operating costs	**20.8**	10.7
Profit on sale of investments	**–**	(0.2)
Loss on termination of business	**0.7**	–
Goodwill	**20.0**	2.5
	92.9	79.6

The reconciliation of weighted average number of ordinary shares is detailed as follows:	Number of shares 2000	Number of shares 1999
Basic weighted average shares	**118,393,605**	114,232,918
Adjustment for dilutive potential ordinary shares	**11,191,236**	14,034,080
Diluted weighted average shares	**129,584,841**	128,266,998

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

12 Intangible assets

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

Group	Goodwill £m
Cost:	
At 31 December 1999	246.1
Additions	284.5
Exchange adjustments	19.3
At 31 December 2000	**549.9**
Amortisation:	
At 31 December 1999	3.5
Charge for the year	22.7
At 31 December 2000	**26.2**
Net book value:	
At 31 December 2000	**523.7**
At 31 December 1999	242.6

13 Tangible assets

Group	Freehold land and buildings £m	Long leasehold property £m	Short leasehold property £m	Infrastructure £m	Public service vehicles £m	Plant and equipment £m	Total £m
Cost or valuation:							
At 31 December 1999	179.2	34.0	9.6	–	269.9	62.8	555.5
Additions	10.5	1.1	15.1	18.4	22.7	20.0	87.8
Acquisition of subsidiary undertakings	4.3	25.7	1.0	–	48.6	31.6	111.2
Disposals	(2.2)	–	(0.1)	–	(8.7)	(1.6)	(12.6)
Reclassifications	(0.4)	(0.6)	(1.7)	2.7	–	–	–
Exchange adjustments	(0.7)	0.9	(0.6)	(0.2)	1.7	–	1.1
At 31 December 2000	**190.7**	**61.1**	**23.3**	**20.9**	**334.2**	**112.8**	**743.0**
Depreciation:							
At 31 December 1999	7.5	1.2	0.8	–	27.6	14.6	51.7
Charge for the year	2.1	0.4	1.1	0.6	28.2	11.5	43.9
Disposals	(0.1)	–	–	–	(7.8)	(1.4)	(9.3)
Exchange adjustments	–	0.1	–	–	2.7	0.3	3.1
At 31 December 2000	**9.5**	**1.7**	**1.9**	**0.6**	**50.7**	**25.0**	**89.4**
Net book value:							
At 31 December 2000	**181.2**	**59.4**	**21.4**	**20.3**	**283.5**	**87.8**	**653.6**
At 31 December 1999	171.7	32.8	8.8	–	242.3	48.2	503.8

The net book value of freehold land and buildings and long leasehold property includes £69.8m (1999: £70.3m) in respect of investment properties and £18.7m (1999: £16.6m) in respect of land which is not depreciated.

The Directors have reviewed the valuation of the Group's investment properties at 31 December 2000 and are of the opinion that the open market value of these properties at 31 December 2000 is fairly stated in these accounts.

13 Tangible assets continued

Particulars relating to revalued assets are as follows:	2000 £m	1999 £m
Land and buildings valuation at end of year	**78.0**	78.9
Historical cost of revalued assets	**64.7**	64.7
Aggregate depreciation based thereon	**(4.2)**	(3.7)
Historical cost net book value	**60.5**	61.0

Tangible fixed assets held under finance lease agreements are analysed as follows:	2000 £m	1999 £m
Public service vehicles	**18.2**	21.8
Plant and equipment	**1.3**	0.9
Net book value	**19.5**	22.7

Company	Short leasehold property £m	Plant and equipment £m	Total £m
Cost:			
At 31 December 1999	0.6	0.9	1.5
Additions	0.2	2.5	2.7
Disposals	–	(0.3)	(0.3)
At 31 December 2000	**0.8**	**3.1**	**3.9**
Depreciation:			
At 31 December 1999	–	0.4	0.4
Charge for the year	–	0.3	0.3
Disposals	–	(0.2)	(0.2)
At 31 December 2000	**–**	**0.5**	**0.5**
Net book value:			
At 31 December 2000	**0.8**	**2.6**	**3.4**
At 31 December 1999	0.6	0.5	1.1

14 Investments and interests in associated undertakings

Group	Loan to associated undertaking £m	Interests in associated undertakings £m	Other investments £m	Own shares £m	Total £m
Cost or valuation:					
At 31 December 1999	–	1.4	14.1	8.3	23.8
Additions	4.4	–	8.7	1.6	14.7
At 31 December 2000	**4.4**	**1.4**	**22.8**	**9.9**	**38.5**
Share of post-acquisition reserves:					
At 31 December 1999	–	(0.5)	–	–	(0.5)
Share of results of associated undertakings	–	(0.8)	–	–	(0.8)
At 31 December 2000	–	**(1.3)**	–	–	**(1.3)**
Provisions:					
At 31 December 1999	–	–	(6.0)	(2.3)	(8.3)
Provisions for diminution in value	–	–	–	(1.6)	(1.6)
At 31 December 2000	–	–	**(6.0)**	**(3.9)**	**(9.9)**
Net book value:					
At 31 December 2000	**4.4**	**0.1**	**16.8**	**6.0**	**27.3**
At 31 December 1999	–	0.9	8.1	6.0	15.0

(i) Interests in associated undertakings are as follows:

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

Altram LRT Limited is a provider of light rapid transport systems. The investment is held by a Group subsidiary undertaking. Inter-Capital and Regional Rail Limited is a train operator management company. The investment is held by the Company.

(ii) The principal other investments are as follows:

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

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

14 Investments and interests in associated undertakings continued

(iii) Own shares are as follows:
Prior to the year ended 31 December 1999 ordinary shares in the Company were purchased by the Trustees of the National Express Employee Benefit Trust using interest free loans advanced by the Company. The shares are held to satisfy potential awards or options granted under a number of the Company's share schemes. In accordance with UITF Abstract 13, "Accounting for ESOP Trusts", the amount of the loan outstanding at the year end has been recognised as an investment in own shares.

During the year the QUEST purchased shares in the marketplace with a market value of £1.6m (1999: £7.8m) in order to satisfy the requirements of the NEG Savings Related Share Option Scheme. A contribution of £0.3m (1999: £3.3m) has been gifted to the QUEST by the Company to reflect the difference between the market price at the time of purchase and the option price. In accordance with UITF 13 the value of the shares has been recognised as an investment in own shares.

Details of own shares held are given in note 24.

Company	Loan to a subsidiary undertaking £m	Investments in subsidiary undertakings £m	Other investments £m	Own shares £m	Total £m
Cost or valuation:					
At 31 December 1999	–	425.2	11.5	8.3	445.0
Additions	255.9	315.6	8.6	1.6	581.7
Disposals	–	(97.0)	–	–	(97.0)
At 31 December 2000	**255.9**	**643.8**	**20.1**	**9.9**	**929.7**
Provisions:					
At 31 December 1999	–	(9.9)	(6.1)	(2.3)	(18.3)
Provisions for diminution in value	–	(1.2)	–	(1.6)	(2.8)
Disposals	–	6.7	–	–	6.7
At 31 December 2000	–	**(4.4)**	**(6.1)**	**(3.9)**	**(14.4)**
Net book value:					
At 31 December 2000	**255.9**	**639.4**	**14.0**	**6.0**	**915.3**
At 31 December 1999	–	415.3	5.4	6.0	426.7

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

Incorporated in England and Wales	
Airlinks The Airport Coach Company Limited*	Operation of coach services within and to airports
Cambridge Coach Services Limited*	Operation of coach services
Eurolines (UK) Limited*	Administration and marketing of express coach services to Europe
National Express Limited*	Administration and marketing of express coach services in Great Britain
West Midlands Travel Limited	Operation of bus services
Bournemouth International Airport Limited*	Provision and management of airport facilities
East Midlands International Airport Limited*	Provision and management of airport facilities
c2c Rail Limited*	Operation of train passenger services
Cardiff Railway Company Limited*	Operation of train passenger services
Central Trains Limited*	Operation of train passenger services
Gatwick Express Limited*	Operation of train passenger services
Maintrain Limited*	Provision of train maintenance services
Midland Main Line Limited*	Operation of train passenger services
National Express Trains Limited	Holding company for train operating companies
ScotRail Railways Limited*	Operation of train passenger services
Silverlink Train Services Limited*	Operation of train passenger services
Wales & West Passenger Trains Ltd*	Operation of train passenger services
West Anglia Great Northern Railway Ltd*	Operation of train passenger services

14 Investments and interests in associated undertakings continued

Incorporated in The Netherlands

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

Incorporated in Belgium

Autobusbedrijf Bronckaers NV*	Operation of bus services

Incorporated in the USA

Crabtree-Harmon Corporation*	Operation of school bus services
Durham Transportation Inc*	Operation of school bus services
Kenneth E Bauman Inc*	Operation of school bus services
Robinson Bus Service Inc*	Operation of school bus services
School Services & Leasing Inc*	Operation of school bus services
Comsis Mobility Services Inc*	Operation of bus services
Forsythe & Associates Inc*	Operation of bus services
MultiSystems Inc*	Operation of bus services
Van Der Aa Holdings Inc*	Operation of bus services
SWF Airport Acquisition Inc*	Provision and management of airport facilities

Incorporated in Australia

National Express Group Australia (Bayside Trains) Pty Limited*	Operation of train passenger services
National Express Group Australia (Swanston Trams) Pty Limited*	Operation of tram passenger services
National Express Group Australia (V/Line Passenger) Pty Limited*	Operation of train passenger services
National Bus Company Pty Limited*	Operation of bus services
Transport Management Group Pty Limited*	Operation of bus services
Westbus Pty Limited*	Operation of bus services

**Shares held by a subsidiary undertaking*

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

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

The companies listed above include all those which principally affect the amount of profit and assets of the Group. A full list of subsidiary and associated undertakings at 31 December 2000 will be annexed to the next annual return.

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

15 Acquisitions during the year

During the year the Group acquired the entire share capital of Forsythe (6 January 2000), SS&L (31 August 2000) and Prism (19 September 2000). The Group also acquired the net assets of Blue Ribbon (2 February 2000), Stewart (1 April 2000) and various coach businesses.

	Prism £m	SS&L £m	Other £m	Total £m
Tangible assets	22.1	53.3	36.2	**111.6**
Stock	4.0	0.3	0.1	**4.4**
Debtors	48.6	3.4	1.4	**53.4**
Cash at bank and in hand	49.2	1.8	1.6	**52.6**
Creditors and provisions	(118.7)	(9.1)	(11.1)	**(138.9)**
Net assets acquired	5.2	49.7	28.2	**83.1**
Special dividend to Prism shareholders	10.8	–	–	**10.8**
Adjusted net assets	16.0	49.7	28.2	**93.9**
Goodwill on acquisition	155.4	92.6	28.6	**276.6**
Total consideration	171.4	142.3	56.8	**370.5**

Total consideration	171.4	142.3	56.8	**370.5**
Shares issued as consideration	(80.5)	–	–	**(80.5)**
Deferred cash consideration	–	–	(7.0)	**(7.0)**
Payments to acquire subsidiary undertakings	90.9	142.3	49.8	**283.0**
Less net cash acquired	(49.2)	(1.8)	(1.6)	**(52.6)**
Net cash outflow	41.7	140.5	48.2	**230.4**

Prism	Book value £m	Fair value adjustments £m	Total £m
Tangible assets	30.4	(8.3)	**22.1**
Stock	4.5	(0.5)	**4.0**
Debtors	48.5	0.1	**48.6**
Cash at bank and in hand	49.2	–	**49.2**
Total assets	132.6	(8.7)	**123.9**
Creditors: amounts falling due within one year	(105.1)	(6.8)	**(111.9)**
Creditors: amounts falling due after more than one year	(3.7)	(3.1)	**(6.8)**
Total liabilities	(108.8)	(9.9)	**(118.7)**
Net assets acquired	23.8	(18.6)	**5.2**
Special dividend to Prism shareholders	10.8	–	**10.8**
Adjusted net assets	34.6	(18.6)	**16.0**

The adjustment to tangible assets was made so that costs are capitalised consistently with the Group. The adjustments to creditors represent reassessments of liabilities to align with the Group's accounting policy.

SS&L	Book value £m	Fair value adjustments £m	Total £m
Intangible assets	5.0	(5.0)	**–**
Tangible assets	51.1	2.2	**53.3**
Stock	0.3	–	**0.3**
Debtors	3.9	(0.5)	**3.4**
Cash at bank and in hand	1.8	–	**1.8**
Total assets	62.1	(3.3)	**58.8**
Creditors: amounts falling due within one year	(8.0)	(1.1)	**(9.1)**
Net assets acquired	54.1	(4.4)	**49.7**

The adjustment to intangible fixed assets eliminates goodwill in SS&L's own balance sheet and tangible assets have been revalued.

15 Acquisitions during the year continued

Fair value adjustments for other acquisitions in the year ended 31 December 2000 were not material. Fair value adjustments made in the year ended 31 December 1999 have been revised by £7.9m to reduce tangible assets by £0.4m and, following a reassessment of liabilities under the Group's accounting policy, to increase creditors by £9.2m, offset by an adjustment for the associated taxation of £1.7m. These adjustments primarily relate to the acquisitions made in December 1999 (namely MultiSystems and ATC).

Prism made a loss after tax of £10.7m from 1 April 2000 to the date of acquisition and reported a profit after tax of £7.7m in the year ended 31 March 2000.

SS&L made a loss after tax of £3.1m (before change of control bonuses paid of £18.3m) from 1 August 2000 to the date of acquisition and reported a profit after tax of £7.7m in the year ended 31 July 2000.

The post acquisition turnover and operating profit from acquisitions made during the year are separately disclosed in the profit and loss account, except where the amounts involved are not material.

16 Stock

Group	2000 £m	1999 £m
Raw materials and consumables	**20.7**	8.5
Finished goods	**–**	6.3
	20.7	14.8

17 Debtors

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Trade debtors	**155.9**	103.8	**–**	–
Subsidiary undertakings	**–**	–	**512.1**	299.5
Other debtors	**108.8**	85.6	**1.8**	5.6
Prepayments and accrued income	**60.4**	24.7	**0.5**	8.4
Amounts due from associated undertakings	**2.0**	2.5	**1.0**	1.0
	327.1	216.6	**515.4**	314.5

Included within other debtors of the Group is £2.6m (1999: £5.3m) which is recoverable after more than one year.

Included within prepayments of the Group is £2.2m (1999: £2.1m) in respect of pension contribution payments made in advance of their recognition in the profit and loss account. Of this amount £1.9m (1999: £2.0m) will be recoverable after more than one year.

18 Cash at bank and in hand

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Cash	**21.0**	20.9	**–**	–
Overnight deposits	**20.2**	45.0	**–**	22.3
Other short term deposits	**12.6**	32.0	**7.2**	9.7
Bank deposits relating to loan notes	**–**	3.1	**–**	–
	53.8	101.0	**7.2**	32.0

Cash at bank and in hand of the Group as at 31 December 1999 included £13.2m in respect of the outstanding element of train passenger season tickets which was used as cash collateral for season ticket bonds held by the Strategic Rail Authority. This arrangement did not apply at 31 December 2000.

19 Creditors: amounts falling due within one year

	Group 2000 £m	Group 1999 £m	Company 2000 £m	Company 1999 £m
Loan notes	**5.5**	5.5	**1.5**	1.6
Bank loans	**156.2**	1.9	**149.0**	–
Other loans	**0.3**	0.3	–	–
Bank overdrafts	**0.4**	4.5	**59.7**	15.5
Trade creditors	**201.9**	118.8	**3.2**	1.8
Amounts owed to associated undertakings	**0.1**	0.1	–	–
Amounts owed to subsidiary undertakings	–	–	**65.5**	33.2
Finance lease obligations	**3.6**	4.1	–	–
Corporation tax	**28.3**	42.0	**3.6**	9.7
Social security and other taxation	**18.6**	13.6	–	0.1
Accruals and deferred income	**317.5**	189.7	**11.3**	7.7
Proposed dividend	**18.7**	14.4	**18.7**	14.4
	751.1	394.9	**312.5**	84.0

20 Creditors: amounts falling due after more than one year

	Group 2000 £m	Group 1999 £m	Company 2000 £m	Company 1999 £m
Loan notes	**4.8**	4.8	–	–
Bank loans	**428.8**	381.0	**428.8**	362.8
Other loans	**0.1**	0.2	–	–
Finance lease obligations	**10.7**	14.6	–	–
Accruals and deferred income	**13.8**	8.2	–	–
	458.2	408.8	**428.8**	362.8

21 Net borrowings

	Group 2000 £m	Group 1999 £m	Company 2000 £m	Company 1999 £m
Due within one year				
Loan notes	**5.5**	5.5	**1.5**	1.6
Bank loans	**156.2**	1.9	**149.0**	–
Other loans	**0.3**	0.3	**–**	–
Bank overdrafts	**0.4**	4.5	**59.7**	15.5
Finance lease obligations	**3.6**	4.1	**–**	–
	166.0	16.3	**210.2**	17.1
Due within one to two years				
Loan notes	**0.6**	0.6	**–**	–
Bank loans	**42.6**	9.3	**42.6**	8.2
Other loans	**0.1**	0.2	**–**	–
Finance lease obligations	**3.6**	3.5	**–**	–
	46.9	13.6	**42.6**	8.2
Due within two to five years				
Loan notes	**1.8**	1.8	**–**	–
Bank loans	**386.2**	371.7	**386.2**	354.6
Finance lease obligations	**6.2**	6.6	**–**	–
	394.2	380.1	**386.2**	354.6
Due by instalments after five years				
Finance lease obligations	**0.9**	4.5	**–**	–
Due other than by instalments after five years				
Loan notes	**2.4**	2.4	**–**	–
Total borrowings	**610.4**	416.9	**639.0**	379.9
Cash at bank and in hand	**(53.8)**	(101.0)	**(7.2)**	(32.0)
Net borrowings	**556.6**	315.9	**631.8**	347.9

During the year ended 31 December 1999, the Company agreed a part term (£550.0m), part revolving (£250.0m) syndicated loan facility for a total of £800.0m. The terms were subsequently altered in advance of the disposal of the Airports division to enable the Company to repay £150.0m of the term facility out of the sale proceeds and the Group's cash resources. Therefore, £150.0m is repayable in 2001, £43.6m is repayable in 2002, £70.4m is repayable in 2003 and the balance is repayable in 2004. Bank loans are shown net of the unamortised loan facility arrangement fee that was incurred during the year ended 31 December 1999.

Secured borrowings within the Group total £14.3m (1999: £16.0m).

22 Provisions for liabilities and charges

Group	Early retirement costs (a) £m	Unfunded pension provision (b) £m	Insurance claims (c) £m	Other £m	Total £m
At 31 December 1999	0.9	1.8	20.2	0.2	23.1
Provided in the year	0.1	–	5.5	–	5.6
Utilised in the year	–	(1.3)	(7.6)	–	(8.9)
Released in the year	–	–	(0.7)	–	(0.7)
Exchange difference	–	–	0.5	–	0.5
At 31 December 2000	**1.0**	**0.5**	**17.9**	**0.2**	**19.6**

Company	Insurance claims (c) £m
At 31 December 1999	8.4
Provided in the year	3.7
Utilised in the year	(4.0)
At 31 December 2000	**8.1**

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

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

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

(i) the existing claims under the insurance programme for UK operations relating to 2000, 1999, 1998, 1996 and prior years;

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

(iii) the existing claims arising in the USA.

23 Deferred taxation

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

Group	Provided 2000 £m	Provided 1999 £m	Not provided 2000 £m	Not provided 1999 £m
Potential capital gains on properties	–	–	**7.4**	5.5
Accelerated capital allowances	–	–	**53.6**	29.1
Short term timing differences	–	–	**(7.6)**	(4.7)
Tax effect of losses carried forward	–	–	**(13.9)**	(2.0)
	–	–	**39.5**	27.9

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

24 Called-up share capital

	2000 £m	1999 £m
At 31 December		
Authorised:		
146,650,000 (1999: 146,650,000) ordinary shares of 5p each	7.3	7.3
Issued called-up and fully paid:		
129,658,233 (1999: 115,918,625) ordinary shares of 5p each	6.5	5.8

Movement in ordinary shares during the year	£m	Number of shares
At 31 December 1999	5.8	115,918,625
Exercise of share options	0.1	1,305,678
Issue of shares to Prism shareholders	0.5	9,715,912
West Midlands Travel Limited ("WMT") appropriation	0.1	2,718,018
At 31 December 2000	6.5	129,658,233

(i) Option schemes

At 31 December 2000 options to purchase ordinary shares had been granted to and not exercised by participants of National Express Group PLC ("NEG") share option schemes as follows:

	Number of shares 2000	Number of shares 1999
NEG Executive Share Option Scheme	2,878,117	1,522,099
NEG Savings Related Share Option Scheme	2,592,035	4,110,844
WMT Share Option Scheme 1991		
(holders of WMT options who accepted the NEG Replacement Option Offer)	3,240	3,240
WMT Long Service Option Scheme (available to WMT employees who served 25 years)	628,180	553,980

(ii) NEG Employee Benefit Trust

The Trust holds 745,421 shares (1999: 815,725 shares) on behalf of two NEG share schemes. The dividends payable on these shares have been waived. At 31 December 2000, the shares held under these schemes were as follows:

	Number of shares 2000	Number of shares 1999
WMT Long Service Option Scheme	720,627	763,747
NEG Long Term Share Incentive Scheme	24,794	51,978

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

(iii) WMT: Approved Profit Sharing Schemes ("APSS")

The APSS exists for the benefit of WMT employees. The Trustee of the APSS has the right to acquire WMT shares and to convert them into NEG shares for appropriation to individual beneficiaries over the remaining life of the scheme. These rights have been accounted for as part of the consideration paid for WMT in 1995 and are dealt with in the share capital to be issued reserve. At the end of the year there were 8,299,753 (1999: 11,017,771) NEG shares held for the benefit of the Trustee which remained unissued.

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

(iv) QUEST

During the year the QUEST purchased 305,000 (1999: 1,040,000) shares in the market for £1.6m (1999: £7.8m). In addition to an interest free loan of £1.3m (1999: £4.5m), a contribution of £0.3m (1999: £3.3m) has been gifted to the QUEST by the Company to reflect the difference between the market price on issue of the shares and the option price. All rights to dividend on these shares have been waived. The trustee of the QUEST is National Express QUEST Trustees Limited, which is a wholly-owned subsidiary of the Group.

At the year end the QUEST holds 1,108,656 shares (1999: 1,043,917 shares) on behalf of NEG share schemes. The market value of these shares at that date was £8.0m (1999: £7.6m). During the year, options over 240,261 (1999: 112,563) shares were exercised by employees.

24 Called-up share capital continued

(v) Prism Rail PLC Profit Sharing Scheme (the "Prism Scheme")

The Prism Scheme exists for the benefit of employees of the four train operating companies owned by Prism. Three appropriations have been made to employees under the scheme in 1998, 1999 and 2000. There are a total of 122,979 NEG shares held in Trust under these appropriations. No further awards will be made under the Prism Scheme.

25 Reserves

Group	Share premium £m	Share capital to be issued £m	Merger reserve £m	Capital reserve £m	Revaluation reserve £m	Profit and loss account £m	Total £m
At 31 December 1999	35.7	0.5	–	17.0	17.9	185.9	257.0
Shares issued during the year	4.8	(0.1)	80.0	–	–	–	84.7
Transfers from revaluation reserve	–	–	–	–	(0.4)	0.4	–
Other transfers	–	–	(22.7)	–	–	22.7	–
Exchange differences	–	–	–	–	–	(0.5)	(0.5)
Retained profit for the year	–	–	–	–	–	25.1	25.1
At 31 December 2000	**40.5**	**0.4**	**57.3**	**17.0**	**17.5**	**233.6**	**366.3**

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

As at 31 December 2000, the cumulative amount of goodwill on acquisitions made prior to 1 January 1998 which has been set off against the capital reserve is £249.2m (1999: £249.2m).

Included within the revaluation reserve is £3.5m (1999: £3.5m) which relates to investment properties.

Company	Share premium £m	Share capital to be issued £m	Merger reserve £m	Capital reserve £m	Profit and loss account £m	Total £m
At 31 December 1999	35.7	0.5	205.8	60.5	10.8	313.3
Shares issued during the year	4.8	(0.1)	8.4	(8.4)	–	4.7
Retained profit for the year	–	–	–	–	367.4	367.4
At 31 December 2000	**40.5**	**0.4**	**214.2**	**52.1**	**378.2**	**685.4**

The retained profit for the year for the Company includes £318.5m (1999: nil) that is non-distributable.

26 Capital commitments

Group	2000 £m	1999 £m
Contracted	**11.7**	19.3

27 Other financial commitments

The Trains division has contracts with Railtrack plc for access to the railway infrastructure (tracks, stations and depots). It also has contracts under which rolling stock is leased. Commitments for payments in the next year under these operating leases are shown below.

Trains division commitments	2000 £m	1999 £m
Operating leases which expire:		
Within one year	**104.9**	5.4
Between two and five years	**877.3**	471.7
Over five years	**77.3**	56.5
	1,059.5	533.6

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

Other divisions' commitments	Land and buildings 2000 £m	Land and buildings 1999 £m	Other 2000 £m	Other 1999 £m
Operating leases which expire:				
Within one year	**2.1**	1.5	**0.3**	0.4
Between two and five years	**4.2**	3.8	**1.3**	1.5
Over five years	**11.0**	8.8	**0.4**	0.2
	17.3	14.1	**2.0**	2.1

Company	Land and buildings 2000 £m	Land and buildings 1999 £m
Operating leases which expire:		
Between two and five years	**0.2**	–
Over five years	**0.5**	0.4
	0.7	0.4

28 Pension commitments

The pension charge for the year amounted to £12.3m (1999: £9.7m) of which £6.8m (1999: £1.9m) related to overseas schemes. Outstanding contributions at the year end amounted to £0.7m (1999: £1.1m). The Group operates a number of pension schemes and the principal schemes are listed below:

(i) Coaches and Airports divisions

Benefits are provided based on final pensionable earnings. The assets of the schemes are held separately from those of the Group, being invested in managed funds. Contributions to the schemes are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the Group. The contributions are determined by qualified actuaries using the projected unit method. The latest actuarial assessment of the principal scheme was at 6 April 1998.

The aggregate market value of the assets in these schemes at the dates of the latest actuarial valuations was £21.6m. The actuarial value of those assets represented approximately 95% of the liability for benefits that had accrued to that date, after making full allowance for future earnings increases.

The principal assumptions made when valuing the principal scheme are that the rate of investment returns will be 6.5% per annum and that earnings will increase at 4.5% per annum.

The contributions of the Group and the employees are calculated such that there is no significant anticipated surplus or deficit for the schemes on a long term basis and accordingly there is currently no variation between contributions paid and the pension cost recorded in these accounts.

28 Pension commitments continued

(ii) Buses division

West Midlands Travel Limited and its subsidiaries operate a number of pension schemes providing benefits both on a defined benefit and a defined contribution basis. The assets are held separately from those of the companies. Contributions to the schemes are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the companies. Valuations of the schemes are undertaken by independent qualified actuaries and contributions paid in accordance with their recommendations. The latest actuarial assessment of the principal scheme was at 31 March 1998.

The aggregate market value of the assets in these schemes at the dates of the latest actuarial valuations was £377m.

The actuarial value of the assets in the principal scheme represented approximately 130% of the liability for benefits that had accrued to that date, after making full allowance for future earnings increases. This surplus will be recognised as a variation from the regular cost over the remaining service lives of the employees.

The principal assumptions made when valuing the principal scheme are that the rate of investment returns will be 7.0% per annum and that earnings will increase at 4.5% per annum.

(iii) Trains division

The majority of the employees of the ten train companies are members of the appropriate shared-cost section of the Railways Pension Scheme ("RPS"), a defined benefit scheme. The last actuarial valuations for the RPS sections of the train operating companies owned by the Group were at 31 December 1998. The aggregate market value of the assets in these schemes at the date of the last actuarial valuation was £599m. The actuarial value of the assets for the schemes represented a range of approximately 104% to 123% of the liability for the benefits that had accrued to that date, after making full allowance for future earnings increases. Any available surpluses are dealt with in accordance with recognised distribution limits.

The principal assumptions made when valuing the schemes are that the rate of investment returns will be 6.75% per annum and that earnings will increase at 4.5% per annum.

(iv) USA and Australia divisions

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

The Australian subsidiaries contribute to a number of pension schemes providing benefits both on a defined benefit and a defined contributions basis. The principal defined benefit schemes are State run, comprising a large number of participating companies, and are not controlled by the Group. In accordance with the franchise agreements, the Group is not responsible for any shortfall in funding prior to the date when the franchises were awarded.

29 Related party transactions

In respect of services provided, the Group received £5.1m (1999: £4.9m) from Altram LRT Limited, an associated undertaking. Included in debtors due from associated undertakings is £1.0m (1999: £1.5m) due from Altram LRT Limited and a loan of £1.0m (1999: £1.0m) to Inter-Capital and Regional Rail Limited. Included in investments is a loan of £4.4m (1999: nil) to Altram LRT Limited.

30 Contingent liabilities

(i) Uncalled share capital and guarantees

The Company has amounts of uncalled share capital relating to eight of its subsidiary undertakings. The amounts uncalled total £34.8m (1999: £31.1m) and are unlikely to be called in the near future. The Company has also guaranteed credit facilities totalling £13.4m (1999: £12.0m) of certain subsidiary undertakings.

(ii) Bonds and letters of credit

In the ordinary course of business, the Group is required to procure performance bonds, season ticket bonds and letters of credit in support of its operations. As at 31 December 2000, the Company had issued counter-indemnities relating to these amounting to £154.0m (1999: £75.6m). These contingent liabilities are not expected to crystallize.

31 Cash flow statement

(a) Reconciliation of operating profit to net cash inflow from operating activities	Continuing operations 2000 £m	Acquisitions 2000 £m	Discontinued operations 2000 £m	Total 2000 £m	Continuing operations 1999 £m	Discontinued operations 1999 £m	Total 1999 £m
Operating profit	**87.2**	**1.5**	**13.1**	**101.8**	82.5	12.7	95.2
Depreciation of tangible assets	**34.4**	**5.2**	**4.3**	**43.9**	23.0	3.6	26.6
Amortisation of goodwill	**13.3**	**9.4**	**–**	**22.7**	3.3	–	3.3
Loss/(profit) on sale of tangible assets	**0.3**	**–**	**–**	**0.3**	(1.1)	(1.3)	(2.4)
Increase in stocks	**(1.1)**	**(0.4)**	**–**	**(1.5)**	(0.8)	–	(0.8)
(Increase)/decrease in debtors	**(25.8)**	**(31.7)**	**0.4**	**(57.1)**	(30.4)	(1.3)	(31.7)
Increase/(decrease) in creditors	**33.5**	**32.3**	**(4.1)**	**61.7**	2.3	1.9	4.2
(Decrease)/increase in provisions	**(4.4)**	**0.1**	**–**	**(4.3)**	2.4	(1.7)	0.7
Net cash inflow from operating activities	**137.4**	**16.4**	**13.7**	**167.5**	81.2	13.9	95.1

The operating cash inflows include outflows of £27.7m (1999: £14.5m) from continuing operations, £1.1m from acquisitions and nil (1999: £0.2m) from discontinued operations which relate to exceptional costs.

(b) Reconciliation of net cash flow to movement in net debt (note 31(c))	2000 £m	1999 £m
(Decrease)/increase in cash in the year	**(20.6)**	7.2
Cash inflow from increase in debt and lease financing	**(186.2)**	(312.1)
Cash outflow from movement in liquid resources	**(19.4)**	(3.9)
Change in net debt resulting from cash flows	**(226.2)**	(308.8)
Loans, bank deposits, and finance leases of subsidiaries acquired in year	**–**	(39.2)
Liquid resources of subsidiaries acquired in year	**–**	0.3
Inception of new finance lease obligations in year	**–**	(3.3)
Other non cash movements in net debt	**(14.5)**	–
Change in net debt resulting from non cash flows	**(14.5)**	(42.2)
Movement in net debt in the year	**(240.7)**	(351.0)
Net (debt)/funds at 1 January	**(315.9)**	35.1
Net debt at 31 December	**(556.6)**	(315.9)

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

31 Cash flow statement continued

(c) Analysis of changes in net debt	At 31 December 1999 £m	Cash flow £m	Non cash movements £m	At 31 December 2000 £m
Cash	20.9	0.1	–	**21.0**
Overnight deposits	45.0	(24.8)	–	**20.2**
Liquid resources – other short term deposits	32.0	(19.4)	–	**12.6**
Bank deposits relating to loan notes	3.1	(3.1)	–	**–**
Cash at bank and in hand	101.0	(47.2)	–	**53.8**
Bank overdrafts	(4.5)	4.1	–	**(0.4)**
Debt due within one year				
Loan notes	(5.5)	–	–	**(5.5)**
Bank and other loans	(2.2)	(156.3)	2.0	**(156.5)**
	(7.7)	(156.3)	2.0	**(162.0)**
Debt due after one year				
Loan notes	(4.8)	–	–	**(4.8)**
Bank and other loans	(381.2)	(31.2)	(16.5)	**(428.9)**
	(386.0)	(31.2)	(16.5)	**(433.7)**
Finance lease obligations	(18.7)	4.4	–	**(14.3)**
Net debt	(315.9)	(226.2)	(14.5)	**(556.6)**

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

(e) The subsidiary undertakings acquired during the year contributed an inflow of £16.4m to the Group's net operating cash flows, paid £2.6m in respect of net returns on investments and servicing of finance and expended £0.4m on capital expenditure.

32 Derivatives and other financial instruments

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

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

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

After taking into account interest rate swaps, the interest rate and currency profile of the Group's financial liabilities at 31 December 2000 was as follows:

	At floating rates 2000 £m	At fixed rates 2000 £m	Total 2000 £m	Weighted average fixed interest rate 2000 %	Weighted average period for which rate is fixed 2000 Years
Sterling	14.4	–	14.4	–	–
US dollars	247.7	267.8	515.5	6.73	6.0
Australian dollars	18.9	58.0	76.9	6.68	4.7
Other	3.6	–	3.6	–	–
	284.6	325.8	610.4	6.72	5.8

	At floating rates 1999 £m	At fixed rates 1999 £m	Total 1999 £m	Weighted average fixed interest rate 1999 %	Weighted average period for which rate is fixed 1999 Years
Sterling	40.3	6.6	46.9	7.9	0.8
US dollars	282.5	9.0	291.5	6.8	0.5
Australian dollars	59.2	16.3	75.5	6.9	4.8
Other	3.0	–	3.0	–	–
	385.0	31.9	416.9	7.1	2.7

(b) Analysis of financial liabilities by type and currency

Financial liabilities comprise:

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

	Loan notes 1999 £m	Bank loans 1999 £m	Other loans 1999 £m	Bank overdrafts 1999 £m	Finance leases 1999 £m	Total 1999 £m
Sterling	10.3	30.5	–	3.7	2.4	46.9
US dollars	–	291.2	0.3	–	–	291.5
Australian dollars	–	58.2	0.2	0.8	16.3	75.5
Other	–	3.0	–	–	–	3.0
	10.3	382.9	0.5	4.5	18.7	416.9

32 Derivatives and other financial instruments continued

(c) Maturity of financial liabilities

The maturity profile of the Group's financial liabilities at 31 December 2000 was as follows:

	2000 £m	1999 £m
Expiring within one year	**166.0**	16.3
Expiring in more than one year but less than two years	**46.9**	13.6
Expiring in more than two years but less than five years	**394.2**	380.1
Expiring in beyond five years	**3.3**	6.9
	610.4	416.9

(d) Financial assets by currency

The Group has no financial assets other than cash at bank and in hand, including deposits, amounting to £53.8m (1999: £101.0m), which earn interest at floating rates. Cash deposits are placed on the money markets at commercial rates. The currency profile as at 31 December 2000 is as follows:

	2000 £m	1999 £m
Sterling	**38.0**	76.4
US dollars	**6.2**	13.9
Australian dollars	**7.8**	9.5
Other	**1.8**	1.2
	53.8	101.0

(e) Currency exposures

As at 31 December 1999 and 31 December 2000 the Group did not have any material net currency transactional exposures.

(f) Undrawn committed borrowing facilities

At 31 December 2000 the Group had undrawn and unused committed borrowing facilities as follows:

	2000 £m	1999 £m
Expiring within one year	**–**	7.0
Expiring in beyond two years	**201.3**	7.9
	201.3	14.9

32 Derivatives and other financial instruments continued

(g) Fair values

The book values and fair values of all the Group's financial instruments at 31 December 2000 are set out below:

	Book value 2000 £m	Fair value 2000 £m	Book value 1999 £m	Fair value 1999 £m
Cash at bank and in hand	**53.8**	**53.8**	101.0	101.0
Loans and overdrafts	**(596.1)**	**(596.1)**	(398.2)	(398.2)
Finance lease obligations	**(14.3)**	**(14.3)**	(18.7)	(18.7)
Interest rate swaps	**–**	**(22.2)**	–	(5.7)

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

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

(h) Hedge accounting

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

	Losses £m
Unrecognised losses at 31 December 1999 arising in the year ended 31 December 1999	5.7
Unrecognised losses at 31 December 2000 arising in the year ended 31 December 2000	16.5
Unrecognised losses at 31 December 2000	**22.2**
Of which:	
Losses expected to be recognised within one year	2.3
Losses expected to be recognised after one year	19.9
	22.2

Of the £22.2m (1999: £5.7m) unrecognised losses at 31 December 2000, £8.8m (1999: £5.7m) arises on interest rate swap agreements that the Group was party to relating to contracts in the Australia trains division to acquire new rolling stock by means of operating leases. Only in the unlikely event of the contracts failing to complete would the Group expect to realise any market value differences on the swaps.

(i) Market price risk – commodities

Periodically, the Group enters into fixed price, medium term contracts for the purchase of fuel.

33 Post balance sheet event

As announced on 19 February 2001, the Airports division, comprising East Midlands International Airport Limited and Bournemouth International Airport Limited, has been sold for gross sale proceeds of £241.0m, resulting in a profit on disposal after expenses of approximately £96.0m (including £36.0m negative goodwill taken to reserves on the acquisition of the airports, which has no effect on net assets or shareholders' funds). This will be reflected in the accounts for the year ending 31 December 2001.

Eight year summary

Year ended 31 December	2000 £m	1999 £m	1998 £m	1997 £m	1996 £m	1995 £m	1994 £m	1993 £m
Turnover	**2,002.6**	1,476.7	1,322.4	1,133.5	482.5	317.7	170.0	138.7
Operating profit before goodwill and exceptional items	**155.1**	113.2	95.8	83.6	66.1	46.9	16.3	9.3
Operating profit	**101.8**	95.2	84.9	66.1	62.3	44.0	16.3	9.3
Share of operating losses of associated undertakings	**(1.8)**	–	(0.2)	–	–	–	–	–
Profit on sale of investments	–	0.2	5.4	–	–	–	–	–
Release/(creation) of provision against fixed asset investment	–		4.8	(10.8)	–	–	–	–
(Loss)/profit on termination of business	**(1.0)**	–	–	–	–	–	–	0.2
Net interest (payable)/receivable	**(34.0)**	(5.8)	2.1	(0.5)	(2.2)	(2.5)	(1.1)	(0.2)
Profit on ordinary activities before taxation	**65.0**	89.6	97.0	54.8	60.1	41.5	15.2	9.3
Tax on profit on ordinary activities	**(12.9)**	(22.8)	(22.8)	(18.8)	(18.7)	(14.0)	(5.0)	(3.0)
Minority interest	**(0.7)**	(0.2)	–	–	–	–	–	–
Dividends	**(26.3)**	(21.0)	(18.1)	(14.6)	(11.5)	(9.6)	(3.5)	(3.0)
Retained profit	**25.1**	45.6	56.1	21.4	29.9	17.9	6.7	3.3
Statistics								
Earnings per ordinary share								
– basic	**43.4p**	58.3p	66.5p	34.2p	42.9p	35.5p	25.5p	16.7p
– normalised diluted	**71.7p**	62.1p	54.8p	45.1p	33.6p*	27.8p*	25.2p*	16.0p*
Dividends per ordinary share	**20.7p**	18.2p	16.0p	13.5p	11.5p	10.0p	8.7p	7.5p
Net assets								
Intangible fixed assets	**523.7**	242.6	9.1	–	–	–	–	–
Tangible fixed assets and investments	**680.9**	518.8	300.6	249.5	221.0	201.3	71.2	66.4
Net current liabilities	**(349.5)**	(62.5)	(33.6)	(61.3)	(41.1)	(34.1)	(9.1)	(6.4)
Creditors falling due after one year	**(458.2)**	(408.8)	(50.4)	(30.1)	(23.8)	(51.5)	(16.5)	(18.7)
Provisions for liabilities and charges	**(19.6)**	(23.1)	(13.8)	(12.0)	(10.1)	(9.7)	(2.1)	(3.3)
	377.3	267.0	211.9	146.1	146.0	106.0	43.5	38.0
Capital and reserves								
Share capital and share premium account	**47.0**	41.5	36.1	30.5	28.6	28.2	6.1	6.1
Other reserves	**325.8**	221.3	175.8	115.6	117.4	77.8	37.4	31.9
Equity shareholders' funds	**372.8**	262.8	211.9	146.1	146.0	106.0	43.5	38.0
Equity minority interest	**4.5**	4.2	–	–	–	–	–	–
	377.3	267.0	211.9	146.1	146.0	106.0	43.5	38.0
Net (debt)/funds								
Cash at bank and in hand	**53.8**	101.0	94.2	55.9	30.0	39.5	18.9	15.7
Loan notes	**(10.3)**	(10.3)	(10.6)	(14.2)	(12.5)	(15.5)	(3.2)	(4.3)
Bank and other loans	**(585.4)**	(383.4)	(42.0)	(13.1)	(10.0)	(43.9)	(15.5)	(17.5)
Bank overdrafts	**(0.4)**	(4.5)	(2.0)	(3.1)	(1.2)	(5.4)	–	–
Finance lease obligations	**(14.3)**	(18.7)	(4.5)	(7.5)	(9.4)	(12.5)	(2.6)	(2.5)
	(556.6)	(315.9)	35.1	18.0	(3.1)	(37.8)	(2.4)	(8.6)
Net gearing	**148%**	118%	(17)%	(12)%	2%	36%	6%	23%

1993 represents the first full year of trading following flotation.

** Normalised diluted earnings per share figures have not been restated to comply with Financial Reporting Standard 14.*

Shareholder information

Shareholder enquiries

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

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

Registrar

Administrative enquiries concerning shareholdings in National Express Group PLC, such as the loss of a share certificate, dividend payments or a change of address, should be directed, in the first instance, to the Registrar at Lloyds TSB Registrars Scotland, 117 Dundas Street, Edinburgh EH3 5ED. Correspondence should refer to National Express Group PLC and state clearly the registered name and address of the shareholder.

There is now a range of shareholder information available from the Registrars online. You can check your shareholding and find practical help on transferring shares or updating your details at www.shareview.co.uk.

Payment of dividends to mandated accounts

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

Amalgamation of shareholdings

If a shareholder has received more than one copy of this Annual Report there may be multiple accounts in that person's name on the share register. To rectify this and save the Company unnecessary expenditure, please write to the Registrar, giving details of the accounts concerned and instructions as to how they should be amalgamated.

Stock Exchange listings

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

Analysis of ordinary shareholdings at 10 March 2001	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	5,677	40	1,532	1
501 – 1,000	2,796	20	2,027	2
1,001 – 5,000	3,946	28	9,290	7
5,001 – 50,000	1,535	11	14,977	12
50,001 – 1,000,000	169	1	40,729	31
Over 1,000,000	23	–	61,225	47
	14,146	**100**	**129,780**	**100**
By investor type				
Individuals	12,167	86	24,082	19
Institutional investors	1,856	13	96,874	74
Other corporate investors	123	1	8,824	7
	14,146	**100**	**129,780**	**100**

National Express Group principal brands

www.nationalexpressgroup.com

Buses

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

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

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

Provides bus services throughout Eastern Belgium

Trains

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

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

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

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

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

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

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

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

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

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

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

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

Coaches

Operates coach services across the UK
www.gobycoach.com

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

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

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

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

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

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

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

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

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

USA

Student transportation

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

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

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

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

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

Public transit

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

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

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

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

Airports

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

Australia

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

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

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

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

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

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

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

Dividends and financial calendar

	Event	Date
Dividends	Final dividend record date	6 April 2001
	Final dividend payment date	4 May 2001
	Interim dividend record date	September 2001
	Interim dividend payment date	October 2001
	Final dividend record date	April 2002
	Final dividend payment date	May 2002
Financial calendar	Annual General Meeting	2 May 2001
	Interim results announced	September 2001
	Preliminary results announced	March 2002
	Annual Report circulated	April 2002
	Annual General Meeting	April/May 2002

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