



National
Express
Group

ANNUAL REPORT AND ACCOUNTS 2003

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DIRECTORS' REPORT

The Directors are pleased to present their Annual Report and the audited accounts for the year ended 31 December 2003.

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 14 to 33.

RESULTS AND DIVIDENDS

The profit on ordinary activities before tax for the year ended 31 December 2003 was £54.5m (2002: £85.6m loss) and a retained profit of £7.9m (2002: £137.7m loss) was transferred to reserves.

The Directors recommend a final net dividend of 17.5p per share which, together with the interim net dividend of 8.5p per share paid on 17 October 2003, gives a total net dividend for the year of 26.0p per share (2002: 24.5p). If approved by shareholders, the final dividend will be paid on 7 May 2004 to shareholders on the register at 13 April 2004.

DIRECTORS

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

Michael Davies
Phil White
Larry Durham (appointed 4 March 2003)
Barry Gibson
Sue Lyons
Ray O'Toole
David Ross
Tim Stevenson
Adam Walker (appointed 4 March 2003)

Michael Davies will retire at the 2004 Annual General Meeting as Chairman and as a director of the Company after 11 years service. David Ross and Phil White will retire by rotation at the Annual General Meeting and, being eligible, will offer themselves for re-election. Larry Durham resigned as a Director of the Company on 25 February 2004.

The names and brief biographies of the current Directors appear on pages 34 and 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 43 to 47.

EMPLOYMENT POLICIES

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

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

EMPLOYEE INVOLVEMENT

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

For the first time, an externally conducted Employee Survey was carried out throughout the Group's UK companies in October 2003. The survey gave an opportunity to understand what employees think and to learn from their working experiences. The results of the survey will form the basis of action plans to address issues raised within each business.

ENVIRONMENTAL POLICY

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

CHARITABLE AND POLITICAL CONTRIBUTIONS

Charitable donations made during the year totalled £210,000. It is the Group's policy not to make political contributions and accordingly none were made in the year.

DIRECTORS' REPORT

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 2003 were 27 days (2002: 35 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 24 February 2004:

Standard Life Investments Limited	6,881,176	5.028%*
Barclays Bank PLC	6,849,160	5.010%*
WMT Employees Shareholding Trustees Limited	6,660,378	4.960%*
Legal & General Group Plc	5,520,755	4.030%*

* Percentages as at date of notification

ANNUAL GENERAL MEETING

The Annual General Meeting will be held on 5 May 2004. Shareholders will be asked to approve three items of special business, details of which are given in the Notice of Meeting accompanying this report.

PURCHASE OF OWN SHARES

The Company was granted authority at the Annual General Meeting in 2003 to purchase its own shares up to an aggregate value of 10% of the issued nominal capital. This authority expires at this year's Annual General Meeting and a resolution will be proposed for its renewal.

GOING CONCERN

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

By order of the Board

Tony McDonald

Secretary

26 February 2004



REPORT OF THE AUDITORS

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

We have audited the Group's accounts for the year ended 31 December 2003 which comprise the Group profit and loss account, Group balance sheet, Company balance sheet, Group statement of cash flows, Group statement of total recognised gains and losses, Reconciliation of movements in Group equity shareholders' funds and the related notes 1 to 33. These accounts have been prepared on the basis of the accounting policies set out therein. We have also audited the information in the Report on Directors' remuneration that is described as having been audited.

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

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

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

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

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

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

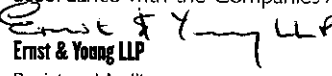
BASIS OF AUDIT OPINION

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

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

OPINION

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2003 and of the profit of the Group for the year then ended; and the financial statements and the part of the Report on Directors' remuneration to be audited have been properly prepared in accordance with the Companies Act 1985.


Ernst & Young LLP
Registered Auditor
London

26 February 2004

GROUP PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2003

	Note	Total before goodwill & exceptional items 2003 £m	Goodwill & exceptional items 2003 £m	Total 2003 £m	Total before goodwill & exceptional items 2002 £m	Goodwill & exceptional items 2002 £m	Total 2002 £m
Turnover							
– continuing operations		2,566.1	–	2,566.1	2,412.4	–	2,412.4
– discontinued operations		–	–	–	159.9	–	159.9
Turnover	3	2,566.1	–	2,566.1	2,572.3	–	2,572.3
Other operating income	4	10.9	–	10.9	10.8	–	10.8
Other operating costs before goodwill and exceptional items		(2,442.4)	–	(2,442.4)	(2,452.2)	–	(2,452.2)
Goodwill amortisation and impairment	3	–	(45.7)	(45.7)	–	(58.7)	(58.7)
Other exceptional items	3	–	(5.3)	(5.3)	–	(5.0)	(5.0)
Total operating costs	5	(2,442.4)	(51.0)	(2,493.4)	(2,452.2)	(63.7)	(2,515.9)
Group operating profit		134.6	(51.0)	83.6	130.9	(63.7)	67.2
– continuing operations		134.6	(51.0)	83.6	130.8	(63.7)	67.1
– discontinued operations		–	–	–	0.1	–	0.1
Group operating profit	3	134.6	(51.0)	83.6	130.9	(63.7)	67.2
Share of operating losses of associates	3	(4.1)	–	(4.1)	(4.0)	(2.6)	(6.6)
Total operating profit		130.5	(51.0)	79.5	126.9	(66.3)	60.6
Loss on closure of businesses	16	–	–	–	–	(126.1)	(126.1)
Profit/(loss) on ordinary activities before interest		130.5	(51.0)	79.5	126.9	(192.4)	(65.5)
Net interest payable	8	(25.0)	–	(25.0)	(20.1)	–	(20.1)
Profit/(loss) on ordinary activities before taxation		105.5	(51.0)	54.5	106.8	(192.4)	(85.6)
Tax on profit/(loss) on ordinary activities	9	(24.3)	11.8	(12.5)	(24.6)	4.3	(20.3)
Profit/(loss) after tax		81.2	(39.2)	42.0	82.2	(188.1)	(105.9)
Minority interest		1.0	–	1.0	0.6	–	0.6
Profit/(loss) for the financial year		82.2	(39.2)	43.0	82.8	(188.1)	(105.3)
Dividends	11	(35.1)	–	(35.1)	(32.4)	–	(32.4)
Retained profit/(loss)		47.1	(39.2)	7.9	50.4	(188.1)	(137.7)
Basic earnings/(loss) per share	12			32.1p			(80.0p)
Normalised basic earnings per share	12	61.4p			62.9p		
Diluted earnings/(loss) per share	12			31.2p			(80.0p)
Normalised diluted earnings per share	12	59.7p			60.3p		

BALANCE SHEETS

At 31 December 2003

	Note	Group		Company	
		2003 £m	2002 £m	2003 £m	2002 £m
Fixed assets					
Intangible assets	13	404.6	467.7	–	–
Tangible assets	14	405.6	420.5	2.3	2.7
Investments and interests in associates	15	12.5	25.3	593.3	472.5
		822.7	913.5	595.6	475.2
Current assets					
Stock	17	17.3	19.7	–	–
Debtors	18	343.7	359.8	928.4	727.6
Cash at bank and in hand	19	97.0	93.7	2.5	34.1
		458.0	473.2	930.9	761.7
Creditors: amounts falling due within one year	20	(601.0)	(659.7)	(874.3)	(565.2)
Net current (liabilities)/assets		(143.0)	(186.5)	56.6	196.5
Total assets less current liabilities		679.7	727.0	652.2	671.7
Creditors: amounts falling due after more than one year	21	(347.3)	(360.0)	(304.6)	(308.0)
Provisions for liabilities and charges	23	(58.8)	(104.4)	(1.5)	(51.5)
Net assets		273.6	262.6	346.1	312.2
Capital and reserves					
Called up share capital	25	6.8	6.7	6.8	6.7
Share premium account	26	45.1	44.7	45.1	44.7
Share capital to be issued	26	0.1	0.2	0.1	0.2
Merger reserve	26	15.4	15.4	–	–
Capital reserve	26	–	0.4	26.4	26.4
Revaluation reserve	26	0.8	0.8	–	–
Profit and loss account	26	200.7	189.6	267.7	234.2
Equity shareholders' funds		268.9	257.8	346.1	312.2
Equity minority interest		4.7	4.8	–	–
		273.6	262.6	346.1	312.2

P M White

A C Walker

P M White Chief Executive

A C Walker Finance Director

26 February 2004

GROUP STATEMENT OF CASH FLOWS

For the year ended 31 December 2003

	Note	2003 £m	2002 £m
Net cash inflow from operating activities	32(a)	182.8	175.5
Interest received		7.6	7.0
Interest paid		(26.7)	(24.1)
Interest element of finance lease rentals		(3.9)	(1.9)
Return on investments and servicing of finance		(23.0)	(19.0)
UK corporation tax paid		(22.2)	(9.4)
Overseas tax paid		(0.1)	(2.4)
Taxation		(22.3)	(11.8)
Payments to acquire tangible assets		(48.0)	(91.6)
Receipts from sale of tangible assets		12.9	7.4
Receipts from sales of/(payments to acquire) shares to satisfy employee share scheme		2.1	(2.7)
Receipts/(payments) in respect of other investments		8.1	(1.2)
Capital expenditure and financial investment		(24.9)	(88.1)
Receipts from the sale of businesses	16	0.8	2.9
Cash disposed in businesses closed		–	(3.3)
Payments in respect of businesses closed	16	(49.8)	–
Payments to acquire businesses	16	(4.7)	(74.9)
Cash acquired in businesses purchased	16	–	2.2
Deferred consideration for businesses acquired		(0.4)	(2.4)
Acquisitions and disposals		(54.1)	(75.5)
Equity dividends paid		(33.2)	(29.9)
Cash inflow/(outflow) before financing activities		25.3	(48.8)
Management of liquid resources			
Cash withdrawn from/(paid in to) short term deposits	32(c)	14.2	(50.4)
Financing			
Issue of share capital		0.4	1.0
Cash (outflow)/inflow from lease financing	32(c)	(13.8)	20.3
Repayment of loan notes	32(c)	(0.7)	(0.9)
Loans advanced		–	32.0
Loans repaid	32(c)	(26.1)	–
Net cash (outflow)/inflow from financing		(40.2)	52.4
Decrease in cash	32(b)	(0.7)	(46.8)

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31 December 2003

	Note	2003 £m	2002 £m
Profit/(loss) for the financial year		43.0	(105.3)
Exchange differences on foreign currency net investments	26	2.8	(2.7)
Total recognised gains and losses		45.8	(108.0)

NOTE OF GROUP HISTORICAL COST PROFITS AND LOSSES

For the year ended 31 December 2003

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 2003 and 31 December 2002.

RECONCILIATION OF MOVEMENTS IN GROUP EQUITY SHAREHOLDERS' FUNDS

For the year ended 31 December 2003

	Note	2003 £m	2002 £m
Profit/(loss) for the financial year		43.0	(105.3)
Dividends	11	(35.1)	(32.4)
Exchange differences on foreign currency net investments	26	2.8	(2.7)
New share capital issued for cash		0.4	1.0
Goodwill realised		–	0.4
Net addition/(reduction) to shareholders' funds		11.1	(139.0)
Equity shareholders' funds at 1 January		257.8	396.8
Equity shareholders' funds at 31 December		268.9	257.8

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 55).

Basis of consolidation

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

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

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

Turnover

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

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

Goodwill

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

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

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

Leased assets

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

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

NOTES TO THE ACCOUNTS

1 ACCOUNTING POLICIES (continued)

Stock

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

Investment properties

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

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

Tangible fixed assets

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

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

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

Government Grants

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

Pension costs

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

Deferred tax

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

Pre-contract costs

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

NOTES TO THE ACCOUNTS

1 ACCOUNTING POLICIES (continued)

Insurance

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

Foreign currencies

Group

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

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

Company

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

Derivatives and other financial instruments

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

2 EXCHANGE RATES

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

	2003 Closing rate	2003 Average rate	2002 Closing rate	2002 Average rate
US dollar	1.79	1.64	1.61	1.51
Australian dollar	2.37	2.53	2.86	2.78
Canadian dollar	2.32	2.31	2.54	2.47

If the results for the year ended 31 December 2002 were retranslated at the average exchange rates for the year ended 31 December 2003, North America would have achieved an operating profit before goodwill and exceptional items of £30.0m on turnover of £375.6m, and Australian Bus an operating profit before goodwill and exceptional items of £2.5m on turnover of £63.6m.

NOTES TO THE ACCOUNTS

3 TURNOVER AND SEGMENTAL ANALYSIS

Due to the nature of the Group's businesses, the origin and destination of turnover is the same. During the year, franchise agreement receipts from the SRA and PTEs amounted to £684.0m (2002: £634.9m) in UK Trains. In 2002, franchise agreement receipts totalling £62.5m were received from the Victoria Department of Public Transport in Australia Trains.

Analysis by class of business	Turnover		Operating profit before goodwill and exceptional items		Net assets/(liabilities)	
	2003 £m	2002 £m	2003 £m	2002 £m	2003 £m	2002 £m
UK Bus	211.9	208.7	47.2	49.8	46.3	34.7
UK Trains	1,702.4	1,553.2	32.0	33.9	(8.0)	3.3
UK Coach	186.6	184.5	15.0	12.2	24.8	28.1
UK operations	2,100.9	1,946.4	94.2	95.9	63.1	66.1
North American Bus	400.1	408.0	37.0	32.6	449.9	521.5
Australian Bus	65.1	58.0	3.4	2.3	58.9	48.9
Continuing operations	2,566.1	2,412.4	134.6	130.8	571.9	636.5
Discontinued operations – Australia Trains	–	159.9	–	0.1	–	(49.8)
	2,566.1	2,572.3	134.6	130.9	571.9	586.7
Goodwill amortisation			(45.7)	(45.2)		
Goodwill impairment			–	(13.5)		
Exceptional items (see table below)			(5.3)	(5.0)		
Group operating profit			83.6	67.2		
Share of operating losses of associates			(4.1)	(6.6)		
Total operating profit			79.5	60.6		
Loss on closure of businesses			–	(126.1)		
Profit/(loss) on ordinary activities before interest			79.5	(65.5)		
Unallocated net liabilities					(303.0)	(328.9)
					268.9	257.8
Equity minority interest					4.7	4.8
Net assets					273.6	262.6

Goodwill amortisation of £45.7m (2002: £45.2m) is analysed as UK Trains £24.3m (2002: £23.2m), UK Coach £0.9m (2002: £0.8m), North American Bus £19.4m (2002: £19.4m) and Australian Bus £1.1m (2002: £1.8m). The goodwill impairment charge for 2002 relates to Australian Bus.

Exceptional items are included within external charges in note 5 and are analysed as follows:

	2003 £m	2002 £m
Pre-contract bid costs : UK Trains	5.3	5.0

Included in the 2002 share of operating losses of associates of £6.6m is a £2.6m exceptional loss which comprises the Group's share of an impairment charge in the accounts for Altram LRT Limited following a review of the carrying value of its fixed assets.

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

NOTES TO THE ACCOUNTS

4 OTHER OPERATING INCOME

	2003 £m	2002 £m
Rent receivable	10.9	10.8

5 OPERATING COSTS

	2003 £m	2002 £m
Materials and consumables	124.1	102.2
Staff costs	842.9	853.5
Depreciation		
– Owned assets	56.3	63.6
– Leased assets	8.4	7.9
Amortisation of fixed asset grants	(3.0)	(2.4)
Operating lease charges		
Rolling stock: capital element	167.9	157.2
Rolling stock: non-capital element	81.7	75.4
Public service vehicles	6.5	4.3
Other	12.5	21.6
– Plant and equipment	268.6	258.5
Fixed track access	456.7	434.2
Other	74.3	71.4
– Land and buildings	531.0	505.6
External charges	619.4	668.3
Operating costs before goodwill amortisation	2,447.7	2,457.2
Goodwill amortisation	45.7	45.2
Goodwill impairment	–	13.5
Total operating costs	2,493.4	2,515.9

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

Operating costs relating to discontinued operations amount to £nil (2002: £159.8m), including materials and consumables £nil (2002: £1.1m), staff costs £nil (2002: £60.7m), depreciation £nil (2002: £10.8m), amortisation of fixed asset grants £nil (2002: £1.1m), operating lease charges £nil (2002: £13.8m) and external charges £nil (2002: £73.4m).

Operating costs include £14.5m (2002: £14.8m) of franchise agreement payments to the SRA.

Included within external charges are fees paid to our auditors in respect of audit services of £0.7m (2002: £0.7m). In addition, external charges include fees paid to our auditors in respect of non-audit services of £0.3m (2002: £0.8m) in the UK and £0.4m (2002: £0.5m) overseas; £0.6m (2002: £1.0m) of these non-audit fees were in respect of tax services. A further £0.2m (2002: £0.4m) was capitalised with respect to acquisitions.

NOTES TO THE ACCOUNTS

6 STAFF COSTS

	2003 £m	2002 £m
Wages and salaries	756.3	780.0
Social security costs	59.5	57.4
Pension costs (see note 29)	27.1	16.1
	842.9	853.5

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

	2003	2002
Managerial and administrative	3,964	4,103
Operational	40,606	41,871
	44,570	45,974

7 DIRECTORS' EMOLUMENTS

	2003 £m	2002 £m
Fees	0.3	0.3
Basic salaries	1.2	0.9
Benefits	0.4	0.3
Performance related bonuses	0.9	0.2
Pensions contributions	0.2	0.1
Termination of employment	–	0.3
	3.0	2.1

More detailed information concerning Directors' emoluments, shareholdings and options is shown in the Report on Directors' Remuneration on pages 43 to 47.

8 NET INTEREST PAYABLE

	2003 £m	2002 £m
Interest payable and similar charges:		
Bank loans and overdrafts	(26.7)	(20.1)
Other loans	(0.9)	(3.1)
Finance lease charges	(3.5)	(3.9)
	(31.1)	(27.1)
Interest receivable	7.6	7.0
Unwinding of discount on insurance provisions (see note 23)	(1.5)	–
Net interest payable	(25.0)	(20.1)

NOTES TO THE ACCOUNTS

9 TAXATION

(a) Analysis of taxation charge in the year

	2003 £m	2002 £m
Current taxation:		
UK corporation tax	22.9	27.5
Prior years – UK	0.4	–
	23.3	27.5
Overseas taxation	5.1	3.4
	28.4	30.9
Tax relief on goodwill and exceptional items:		
UK corporation tax: current	(1.6)	(1.4)
UK corporation tax: prior year adjustment	(6.0)	–
Overseas	(4.2)	(2.9)
Total current taxation	16.6	26.6
Deferred taxation (see note 23):		
Origination and reversal of timing differences	(4.1)	(6.3)
Tax on profit/(loss) on ordinary activities	12.5	20.3

The exceptional prior year adjustment consists of one off credits arising from a review of Group tax liabilities as a result of agreeing prior years' computations.

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

	2003 £m	2002 £m
Profit/(loss) on ordinary activities before taxation	54.5	(85.6)
Notional charge/(credit) at UK corporation tax rate of 30%	16.4	(25.7)
Non deductible exceptional expenditure	–	37.9
Non deductible goodwill amortisation	10.5	15.1
Utilisation of unrecognised tax losses	(1.2)	(0.3)
Losses not relieviable	0.5	–
Effect of overseas tax rates	–	(2.1)
Prior year adjustments	(5.6)	–
Capital allowances in excess of depreciation	(3.0)	(2.6)
Effect of short term timing differences	(0.8)	4.0
Permanent disallowables	(0.2)	0.3
Current tax charge for the year	16.6	26.6

(c) Factors that may affect future tax charges

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

No provision has been made for deferred tax on gains recognised on revaluing property or on the sale of property where potentially taxable gains have been rolled over into replacement assets. The total amount unprovided is £5.4m (2002: £5.4m). Such tax would become payable only if the property was sold without it being possible to claim further rollover relief and this is not expected to occur in the foreseeable future.

In the overseas subsidiaries, the potential deferred tax assets exceed the deferred tax liabilities. There is no recognition of the deferred tax asset in relation to the excess on the grounds that there is insufficient evidence to determine that it is recoverable. Deferred tax assets that the Group has not recognised in the accounts amount to £24.8m (2002: £23.6m).

NOTES TO THE ACCOUNTS

10 PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT COMPANY

The profit attributable to shareholders of the parent company was £77.3m (2002: £89.8m loss).

11 DIVIDENDS

	2003 £m	2002 £m
Ordinary interim paid of 8.5p per share (2002: 8.1p)	11.5	10.7
Ordinary final proposed of 17.5p per share (2002: 16.4p)	23.6	21.7
	35.1	32.4

12 EARNINGS PER SHARE

	2003	2002
Basic earnings/(loss) per share	32.1p	(80.0p)
Normalised basic earnings per share	61.4p	62.9p
Diluted earnings/(loss) per share	31.2p	(80.0p)
Normalised diluted earnings per share	59.7p	60.3p

Basic earnings/(loss) per share is calculated by dividing the profit for the financial year of £43.0m (2002: £105.3m loss) by the weighted average number of ordinary shares in issue in the year, excluding those held by employees' share ownership trusts which are treated as cancelled.

For diluted earnings/(loss) per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. These represent share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year.

For 2002, the weighted average number of ordinary shares for the purpose of calculating the diluted loss per share is identical to that used for the basic loss per share. This is because the adjustment for dilutive potential ordinary shares would have the effect of reducing the loss per ordinary share and is therefore not dilutive under the terms of FRS 14, "Earnings per share".

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

	Number of shares 2003	Number of shares 2002
Basic weighted average shares	133,765,928	131,602,152
Adjustment for dilutive potential ordinary shares	3,951,354	5,622,274
Diluted weighted average shares	137,717,282	137,224,426

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

The normalised basic and normalised diluted earnings per share for the year ended 31 December 2002 exclude the earnings from discontinued operations.

Normalised profits for the financial year are:

	2003 £m	2002 £m
Profit/(loss) for the financial year	43.0	(105.3)
Earnings from discontinued operations	–	(0.1)
Goodwill amortisation (including impairment of £13.5m in 2002)	45.7	58.7
Exceptional operating costs	5.3	5.0
Exceptional loss of associate (see note 3)	–	2.6
Loss on closure of businesses	–	126.1
Tax relief on goodwill and exceptional items	(11.8)	(4.3)
Normalised profits for the financial year	82.2	82.7

NOTES TO THE ACCOUNTS

13 INTANGIBLE ASSETS

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

Group	Goodwill £m
Cost:	
At 1 January 2003	593.3
Additions	3.6
Exchange adjustment	(25.6)
At 31 December 2003	571.3
Amortisation:	
At 1 January 2003	125.6
Charge for the year	45.7
Exchange adjustments	(4.6)
At 31 December 2003	166.7
Net book value:	
At 31 December 2003	404.6
At 31 December 2002	467.7

14 TANGIBLE ASSETS

Group	Freehold land and buildings £m	Long leasehold property £m	Short leasehold property £m	Infra- structure £m	Public service vehicles £m	Plant and equipment £m	Total £m
Cost or valuation:							
At 1 January 2003	44.4	48.5	31.0	1.7	318.4	94.2	538.2
Additions	1.0	0.7	0.5	0.5	38.2	23.7	64.6
Acquisitions of businesses	–	–	–	–	1.1	–	1.1
Disposals	(1.7)	(0.1)	(0.1)	–	(15.1)	(7.9)	(24.9)
Disposal of businesses	–	–	–	–	–	(0.4)	(0.4)
Exchange adjustments	1.6	(2.5)	(0.3)	(0.4)	(6.8)	(0.5)	(8.9)
At 31 December 2003	45.3	46.6	31.1	1.8	335.8	109.1	569.7
Depreciation:							
At 1 January 2003	4.3	2.9	10.3	0.2	62.0	38.0	117.7
Charge for the year	1.0	1.4	6.0	0.1	35.6	20.6	64.7
Disposals	(0.3)	–	(0.1)	–	(9.4)	(3.7)	(13.5)
Disposal of businesses	–	–	–	–	–	(0.4)	(0.4)
Exchange adjustments	0.4	(0.5)	(0.1)	–	(4.0)	(0.2)	(4.4)
At 31 December 2003	5.4	3.8	16.1	0.3	84.2	54.3	164.1
Net book value:							
At 31 December 2003	39.9	42.8	15.0	1.5	251.6	54.8	405.6
At 31 December 2002	40.1	45.6	20.7	1.5	256.4	56.2	420.5

The net book value of freehold land and buildings and long leasehold property includes £9.1m (2002: £9.1m) in respect of investment properties and £7.3m (2002: £7.5m) in respect of land which is not depreciated.

The Directors have reviewed the valuation of the Group's investment properties at 31 December 2003 and are of the opinion that the open market value of these properties at 31 December 2003 is fairly stated in these accounts.

NOTES TO THE ACCOUNTS

14 TANGIBLE ASSETS (continued)

Particulars relating to revalued assets are as follows:

	2003 £m	2002 £m
Land and buildings valuation at end of year	21.3	21.3
Historical cost of revalued assets	23.2	23.2
Aggregate depreciation based thereon	(2.7)	(2.7)
Historical cost net book value	20.5	20.5

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

	2003 £m	2002 £m
Public service vehicles	56.9	54.0
Plant and equipment	1.5	1.4
Net book value	58.4	55.4

Company	Short leasehold property £m	Plant and equipment £m	Total £m
Cost:			
At 1 January 2003	0.8	3.1	3.9
Additions	0.1	0.3	0.4
Disposals	–	(0.1)	(0.1)
At 31 December 2003	0.9	3.3	4.2
Depreciation:			
At 1 January 2003	0.2	1.0	1.2
Charge for the year	0.1	0.7	0.8
Disposals	–	(0.1)	(0.1)
At 31 December 2003	0.3	1.6	1.9
Net book value:			
At 31 December 2003	0.6	1.7	2.3
At 31 December 2002	0.6	2.1	2.7

NOTES TO THE ACCOUNTS

15 INVESTMENTS AND INTERESTS IN ASSOCIATES

Group	Loan to associates £m	Interests in associates £m	Other investments £m	Own shares £m	Total £m
Cost or valuation:					
At 1 January 2003	4.5	1.4	20.9	7.2	34.0
Additions	–	–	–	1.6	1.6
Redemption	–	–	(8.1)	–	(8.1)
Disposals	–	–	–	(3.3)	(3.3)
Capitalisation of loan	(4.2)	4.2	–	–	–
At 31 December 2003	0.3	5.6	12.8	5.5	24.2
Share of post-acquisition reserves:					
At 1 January 2003	–	(1.4)	–	–	(1.4)
Transfer from provisions (see note 23)	–	(4.2)	–	–	(4.2)
At 31 December 2003	–	(5.6)	–	–	(5.6)
Provisions:					
At 1 January 2003	–	–	(5.8)	(1.5)	(7.3)
Disposals	–	–	–	1.2	1.2
At 31 December 2003	–	–	(5.8)	(0.3)	(6.1)
Net book value:					
At 31 December 2003	0.3	–	7.0	5.2	12.5
At 31 December 2002	4.5	–	15.1	5.7	25.3

The Group's share of associates' post-acquisition reserves in excess of the cost of investment are included within provisions (see note 23).

(a) Interests in associates are as follows:

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

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

(b) The principal other investments are as follows:

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

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

(c) Own shares are as follows:

Ordinary shares in the Company have been purchased by the Trustees of the National Express Employee Benefit Trust (the "Trust") and the Qualifying Employee Share Ownership Trust (the "QUEST") using an interest free loan advanced by the Company. The shares are held to satisfy potential awards or options granted under a number of the Company's share schemes.

In accordance with UITF Abstract 13 "Accounting for ESOP Trusts", the value of shares within the Trust and QUEST have been recognised as an investment in own shares. The shares are written down to their residual value over a period ending on the first date the option can be exercised.

Details of own shares held are given in note 25.

NOTES TO THE ACCOUNTS

15 INVESTMENTS AND INTERESTS IN ASSOCIATES (continued)

Company	Investments in subsidiary undertakings £m	Other investments £m	Own shares £m	Total £m
Cost or valuation:				
At 1 January 2003	782.0	20.9	7.2	810.1
Additions	270.1	–	1.6	271.7
Redemption	–	(8.1)	–	(8.1)
Disposals	(117.4)	–	(3.3)	(120.7)
Exchange adjustments	(3.2)	–	–	(3.2)
At 31 December 2003	931.5	12.8	5.5	949.8
Provisions:				
At 1 January 2003	(330.3)	(5.8)	(1.5)	(337.6)
Provisions for impairment	(21.0)	–	–	(21.0)
Disposals	0.9	–	1.2	2.1
At 31 December 2003	(350.4)	(5.8)	(0.3)	(356.5)
Net book value:				
At 31 December 2003	581.1	7.0	5.2	593.3
At 31 December 2002	451.7	15.1	5.7	472.5

The carrying value of the investments in subsidiary undertakings has been reviewed at 31 December 2003 by reference to their value in use to the Company. The review has resulted in an impairment of £21.0m to investments in subsidiary undertakings held by the Company. This particular value in use was calculated using future expected cash flow projections, discounted at 7% on a pre tax basis, and is not intended to reflect a realisable value on disposal.

NOTES TO THE ACCOUNTS

15 INVESTMENTS AND INTERESTS IN ASSOCIATES (continued)

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

National Express Group PLC is the beneficial owner of all the equity share capital, either itself or through subsidiary undertakings, of the companies below, with the exception of Glenorie Bus Company Pty Limited and Westbus Pty Limited in which it has a 57% (2002: 57%) shareholding.

Incorporated in England and Wales

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

Incorporated in Scotland

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

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

Incorporated in Canada

Stock Transportation Limited	Operation of school bus services
Shantz Enterprises Inc.	Operation of school bus services

Incorporated in Australia

Glenorie Bus Company Pty Limited	Operation of bus services
National Bus Company (Queensland) Pty Limited	Operation of bus services
National Bus Company (Victoria) Pty Limited	Operation of bus services
Transport Management Group Pty Limited	Operation of bus services
Westbus Pty Limited	Operation of bus services

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

NOTES TO THE ACCOUNTS

16 DISPOSALS AND ACQUISITIONS DURING THE YEAR

(a) Disposals

The Multisystems Consultancy Division was sold on 25 July 2003 for cash consideration of £0.8m and resulted in no gain or loss. The turnover, operating result and cashflow of the Multisystems business sold are not disclosed as the amounts involved are not material.

The Group withdrew from the Australian Trains division in 2002 and the companies within the division were put into administration and receivership on 23 December 2002 resulting in a loss on disposal of £125.9m. Cash payments of £49.8m to indemnify the providers of the performance bonds and to cover other exits costs were accrued in 2002, and paid in 2003. Eurolines Nederland BV and Multisystems IT Division were sold in 2002 for net proceeds of £2.9m, resulting in a loss of £0.2m.

(b) Acquisitions

The Group acquired the entire share capital of Shantz Enterprises Inc., a school bus operator in North America, on 14 February 2003.

Net assets at date of acquisition:

	Total £m
Tangible fixed assets	1.1
Net assets acquired	1.1
Goodwill on acquisition	3.6
Total consideration	4.7
Less: net cash acquired	—
Net cash outflow	4.7

During the year ended 31 December 2002, the Group acquired the entire share capital of 1388194 Ontario Limited, 1388195 Ontario Limited and Stock Holdings Limited, the holding companies of Stock Transportation Limited, a school bus operator in North America. No revisions to the fair value adjustments made in the year ended 31 December 2002 have been made in the current year.

17 STOCK

Group	2003 £m	2002 £m
Raw materials and consumables	17.3	19.7

NOTES TO THE ACCOUNTS

18 DEBTORS

	Group		Company	
	2003 £m	2002 £m	2003 £m	2002 £m
Trade debtors	175.3	192.8	0.3	0.1
Amounts due from subsidiary undertakings	–	–	894.9	711.5
Amounts due from associates	9.2	4.7	–	1.0
Corporation tax recoverable	–	–	13.5	–
Other debtors	75.4	78.1	18.2	14.7
Prepayments and accrued income	83.8	84.2	1.5	0.3
	343.7	359.8	928.4	727.6

Included within other debtors of the Group is £2.8m (2002: £4.7m) and within other debtors of the Company is £nil (2002: £2.5m) which is recoverable after more than one year. Included within prepayments of the Group is £5.9m (2002: £1.7m) and within prepayments of the Company is £0.8m (2002: £nil) which is recoverable after more than one year. £5.2m (2002: £1.4m) of the Group's prepayments recoverable after more than one year are in respect of pensions.

19 CASH AT BANK AND IN HAND

	Group		Company	
	2003 £m	2002 £m	2003 £m	2002 £m
Cash	33.2	16.8	–	–
Overnight deposits	2.3	19.5	–	–
Other short term deposits	61.5	57.4	2.5	34.1
	97.0	93.7	2.5	34.1

Included in cash at bank and in hand are restricted balances of £62.7m (2002: £35.0m) held by the train companies which cannot be distributed by means of a dividend or loaned to other Group companies. Within the restricted balances is £18.7m (2002: £nil) of cash deposits secured as a bond in respect of future rolling stock maintenance at ScotRail Railways Limited.

20 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2003 £m	2002 £m	2003 £m	2002 £m
Loan notes	8.4	9.1	0.9	1.3
Bank loans	19.9	53.2	19.9	53.2
Bank overdrafts	0.2	–	36.1	158.5
Trade creditors	160.1	201.6	0.6	2.2
Amounts owed to associates	0.2	0.1	–	–
Amounts owed to subsidiary undertakings	–	–	776.9	314.5
Finance lease obligations	11.6	10.0	0.1	–
Corporation tax payable	18.4	25.3	0.4	–
Social security and other taxation	16.4	21.7	–	–
Accruals and deferred income	169.4	160.3	10.6	8.3
Other creditors	172.8	156.7	5.2	5.5
Proposed dividend	23.6	21.7	23.6	21.7
	601.0	659.7	874.3	565.2

Included in other creditors is £18.7m (2002: £nil) of cash deposits secured as a bond in respect of future rolling stock maintenance at ScotRail Railways Limited.

NOTES TO THE ACCOUNTS

21 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group		Company	
	2003 £m	2002 £m	2003 £m	2002 £m
Bank loans	304.5	308.0	304.5	308.0
Finance lease obligations	41.5	48.0	0.1	–
Other creditors	1.3	4.0	–	–
	347.3	360.0	304.6	308.0

22 NET BORROWINGS

	Group		Company	
	2003 £m	2002 £m	2003 £m	2002 £m
Due within one year				
Loan notes	8.4	9.1	0.9	1.3
Bank loans	19.9	53.2	19.9	53.2
Bank overdrafts	0.2	–	36.1	158.5
Finance lease obligations	11.6	10.0	0.1	–
	40.1	72.3	57.0	213.0
Due within one to two years				
Bank loans	–	308.0	–	308.0
Finance lease obligations	12.2	11.5	–	–
	12.2	319.5	–	308.0
Due within two to five years				
Bank loans	304.5	–	304.5	–
Finance lease obligations	27.7	31.3	0.1	–
	332.2	31.3	304.6	–
Due by instalment after five years				
Finance lease obligations	1.6	5.2	–	–
Total borrowings	386.1	428.3	361.6	521.0
Cash at bank and in hand (see note 19)	(97.0)	(93.7)	(2.5)	(34.1)
Net borrowings	289.1	334.6	359.1	486.9

Secured borrowings within the Group (representing finance leases) total £53.1m (2002: £58.0m).

NOTES TO THE ACCOUNTS

23 PROVISIONS FOR LIABILITIES AND CHARGES

Group	Unfunded pension provision (a) £m	Insurance claims (b) £m	Deferred tax (c) £m	Associates (d) £m	Other (e) £m	Total £m
At 1 January 2003	0.7	35.1	10.7	8.5	49.4	104.4
Provided in the year	0.2	31.7	4.7	4.1	–	40.7
Utilised in the year	–	(22.9)	–	–	(49.0)	(71.9)
Unwinding of discount	–	1.5	–	–	–	1.5
Transfer to investments (see note 15)	–	–	–	(4.2)	–	(4.2)
Released in the year	–	–	(8.8)	–	(0.4)	(9.2)
Exchange difference	(0.1)	(2.6)	0.2	–	–	(2.5)
At 31 December 2003	0.8	42.8	6.8	8.4	–	58.8

Company	Insurance claims (b) £m	Deferred tax (c) £m	Other (e) £m	Total £m
At 1 January 2003	3.4	0.1	48.0	51.5
Provided in the year	0.2	–	–	0.2
Utilised in the year	(2.2)	–	(48.0)	(50.2)
At 31 December 2003	1.4	0.1	–	1.5

- (a) The unfunded pension provision relates to commuted pensions not provided within the pension schemes, which will be paid out over 15 to 20 years.
- (b) The insurance claims provision arises from estimated exposures at the year end, the majority of which will be utilised in the next six years, and principally comprises provisions for existing claims arising in the UK and North America.
- (c) See note 24 for further details on deferred tax.
- (d) The interests in net liabilities of associates comprises £0.8m (2002: £4.4m) for Altram LRT Limited and £7.6m (2002: £4.1m) for Inter-Capital and Regional Rail Limited. See note 15 for more details.
- (e) Within other provisions at 1 January 2003 was £48.0m which related to the settlement of the performance bonds on the exit of the Australia Trains business at the end of 2002. They were settled in the first half of 2003.

24 DEFERRED TAXATION

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

	Group		Company	
	2003 £m	2002 £m	2003 £m	2002 £m
Accelerated capital allowances	31.4	36.7	0.1	0.1
Other timing differences	(14.1)	(15.5)	–	–
Tax effect of losses carried forward	(10.5)	(10.5)	–	–
Net liability	6.8	10.7	0.1	0.1

25 CALLED-UP SHARE CAPITAL

	2003 £m	2002 £m
At 31 December:		
Authorised:		
146,650,000 (2002: 146,650,000) ordinary shares of 5p each	7.3	7.3
Issued called-up and fully paid:		
136,850,910 (2002: 134,435,351) ordinary shares of 5p each	6.8	6.7
Movement in ordinary shares during the year		
	£m	Number of shares
At 1 January 2003	6.7	134,435,351
Exercise of share options	–	84,609
West Midlands Travel Limited ("WMT") appropriation	0.1	2,330,950
At 31 December 2003	6.8	136,850,910

NOTES TO THE ACCOUNTS

25 CALLED-UP SHARE CAPITAL (continued)

(a) Option schemes

At 31 December 2003 options to purchase ordinary shares had been granted to and not exercised by participants of National Express Group PLC ("NX") share option schemes as follows:

	Number of shares 2003	Number of shares 2002
Executive Share Option Scheme	5,566,966	4,423,519
Savings Related Share Option Scheme	2,074,985	3,905,839
WMT Share Option Scheme 1991 (holders of WMT options who accepted the NX Replacement Option Offer)	1,620	3,240
WMT Long Service Option Scheme (available to WMT employees who served 25 years)	594,914	564,390

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

At the year end, the Trust held 1,765,419 shares (2002: 1,776,911 shares) on behalf of two NX share schemes. The market value of these shares at that date was £10.8m (2002: £7.1m). The dividends payable on these shares have been waived. At 31 December 2003, the shares held under these schemes were as follows:

	Number of shares 2003	Number of shares 2002
WMT Long Service Option Scheme	619,873	630,807
Savings Related Share Option Scheme	1,145,546	1,146,104

Details of the exercise prices and conditions of exercise of NX option schemes are contained in the Report on Directors' Remuneration on pages 43 to 47.

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

The APSS and SIP exist for the benefit of WMT employees. The Trustee of the APSS and SIP has the right to acquire WMT shares and to convert them into NX shares for appropriation to individual beneficiaries over the remaining life of the scheme. These rights have been accounted for as part of the consideration paid for WMT in 1995 and are dealt with in the share capital to be issued reserve. At the end of the year there were 1,999,003 (2002: 4,329,953) NX shares held for the benefit of the Trustee which remained unissued. It is anticipated that these shares will be fully issued by the end of 2004. Dividends on shares held in the SIP forfeited shares account are waived.

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

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

At the year end the QUEST held 90,849 shares (2002: 551,543 shares) on behalf of NX share schemes. The market value of these shares at that date was £0.6m (2002: £2.2m). During the year, options over 460,694 (2002: 399,653) shares were exercised by employees. All rights to dividends on the shares held by the QUEST have been waived. The trustee of the QUEST is National Express QUEST Trustees Limited, which is a wholly-owned subsidiary of the Group.

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

The Prism Scheme existed for the benefit of the employees of the four train operating companies formerly owned by Prism. The last appropriation made in 2000 vested to employees in 2003, and there are no NX shares (2002: 30,630) held in Trust for the Prism Scheme. No further awards will be made under the Prism Scheme.

NOTES TO THE ACCOUNTS

26 RESERVES

Group	Share premium £m	Share capital to be issued £m	Merger reserve £m	Capital reserve £m	Revaluation reserve £m	Profit and loss account £m	Total £m
At 1 January 2003	44.7	0.2	15.4	0.4	0.8	189.6	251.1
Shares issued during the year	0.4	(0.1)	–	–	–	–	0.3
Transfers	–	–	–	(0.4)	–	0.4	–
Exchange differences	–	–	–	–	–	2.8	2.8
Retained profit for the year	–	–	–	–	–	7.9	7.9
At 31 December 2003	45.1	0.1	15.4	–	0.8	200.7	262.1

As at 31 December 2003, the cumulative amount of goodwill on acquisitions made prior to 1 January 1998 which has been set off against the capital reserve and profit and loss reserve is £281.4m (2002: £281.4m).

Company	Share premium £m	Share capital to be issued £m	Capital reserve £m	Profit and loss account £m	Total £m
At 1 January 2003	44.7	0.2	26.4	234.2	305.5
Shares issued during the year	0.4	(0.1)	–	–	0.3
Exchange differences	–	–	–	(8.7)	(8.7)
Retained profit for the year	–	–	–	42.2	42.2
At 31 December 2003	45.1	0.1	26.4	267.7	339.3

The profit and loss reserve for the Company includes £88.0m (2002: £44.5m) that is non-distributable.

27 CAPITAL COMMITMENTS

Group	2003 £m	2002 £m
Contracted	28.2	7.2
Authorised but not contracted	2.5	0.5

28 OTHER FINANCIAL COMMITMENTS

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

	Land and buildings		Rolling stock	
	2003 £m	2002 £m	2003 £m	2002 £m
UK Trains division commitments				
Commitments which expire:				
Within one year:				
Fixed track access	255.3	–	–	–
Other	28.2	5.3	162.7	0.3
	283.5	5.3	162.7	0.3
Between two and five years:				
Fixed track access	78.6	433.4	–	–
Other	14.6	55.0	65.2	215.7
	93.2	488.4	65.2	215.7
Over five years:				
Fixed track access	87.4	19.0	–	–
Other	18.3	6.8	64.3	46.1
	105.7	25.8	64.3	46.1
	482.4	519.5	292.2	262.1

The table above reflects the commitments shown up to the current franchise end dates unless an extension or new franchise agreement has been signed. It represents a full year of commitments for all TOCs (including the Great Northern and Wessex extensions) with the exception of ScotRail (included to 16 October 2004), Wagn (included to 31 March 2004) and Silverlink (included to 16 October 2004). In addition, it includes the commitment in respect of the new Greater Anglia franchise from 1 April 2004. The commitments are based on charges advised by the Rail Regulator for the period ending 31 March 2004.

NOTES TO THE ACCOUNTS

29 RETIREMENT BENEFITS (continued)

(b) North American Bus and Australian Bus divisions

Subsidiaries in North America and Australia contribute to a number of defined contribution plans. See note 23 for details of provisions relating to unfunded pension liabilities in North America.

(c) FRS 17, "Retirement Benefits"

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

The additional disclosures required by FRS 17 during the transitional period for the UK Bus, UK Coach and UK Trains divisions' defined benefit schemes are set out below. They are based on the most recent actuarial valuations disclosed above, which have been updated by independent professionally qualified actuaries to take account of the requirements of FRS 17. In respect of the Australian State run multi-employer schemes for the train companies held up to 23 December 2002, the Group was unable to identify its share of underlying assets and liabilities in these schemes on a consistent and reasonable basis, and therefore treated them as if they were defined contribution schemes.

The main financial assumptions underlying the valuations are:

	UK Bus 2003	UK Coach 2003	UK Trains 2003	UK Bus 2002	UK Coach 2002	UK Trains 2002	UK Bus 2001	UK Coach 2001	UK Trains 2001
Rate of increase in salaries	3.6%	3.6%	4.1%	3.3%	3.3%	3.8%	4.0%	4.0%	4.0%
Rate of increase of pensions	2.6%	2.6%	2.6%	2.3%	2.7%	2.3%	2.5%	2.5%	2.5%
Discount rate	5.6%	5.6%	5.6%	5.8%	5.8%	5.8%	6.0%	6.0%	6.0%
Inflation assumption	2.6%	2.6%	2.6%	2.3%	2.3%	2.3%	2.5%	2.5%	2.5%

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

Group profit and loss account

	UK Bus 2003 £m	UK Coach 2003 £m	UK Trains 2003 £m	Total 2003 £m
Amounts charged to operating profit:				
Current service cost	(5.1)	(1.2)	(30.4)	(36.7)
Past service cost	(0.1)	—	—	(0.1)
Franchise exit	—	—	10.9	10.9
Charge to operating profit	(5.2)	(1.2)	(19.5)	(25.9)
Amounts credited/(charged) to finance income:				
Expected return on pension scheme assets	20.3	1.2	26.9	48.4
Interest on pension liabilities	(18.0)	(1.3)	(22.5)	(41.8)
Net credit/(charge) to finance income	2.3	(0.1)	4.4	6.6
Total charge to profit and loss account	(2.9)	(1.3)	(15.1)	(19.3)

	UK Bus 2002 £m	UK Coach 2002 £m	UK Trains 2002 £m	Total 2002 £m
Amounts charged to operating profit:				
Current service cost	(6.1)	(1.3)	(28.5)	(35.9)
Past service cost	(0.2)	—	—	(0.2)
Charge to operating profit	(6.3)	(1.3)	(28.5)	(36.1)
Amounts credited/(charged) to finance income:				
Expected return on pension scheme assets	25.9	1.1	31.7	58.7
Interest on pension liabilities	(18.5)	(1.3)	(23.0)	(42.8)
Net credit/(charge) to finance income	7.4	(0.2)	8.7	15.9
Total credit/(charge) to profit and loss account	1.1	(1.5)	(19.8)	(20.2)

NOTES TO THE ACCOUNTS

29 RETIREMENT BENEFITS (continued)

Group statement of total recognised gains and losses

	% scheme assets/(liabilities)			UK Bus 2003 £m	UK Coach 2003 £m	UK Trains 2003 £m	Total 2003 £m
	UK Bus 2003	UK Coach 2003	UK Trains 2003				
Actual return less expected return on pension scheme assets	2.7%	5.3%	7.0%	8.3	1.2	43.8	53.3
Experience losses arising on the pension scheme liabilities	0.1%	—	2.0%	(0.5)	—	(13.9)	(14.4)
Changes in assumptions relating to the present value of the scheme liabilities	7.2%	8.0%	6.9%	(25.1)	(2.2)	(48.1)	(75.4)
Actuarial loss	5.0%	3.6%	2.6%	(17.3)	(1.0)	(18.2)	(36.5)

	% scheme assets/(liabilities)			UK Bus 2002 £m	UK Coach 2002 £m	UK Trains 2002 £m	Total 2002 £m
	UK Bus 2002	UK Coach 2002	UK Trains 2002				
Actual return less expected return on pension scheme assets	24%	29%	13%	(70.7)	(3.8)	(74.8)	(149.3)
Experience gains/(losses) arising on the pension scheme liabilities	1%	1%	3%	4.4	0.2	(15.7)	(11.1)
Changes in assumptions relating to the present value of the scheme liabilities	2%	2%	—	7.0	0.4	—	7.4
Actuarial loss	19%	14%	15%	(59.3)	(3.2)	(90.5)	(153.0)

Movement in the (deficit)/surplus in the year

	UK Bus £m	UK Coach £m	UK Trains £m	Total £m
Deficit in schemes at 1 January 2003	(18.7)	(9.5)	(53.8)	(82.0)
Current service cost	(5.1)	(1.2)	(30.4)	(36.7)
Past service cost	(0.1)	—	—	(0.1)
Cash contributions	0.2	7.1	16.3	23.6
Finance income/(charge)	2.3	(0.1)	4.4	6.6
Franchise exit	—	—	10.9	10.9
Actuarial loss recognised in statement of total recognised gains and losses	(17.3)	(1.0)	(18.2)	(36.5)
Deficit in schemes at 31 December 2003	(38.7)	(4.7)	(70.8)	(114.2)

	UK Bus £m	UK Coach £m	UK Trains £m	Total £m
Surplus/(deficit) in schemes at 1 January 2002	39.4	(6.7)	53.0	85.7
Current service cost	(6.1)	(1.3)	(28.5)	(35.9)
Past service cost	(0.2)	—	—	(0.2)
Cash contributions	0.1	1.9	3.5	5.5
Finance income/(charge)	7.4	(0.2)	8.7	15.9
Actuarial loss recognised in statement of total recognised gains and losses	(59.3)	(3.2)	(90.5)	(153.0)
Deficit in schemes at 31 December 2002	(18.7)	(9.5)	(53.8)	(82.0)

NOTES TO THE ACCOUNTS

29 RETIREMENT BENEFITS (continued)

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

	Rate of return 2003	UK Bus 2003 £m	UK Coach 2003 £m	UK Trains 2003 £m	Total 2003 £m
Equities	8.5%	190.7	12.4	520.4	723.5
Bonds	4.8%	108.5	10.4	62.1	181.0
Property	6.8%	3.2	–	41.4	44.6
Other	4.0%	6.4	–	1.5	7.9
Total fair value of assets		308.8	22.8	625.4	957.0

	Rate of return 2002	UK Bus 2002 £m	UK Coach 2002 £m	UK Trains 2002 £m	Total 2002 £m
Equities	8.5%	189.3	8.4	458.9	656.6
Bonds	4.7%	96.3	4.7	58.5	159.5
Property	7.0%	–	–	41.3	41.3
Other	4.0%	10.5	–	1.0	11.5
Total fair value of assets		296.1	13.1	559.7	868.9

	Rate of return 2001	UK Bus 2001 £m	UK Coach 2001 £m	UK Trains 2001 £m	Total 2001 £m
Equities	8.0%	258.4	11.2	577.9	847.5
Bonds	5.4%	91.6	2.0	65.5	159.1
Property	6.7%	–	0.7	39.1	39.8
Other	5.0%	6.8	–	2.0	8.8
Total fair value of assets		356.8	13.9	684.5	1,055.2

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

	UK Bus 2003 £m	UK Coach 2003 £m	UK Trains 2003 £m	Total 2003 £m
Total fair value of assets	308.8	22.8	625.4	957.0
Present fair value of scheme liabilities	(347.5)	(27.5)	(696.2)	(1,071.2)
Deficit in the schemes	(38.7)	(4.7)	(70.8)	(114.2)
Related deferred tax asset	11.6	1.4	21.3	34.3
Net pension liability	(27.1)	(3.3)	(49.5)	(79.9)

	UK Bus 2002 £m	UK Coach 2002 £m	UK Trains 2002 £m	Total 2002 £m
Total fair value of assets	296.1	13.1	559.7	868.9
Present fair value of scheme liabilities	(314.8)	(22.6)	(613.5)	(950.9)
Deficit in the schemes	(18.7)	(9.5)	(53.8)	(82.0)
Related deferred tax asset	5.6	2.9	16.1	24.6
Net pension liability	(13.1)	(6.6)	(37.7)	(57.4)

NOTES TO THE ACCOUNTS

29 RETIREMENT BENEFITS (continued)

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

	2003 £m	2002 £m
Net assets per Group balance sheet	273.6	262.6
Remove SSAP 24 (assets)/liabilities of defined benefit schemes (net of deferred tax)	(3.5)	0.5
Pension liability under FRS 17 (net of deferred tax)	(79.9)	(57.4)
Net assets including pension liability under FRS 17	190.2	205.7

	2003 £m	2002 £m
Profit and loss reserve per Group balance sheet	200.7	189.6
Remove SSAP 24 (assets)/liabilities of defined benefit schemes (net of deferred tax)	(3.5)	0.5
Pension liability under FRS 17 (net of deferred tax)	(79.9)	(57.4)
Profit and loss reserve including pension liability under FRS 17	117.3	132.7

30 RELATED PARTY TRANSACTIONS

In respect of services provided, the Group received £6.6m (2002: £6.4m) from Altram LRT Limited ("Altram"), an associate. Included in debtors due from associates is £4.4m (2002: £3.7m) due from Altram and a loan of £4.8m (2002: £1.0m) due from Inter-Capital and Regional Rail Limited. Creditors due to associates are £0.2m (2002: £0.1m) due to Altram. Included in investments is a loan of £0.3m (2002: £4.5m) to Altram.

31 CONTINGENT LIABILITIES

(a) Uncalled share capital and guarantees

The Company has amounts of uncalled share capital relating to three (2002: three) of its subsidiary undertakings. The amounts uncalled total £12.8m (2002: £12.8m) and are unlikely to be called in the near future. The Company has also guaranteed credit facilities totalling £83.0m (2002: £85.9m) of certain subsidiary undertakings.

(b) Bonds and letters of credit

In the ordinary course of business, the Group is required to issue counter-indemnities in support of its operations. As at 31 December 2003, there were UK Train performance bonds of £51.0m (2002: £51.0m) and UK Train season ticket bonds of £51.8m (2002: £51.1m). The £0.9m (2002: £0.9m) performance bond in place at the year end in respect of Wales & Borders expires on 6 June 2004. A £5.0m performance bond in respect of Greater Anglia was put in place on 30 January 2004, which will increase to £5.6m later in 2004. The Group has other performance bonds which include the £13.8m (2002: £13.6m) performance bond in respect of Inter-Capital and Regional Rail Limited, performance bonds in respect of businesses in the United States of America of £36.6m (2002: £43.0m). Letters of credit have been issued to support insurance retentions of £70.6m (2002: £41.3m) and other amounts of £8.8m (2002: £9.7m).

NOTES TO THE ACCOUNTS

32 CASH FLOW STATEMENT

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

	Total 2003 £m	Continuing operations 2002 £m	Discontinued operations 2002 £m	Total 2002 £m
Group operating profit	83.6	67.1	0.1	67.2
Depreciation of tangible assets	64.7	60.7	10.8	71.5
Amortisation of fixed asset grants	(3.0)	(1.3)	(1.1)	(2.4)
(Profit)/loss on disposal of fixed assets	(1.5)	1.7	0.1	1.8
Goodwill amortisation	45.7	45.2	–	45.2
Goodwill impairment	–	13.5	–	13.5
Decrease/(increase) in stocks	2.0	(0.5)	(0.3)	(0.8)
Decrease/(increase) in debtors	17.6	(10.5)	5.7	(4.8)
(Decrease)/increase in creditors	(34.2)	44.8	(2.9)	41.9
Increase/(decrease) in provisions	7.9	(62.8)	5.2	(57.6)
Net cash inflow from operating activities	182.8	157.9	17.6	175.5

The net cash flows from operating activities include outflows of £4.9m (2002: £71.0m) from continuing operations which related to exceptional costs. The cashflows from discontinued operations in 2003 are immaterial.

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

	2003 £m	2002 £m
Decrease in cash in the year	(0.7)	(46.8)
Cash outflow/(inflow) from movement in debt and lease financing	40.6	(51.4)
Cash (inflow)/outflow from movement in liquid resources	(14.2)	50.4
Change in net debt resulting from cash flows	25.7	(47.8)
Change in net debt resulting from non cash flows	19.8	28.2
Movement in net debt in the year	45.5	(19.6)
Net debt at 1 January	(334.6)	(315.0)
Net debt at 31 December	(289.1)	(334.6)

(c) Analysis of changes in net debt

	At 1 January 2003 £m	Cash flow £m	Exchange differences £m	Other movements £m	At 31 December 2003 £m
Cash	16.8	16.7	(0.3)	–	33.2
Overnight deposits	19.5	(17.2)	–	–	2.3
Bank overdrafts	–	(0.2)	–	–	(0.2)
Net cash	36.3	(0.7)	(0.3)	–	35.3
Liquid resources – other short term deposits	57.4	(14.2)	(0.4)	18.7	61.5
Debt due within one year:					
Loan notes	(9.1)	0.7	–	–	(8.4)
Bank loans	(53.2)	26.1	1.1	6.1	(19.9)
	(62.3)	26.8	1.1	6.1	(28.3)
Debt due after one year:					
Bank loans	(308.0)	–	10.5	(7.0)	(304.5)
Finance lease obligations	(58.0)	13.8	(0.9)	(8.0)	(53.1)
Net debt	(334.6)	25.7	10.0	9.8	(289.1)

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

Other non cash movements in net debt represent finance lease additions of £8.0m (2002: £0.8m), £0.9m (2002: £nil) of loan arrangement fees, and £18.7m (2002: £nil) of cash deposits secured as a bond in respect of future rolling stock maintenance at ScotRail Railways Limited.

NOTES TO THE ACCOUNTS

33 DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

Treasury policy and the use of financial instruments are discussed in the Finance Director's report on page 32.

Short-term debtors and creditors have been excluded from the disclosures below, other than 33(e) on currency exposures.

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

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

	Borrowings at floating rates 2003 £m	Borrowings at fixed rates 2003 £m	Total borrowings 2003 £m	Financial liabilities on which no interest is paid 2003 £m	Total 2003 £m	Weighted average fixed interest rate 2003 %	Weighted average period for which rate is fixed 2003 Years	Weighted average period until maturity for financial liabilities on which no interest is paid 2003 Years
Sterling	95.9	1.6	97.5	18.7	116.2	7.8	2.4	1.6
US dollars	55.9	175.2	231.1	18.7	249.8	7.2	5.7	2.2
Australian dollars	–	57.5	57.5	–	57.5	6.7	1.7	–
	151.8	234.3	386.1	37.4	423.5	7.3	5.1	2.0

	Borrowings at floating rates 2002 £m	Borrowings at fixed rates 2002 £m	Total borrowings 2002 £m	Financial liabilities on which no interest is paid 2002 £m	Total 2002 £m	Weighted average fixed interest rate 2002 %	Weighted average period for which rate is fixed 2002 Years	Weighted average period until maturity for financial liabilities on which no interest is paid 2002 Years
Sterling	53.8	1.4	55.2	18.8	74.0	8.6	1.2	2.0
US dollars	26.3	251.9	278.2	16.0	294.2	6.4	6.9	2.2
Australian dollars	13.0	50.5	63.5	–	63.5	6.7	2.7	–
Canadian dollars	31.4	–	31.4	–	31.4	–	–	–
	124.5	303.8	428.3	34.8	463.1	6.5	6.2	2.1

Included within the US dollar fixed rate financial liabilities is an interest rate swap for £112.0m (US\$200m), currently fixed at 6.25% until 8 January 2009, which will revert to a floating rate should the US dollar six month London Interbank Offered Rate ("LIBOR") exceed 7%. The benchmark rate for floating rate financial liabilities is the LIBOR of the relevant currency.

Financial liabilities on which no interest is paid comprise other creditors of £1.3m (2002: £4.0m) falling due after more than one year, provisions falling due after more than one year of £28.0m (2002: £26.8m), and a liability of £8.1m (2002: £4.0m) which is the sum of loans to associates of £0.3m (2002: £4.5m), offset by interests in provisions of associates of £8.4m (2002: £8.5m).

(b) Analysis of financial liabilities by type and currency

Financial liabilities on which interest is paid comprise:

	Loan notes 2003 £m	Bank loans 2003 £m	Bank overdrafts 2003 £m	Finance leases 2003 £m	Total 2003 £m	Loan notes 2002 £m	Bank loans 2002 £m	Bank overdrafts 2002 £m	Finance leases 2002 £m	Total 2002 £m
Sterling	8.4	49.9	0.2	39.0	97.5	9.1	–	–	46.1	55.2
US dollars	–	224.0	–	7.1	231.1	–	274.8	–	3.4	278.2
Australian dollars	–	50.5	–	7.0	57.5	–	55.0	–	8.5	63.5
Canadian dollars	–	–	–	–	–	–	31.4	–	–	31.4
	8.4	324.4	0.2	53.1	386.1	9.1	361.2	–	58.0	428.3

NOTES TO THE ACCOUNTS

33 DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS (continued)

(c) Maturity of financial liabilities

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

	2003 £m	2002 £m
Expiring within one year	40.1	72.3
Expiring within one to two years	25.6	332.2
Expiring within two to five years	345.4	44.9
Expiring in more than five years	12.4	13.7
	423.5	463.1

(d) Financial assets by currency

The Group's financial assets on which interest is receivable comprise cash at bank and in hand, including deposits, amounting to £97.0m (2002: £93.7m) which earn interest at floating rates. Cash deposits are placed on the money markets at commercial rates linked to the LIBOR of the relevant currency. The currency profile as at 31 December 2003 is as follows:

	Deposits at floating rates 2003 £m	Financial assets on which no interest is received 2003 £m	Total 2003 £m	Weighted average period until maturity for financial assets on which no interest is received 2003 Years	Deposits at floating rates 2002 £m	Financial assets on which no interest is received 2002 £m	Total 2002 £m	Weighted average period until maturity for financial assets on which no interest is received 2002 Years
Sterling	75.5	8.9	84.4	3.1	64.6	19.3	83.9	2.7
US dollars	13.3	1.6	14.9	2.0	23.1	0.8	23.9	2.3
Australian dollars	5.5	–	5.5	–	4.0	–	4.0	–
Canadian dollars	2.7	–	2.7	–	2.0	–	2.0	–
	97.0	10.5	107.5	2.5	93.7	20.1	113.8	2.6

Financial assets on which no interest is received total £10.5m (2002: £20.1m) and comprise other investments of £7.0m (2002: £15.1m), and other debtors and prepayments greater than one year of £3.5m (2002: £5.0m).

(e) Currency exposures

As at 31 December 2003 and 31 December 2002 the Group did not have any material net currency transactional exposures.

(f) Undrawn committed borrowing facilities

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

	2003 £m	2002 £m
Expiring within one year	200.0	–
Expiring within one to two years	–	218.5
Expiring in more than two years	76.5	–

On 28 February 2003, the Group facilities were replaced with a new £600m revolving credit facility comprising a £400m five year facility and a £200m 364 day facility. On 23 January 2004, £140m of the 364 day facility was cancelled and the remaining £60m was extended to 28 February 2005.

NOTES TO THE ACCOUNTS

33 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 2003 are set out below:

	Book value 2003 £m	Fair value 2003 £m	Book value 2002 £m	Fair value 2002 £m
Cash at bank and in hand	97.0	97.0	93.7	93.7
Other financial assets	10.5	10.5	20.1	20.1
Loans and overdrafts	(333.0)	(333.0)	(370.3)	(370.3)
Finance lease obligations	(53.1)	(53.1)	(58.0)	(58.0)
Forward foreign currency contracts	–	1.1	–	–
Interest rate swaps	–	(35.8)	–	(48.8)
Fuel price swaps	–	(0.3)	–	(0.2)
Other financial liabilities	(37.4)	(37.4)	(34.8)	(34.8)

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

The forward foreign currency contracts, interest rate swaps and fuel price swaps have been valued externally by comparison with the market foreign currency exchange rates, interest rates and fuel prices at the year end.

(h) Hedge accounting

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

	Net unrecognised losses 2003 £m	Net unrecognised losses 2002 £m
Unrecognised losses on hedges at the start of the year	49.0	33.2
Losses arising in previous years that were recognised in the year	(4.6)	(4.2)
Losses not recognised in the year arising before the start of the year	44.4	29.0
(Gains)/losses arising in the year that were not recognised in the year	(9.4)	20.0
Unrecognised losses on hedges at the end of the year	35.0	49.0
Of which:		
Losses expected to be recognised within one year	10.4	8.5
Losses expected to be recognised after one year	24.6	40.5
	35.0	49.0

(i) Market price risk - commodities

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

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<p>→ DELIVERING PASSENGER BENEFITS IN THREE CONTINENTS</p>		<p>→ OPERATING SERVICES WHICH ARE SAFE, PUNCTUAL, RELIABLE, AFFORDABLE, ACCESSIBLE AND INTEGRATED</p>
<p>→ WORKING IN PARTNERSHIP WITH LOCAL AUTHORITIES AND STAKEHOLDERS</p>		<p>→ PROVIDING ENVIRONMENTALLY-FRIENDLY SERVICES</p>

OUR STRENGTHS...

NATIONAL EXPRESS GROUP IS A MAJOR CONTRIBUTOR TO THE FUTURE OF PUBLIC TRANSPORT. IN 2003 WE CARRIED MORE THAN ONE BILLION PASSENGERS ON BUSES, TRAINS, COACHES AND LIGHT RAIL SYSTEMS IN THREE KEY GEOGRAPHIC AREAS - THE UNITED KINGDOM, NORTH AMERICA AND AUSTRALIA.

WE ARE AN INTERNATIONAL GROUP, HOWEVER, OUR FOCUS IS AT A LOCAL LEVEL. WE OPERATE LOCAL BUSINESSES WHICH ARE RUN BY LOCAL TEAMS TO MEET THE NEEDS OF LOCAL COMMUNITIES.

OUR SERVICES DELIVER SIGNIFICANT BENEFITS AND UNDERPIN THE SOCIAL AND ECONOMIC WELL-BEING OF THE COMMUNITIES WITHIN WHICH WE OPERATE. YET WE ARE NOT COMPLACENT. OUR 43,000 EMPLOYEES CONSTANTLY STRIVE TO IMPROVE THE SAFETY, PERFORMANCE AND ACCESSIBILITY OF OUR SERVICES.

INVESTMENT PLAYS A MAJOR PART IN THE DRIVE FOR IMPROVEMENT. FROM ON-BOARD CCTV CAMERAS FOR OUR TRAINS, LOW-FLOOR EASY ACCESS FOR OUR BUSES TO INNOVATIVE VALUE FOR MONEY FARES FOR OUR COACHES, WE INVEST IN ORDER TO OFFER SERVICES THAT PASSENGERS WANT TO USE - TODAY, TOMORROW AND INTO THE FUTURE.

THE AIM IS TO CREATE A PUBLIC TRANSPORT CAPABILITY THAT IS APPRECIATED BY PASSENGERS WHILE ALSO DELIVERING VALUE TO SHAREHOLDERS.

OUR BUSES...

**“WE BELIEVE QUALITY PARTNERSHIPS
DELIVER BUS SERVICES THAT ARE
AFFORDABLE AND WELL USED
BY PASSENGERS.”**

*OUR TWM BUSINESS IN THE WEST MIDLANDS IS A
STRIKING EXAMPLE OF HOW INVESTMENT IN
VEHICLES, TRAINING AND MARKETING TRANSLATES
INTO SERVICES THAT MORE PEOPLE WANT TO USE,
MORE OFTEN.*

“AS THE LARGEST TRAIN OPERATOR IN THE UK, WE ARE A MAJOR PROVIDER OF COMMUTER, REGIONAL AND LONG DISTANCE TRAIN SERVICES.”

PUNCTUALITY AND RELIABILITY ARE THE PRIMARY CONCERNS OF THE TRAVELLING PUBLIC AND THE FOCUS OF OUR DRIVE FOR IMPROVEMENT. WE ARE WORKING CLOSELY WITH OUR INDUSTRY PARTNERS TO DELIVER ENHANCED IMPROVEMENTS YEAR-ON-YEAR.

OUR
TRAINS...

**“THE NATIONAL EXPRESS FLEET SERVES MORE
THAN 1,200 DESTINATIONS WITH A SIGNIFICANT
NETWORK OF SCHEDULED SERVICES.”**

*INNOVATIVE 'BEST VALUE' FARES HAVE PROVIDED THE
MOMENTUM FOR SIGNIFICANT GROWTH IN PATRONAGE.
THE COMFORT AND RELIABILITY OF OUR SERVICES IS
COMPLEMENTED BY A DESERVED REPUTATION FOR
AFFORDABILITY.*

OUR
COACHES...

**“FROM THE DISTINCTIVE YELLOW SCHOOL BUSES
THAT CARRY STUDENTS EVERY DAY TO REGULAR
TRANSIT SERVICES IN 18 STATES, WE ARE BUILDING
A TRACK RECORD FOR PERFORMANCE AND GROWTH
IN NORTH AMERICA.”**

*DESPITE COST PRESSURES ACROSS THE CONTINENT, WE
CONTINUE TO IDENTIFY AND SEIZE OPPORTUNITIES FOR
GROWTH IN NORTH AMERICA.*

OUR
NORTH
AMERICAN
BUSES...

1	2	3
7	8	9
12	13	
17	18	19
23	24	25

BUSES

- 1 **TRAVEL WEST MIDLANDS**
The leading bus operator in the West Midlands covering over 500 routes.
www.travelwm.co.uk
- 2 **TRAVEL COVENTRY**
Provides 60 bus routes in and around Coventry
www.travelcoventry.co.uk
- 3 **TRAVEL DUNDEE**
Operates a comprehensive network of bus services in and around Dundee
www.traveldundee.co.uk
- 4 **THE METRO**
Provides a tram link between Wolverhampton and Birmingham City Centre
www.midlandmetro.co.uk

- 7 **SILVERLINK**
Silverlink County operates locally between Birmingham and London. Silverlink Metro operates through North, East and West London.
www.silverlink-trains.com
- 8 **WESSEX TRAINS**
Operates rail services through Cornwall, Devon, Somerset, Dorset, Wiltshire, Hampshire, and Gloucestershire
www.wessextrains.co.uk
- 9 **WAGN**
Operates services from London terminals to Eastern Hertfordshire, Cambridgeshire, West Norfolk, North Essex and North-East London. Also provides services throughout inner London.
www.wagn.co.uk
- 10 **SCOTRAIL**
Provides rail services in Scotland and others linking Scotland and London
www.scotrail.co.uk
- 11 **CENTRAL TRAINS**
Provides high-frequency local train services in the East and West Midlands and long-distance services between the Midlands, East Anglia, South Wales, North West and the East Coast
www.centraltrains.co.uk
- 12 **GATWICK EXPRESS**
Provides services between Central London and Gatwick Airport
www.gatwickexpress.com

- 13 **CALEDONIAN SLEEPER**
Provides overnight services between London Euston and the main cities in Scotland
www.scotrail.co.uk
- 14 **STANSTED EXPRESS**
Provides services between Central London and Stansted Airport
www.stanstedexpress.com

COACHES

- 15 **NATIONAL EXPRESS**
Provides a network of scheduled coach services to 1,200 destinations within the UK
www.nationalexpress.com
- 16 **NATIONAL EXPRESS SHUTTLE**
Operates short direct coach services between cities and towns in Britain
www.nationalexpress.com
- 17 **NATIONAL EXPRESS AIRPORT**
Operates dedicated coach services to main UK airports.
www.naairport.com
- 18 **AIRLINKS**
Provides contract bus/coach services for airlines and the wider airport community at both Heathrow and Gatwick
www.airlinks.co.uk

TRAINS

- 5 **C2C**
Links South Essex towns with London Fenchurch Street Station.
www.c2c-online.co.uk
- 6 **MIDLAND MAINLINE**
Operates intercity services between Yorkshire, Manchester, the East Midlands and London
www.midlandmainline.com

4	5	6
10	11	
14	15	16
20	21	22
26	27	28

19 **EUROLINES**
Provides scheduled coach services from the UK to over 500 European destinations
www.eurolines.co.uk

NORTH AMERICA

20 **DURHAM SCHOOL SERVICES**
Provides student transportation throughout the United States
www.durhamschoolservices.com

21 **STOCK TRANSPORTATION**
Provides student transportation in two provinces of Canada
www.stock-transport.com

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

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

AUSTRALIA

24 **BLUE RIBBON**
Operates scheduled bus services in Sydney
www.blue-ribbon.com.au

25 **GBC**
Operates scheduled bus services in Sydney
www.glexonitibus.com.au

26 **NATIONAL BUS**
Operates commuter routes and student transportation in Melbourne and Brisbane
www.nationalbus.com.au

27 **SOUTHERN COAST TRANSIT**
Provides transperth bus services in South Perth
www.sctransit.com.au

28 **WESTBUS**
Provides local and long-distance services across New South Wales
www.westbus.com.au

OUR
BRANDS...

OUR HIGHLIGHTS...

	<i>BUSES</i>	<i>TRAINS</i>	<i>COACHES</i>
SERVICES	High-frequency urban bus services operating primarily in Birmingham and across the West Midlands - representing the largest single area bus network in the UK outside London. Also operates buses in Dundee, Scotland, and the Midland Metro light-rail service in Birmingham.	A range of intercity, commuter and rural passenger train services.	Extensive integrated network of scheduled and contracted coach services in three business segments - shuttle, airport and European coaching.
PRINCIPAL BRANDS	Travel West Midlands, Travel Coventry, the Metro, Travel Dundee	c2c, Caledonian Sleeper, Central Trains, Gatwick Express, Midland Mainline, ScotRail, Silverlink, Stansted Express, Wagn, Wessex Trains	National Express, National Express Shuttle, National Express Airport, Airlinks, Eurolines
OPERATIONS			
		2002 2003	2002 2003
Turnover (£m)	208.7	211.9	1,553.2 1,702.4
Normalised operating profit* (£m)	49.8	47.2	33.9 32.0
Operational fleet	1,933	1,898	964 888
Passenger journeys (m)	346	341	260 274
Employees (FTEs)	5,327	5,361	13,227 13,869

* excluding goodwill and exceptional items

NORTH AMERICA

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

AUSTRALIA

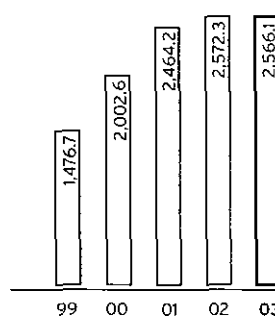
Bus services in Brisbane, Melbourne, Perth and Sydney.

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

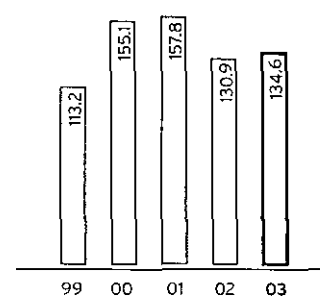
Blue Ribbon, Glenorie Bus Company, National Bus Company, Southern Coast Transit, Westbus

	2002	2003		2002	2003
	408.0	400.1		58.0	65.1
	32.6	37.0		2.3	3.4
	14,080	13,882		987	967
	316	335		46	64
	14,037	13,903		1,748	1,629

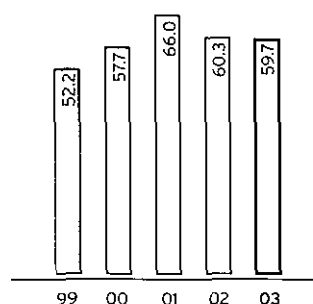
Turnover (£m)



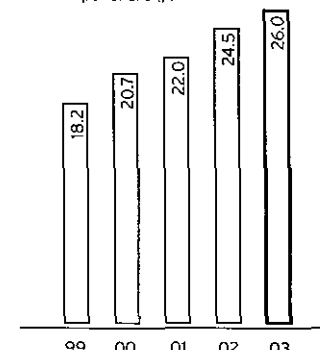
Operating profit before goodwill and exceptional items (£m)



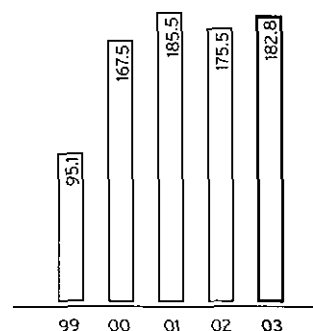
Normalised diluted earnings per share - (p)



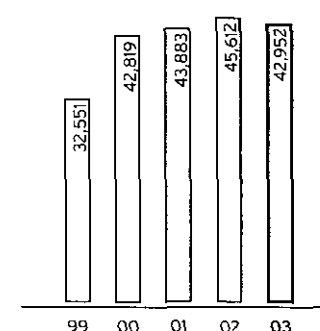
Dividend per share (p)



Cash flow from operations (£m)



Total number of employees



OPERATIONAL HIGHLIGHTS OF 2003

- RAIL PATRONAGE UP 5%
- COACH PATRONAGE UP 2%
- SIGNING OF FIRST PUBLIC TRANSPORT CONCORDAT AT TRAVEL COVENTRY
- ENTRY INTO LONDON BUS MARKET THROUGH ACQUISITION OF CONNEX BUS
- AWARD OF GREATER ANGLIA FRANCHISE
- SIGNING OF TWO YEAR EXTENSIONS FOR CENTRAL TRAINS, GREAT NORTHERN AND WESSEX TRAINS
- SOLID PERFORMANCE FROM NORTH AMERICAN STUDENT BUS DIVISION AND AN IMPROVEMENT IN PUBLIC TRANSIT

2003 WAS AN EXCELLENT YEAR

Michael Davies
Non Executive
Chairman

Our coach division marked its 30th anniversary with a complete rebranding of its operations, reinforcing our high quality, value for money services. During this year we have taken the business forward with new, exciting marketing and pricing initiatives which, together with the introduction of a new concessionary fares scheme in association with the Department for Transport, have increased the overall attractiveness of coach travel. We experienced significant patronage growth on our key routes, including the airport services and, as a result, we carried a record number of passengers during the year.

Within our Trains division, we have made considerable progress working with the Strategic Rail Authority ("SRA") in their rail refranchising programme. We secured two year extensions at Central Trains ("Central"), Great Northern and Wessex Trains ("Wessex"). We anticipate signing the Silverlink two year extension this summer and await news of the preferred bidder for the ScotRail franchise. Two year extensions provide a strong financial footing for our franchises and give the Group a firmer base from which to develop our train portfolio.

In January, we were awarded the new Greater Anglia franchise by the SRA. This franchise, which combines the existing Anglia and Great Eastern franchises, and the West Anglia Liverpool Street services (including Stansted Express) from the Group's Wagn franchise, marks the introduction of the first of the new franchise template agreements. This franchise will run for seven years with an automatic extension of three years, subject to the achievement of performance and service quality targets set out by the SRA. We now have a portfolio of seven franchises which run until 2006 or beyond. We look forward to welcoming our new colleagues from Anglia Railways and Great Eastern to the Group.

"I am delighted to announce that 2003 was a year of significant progress for the National Express Group. Despite the market, economic and business challenges that we have faced, we are very pleased with our performance and I would like to thank all our staff for their contribution during the year."

We continue to work with Network Rail, other key suppliers and the industry participants to improve the level of operating performance. We are particularly encouraged to see consistent patronage growth returning across all our train operating companies ("TOCs"). We welcome the major review of the structure of Britain's railway announced by the Transport Secretary in January 2004 and we are already playing an active part in the consultation process.

During the year, the Wales and Borders franchise transferred ownership to Arriva following three years of operation in which the Group significantly developed this business. I would like to take this opportunity to thank our employees for their hard work during our tenure and we wish them well for the future.

Our bus operations delivered another strong set of results. We were particularly pleased with the response to the Travel Coventry branding which we launched at the end of last year. The signing of the Coventry Concordat, which marked the culmination of a partnership between Coventry City Council, Centro and ourselves, is aimed at ensuring further development of the bus network in the region. This initiative was supported by Central Government which provided £35 million of funding to improve bus priority measures and passenger facilities. We have also introduced smartcards onto the network. We look forward to the signing of the first bus industry statutory quality partnership on our Castle Vale service in Birmingham. We continue to work with Centro and the City Council to stabilise traffic flows arising from the redevelopment of Birmingham city centre to improve reliability of our services.

I am pleased to announce the acquisition of Connex's London bus operations for a nominal consideration. This gives the Group an important entry into the London bus market through established depots in Battersea and Croydon. With 200 buses operating twelve contracts on behalf of Transport for London, this gives us the critical mass we require to develop our bus operations in this fast growing market thereby increasing our presence in the UK bus market overall. We welcome our new colleagues from Connex bus to the business.

Our North American operations have continued to grow and we improved profits despite the weakening dollar. Our student bus operation continues to provide essential services to school boards in 20 states and two Canadian provinces. Following its first full year of contribution, our Canadian acquisition, Stock Transportation, has proved to be a strong business run by an experienced management team. The Canadian market with its longer term contracts provides stability and, in common with the United States, relies on strong relationships with school boards. We look forward to increasing our presence within Canada.

The results from the public transit division showed year-on-year improvement. We continued to exit poor performing contracts and renew existing ones at higher rates to reflect the increased cost of accident claims in the United States. Safety is a priority and we were pleased to see the frequency of accidents reduce.

We are pleased with the performance of our Australian Bus operation.

We continue to negotiate an exit from our shareholding in Eurostar. These negotiations are expected to be completed when the new structure for Eurostar is put in place. We are committed to achieving a solution which benefits all parties as soon as possible but will ensure we act in the best interests of our shareholders.

THE BOARD With my retirement from the Board taking place at our next Annual General Meeting in May, I would like to thank all the members of the National Express Group Board for their support and contribution during the period of my Chairmanship.

I was Chairman of the Group at the time of its flotation back in 1992 and it is very pleasing to see the progress and developments that have taken place over the last decade. Today we are a leading international transport group with a sound financial base and I look forward with confidence to watching the Group capitalise on its many opportunities for further growth. The process of recruiting a successor is well underway and an announcement will be made before the Annual General Meeting.

I would like to take this opportunity to pay tribute to Larry Durham who has decided to retire from the Group. Larry joined the Group in 1999 when we acquired Durham Transportation, the company that he founded. Since joining he has been responsible for the successful growth of our North American operations. We are delighted that Larry has stayed with us for nearly five years since we acquired his business. In this time he has successfully integrated a number of major acquisitions as well as established a strong management team. We wish Larry all the best for the future. He leaves behind a business that continues to perform well.

RESULTS AND DIVIDEND Turnover from continuing operations increased by 6% to £2.6 billion (2002: £2.4 billion) and normalised Group operating profit increased by 3% to £134.6 million (2002: £130.9 million). After interest and the Group's share of losses from associated undertakings, normalised profit before tax was £105.5 million (2002: £106.8 million). Normalised diluted earnings per share were 59.7p (2002: 60.3p).

The strong cash performance of the Group's continuing operations continues with £139.7 million operating cash flow (2002: £105.5 million). Our effective net debt has reduced from £334.6 million to £307.8 million.

Given the Board's confidence in the Group's operations, as well as its financial strength, we are recommending an increased final dividend of 17.5p per ordinary share (2002: 16.4p) to be paid on 7 May 2004 to shareholders on the register at 13 April 2004. Including the interim dividend, the proposed total dividend for the year is 26.0p (2002: 24.5p).

CURRENT TRADING AND OUTLOOK We have made a good start to the year. In the Bus division, we remain focused on growing our UK business by delivering further bus priority measures and investing in additional quality partnerships. We look forward to signing the first statutory quality partnership in the bus industry during this year. The acquisition of the Connex bus business creates an important entry for the Group into the London market.

Our Trains division continues to perform well and we expect to build on this success during 2004. We are working closely with Network Rail to gain further improvements in reliability and punctuality. We are already well advanced with our plans for the merging of the three TOCs which will create the new Greater Anglia franchise, due for launch in April, and looking forward to submitting our pre-qualification questionnaire for the Intercity East Coast rail franchise.

The Coach division has started the year well and we anticipate building on the growth we achieved last year:

We are encouraged by the opportunities in North America. Our US student bus business is in its bidding season. We remain confident of securing new business wins and retaining our current contracts. Our entry into the Canadian market has been successful and we are actively seeking opportunities to expand this part of our business.

Overall, we look forward to the future with confidence.

CHIEF EXECUTIVE'S STATEMENT

OUR PEOPLE ARE THE DRIVING FORCE BEHIND OUR CONTINUED SUCCESS

Phil White
Chief Executive

As we have become a large player in the UK transport industry and as our presence in North America grows, the people who operate at the customer facing end of our businesses continue to make a huge contribution to the quality of services that we provide.

With the commitment and skills of our people being key to the level of service that we provide as a Group, we have invested in a number of initiatives to ensure that our employees are able to deliver the standards of service that our customers expect. It is the delivery of this that will underpin the continued success of the Group.

“As we have become a large player in the UK transport industry and as our presence in North America grows, the people who operate at the customer facing end of our businesses continue to make a huge contribution to the quality of services that we provide.”

SERVICE QUALITY MONITORING Service remains a key factor in the Group's competitive position and we are focusing on the training, development and skills capability of our employees to sharpen their focus so that improved levels of service can be provided to the customer.

To ensure we are aware of the requirements of our customers we undertake regular consultation with key stakeholders including customers, passengers groups, local and regional government, transport bodies, employees and suppliers. As well as meeting the statutory requirements to engage with bodies, we encourage our companies to have regular dialogue and positive relationships with user groups.

Across the Group, we gather feedback on our service performance and customer satisfaction levels via independent sources and industry group surveys as well as through our own audits. We continue to monitor customer complaint levels on a regular basis with a view to improving our businesses based on this valuable feedback. Within Travel West Midlands, customer focus groups are held to discuss services and mystery customer schemes undertaken regularly to monitor service delivery. Customer and employee surveys have long formed an integral element of our yellow school bus and public transit businesses in North America. Durham School Services undertakes an annual audit amongst both its school board customers as well as amongst the parents whose children they carry every day. This survey is key in highlighting areas of improvement and recognition of employees who consistently perform well.

During the coming year, we will be improving our focus through the appointment of a new Group Customer Service Director who will work closely with our subsidiaries to improve performance. In addition, the management teams in all our rail franchises will shortly include a new Customer Service Director position.

To further improve stakeholder relationships, in February 2004 I appointed Ian Buchan to a new role as Group Development Director, reporting directly to myself. Ian, who until recently was Chief Executive of our Trains division, has extensive experience of the transport industry. In this new role he will have specific responsibility for liaising with key stakeholders to ensure our future policy and strategic development takes into account their views.

LEADERSHIP FOR THE FUTURE We believe that leadership is key to the continued improvement of the Group's performance. Over the last two years, we have reviewed our management strength and invested in a set of integrated development plans to enhance our leadership potential across the Group. The aim is to identify, develop and retain the future leaders of the Group, to raise and sustain the benchmark of current leadership performance and to build overall Group performance and customer satisfaction.

We have developed a Groupwide leadership programme that complements our existing graduate training scheme which continues to go from strength to strength. We are now in the fourth year of this scheme and to date all 18 of our graduates have remained within the Group.

Succession planning and leadership development programmes are also well-established in our overseas operations.

INVESTING IN OUR PEOPLE At the end of 2003 we employed 43,000 employees across the Group. Over 90% of our employees work at the frontline of our businesses, as bus drivers, on-board trains or in other front line customer facing

roles. As these employees are clearly so critical to the quality of the product that we deliver, we continue to invest in them and provide the necessary skills, training and facilities to ensure they are adequately equipped to meet and address the needs of our customers in their jobs on a daily basis.

We are delighted with the results of the Midland Mainline Customer Service Academy which welcomed its first students in April 2002. The Academy, based in Derby, has seen all Midland Mainline employees undertake training courses since its inception, with many attending up to three sessions per year. Moving forward all franchise bids now include a provision for a similar dedicated training resource. We are on schedule to open a new facility for Central Trains in Birmingham in the coming months and we are committed to a Customer Service Academy for our Greater Anglia business.

We also recognise that technical training is required for roles such as drivers and engineers. We were pleased to introduce our first train driving simulator at Central Trains' Birmingham New Street facility. This facility boasts the latest technology with computer-generated graphics combined with recorded video footage to allow drivers to experience abnormal and emergency situations on replicated class 170 Turbostar software. We believe this investment will accelerate driver training and improve driver skill levels. We plan to install similar tools in selected train operating companies during the next twelve months.

A new focus on engaging our contracted drivers within the Coach division has led to the set up of a driver development team and the launch of an initiative called DASHBoard – Driver and Service Hero Board workshops. Through this initiative we are increasing our direct communication with both our own as well as third party operator drivers who are frequently the only direct contact that the customer has with the National Express brand.

As a demonstration of our commitment to our people, we have set an objective for all of our UK companies to follow the lead of our Gatwick Express business which achieved the Investors in People (IIP) standard in February 2003. The target is for all of our UK businesses to seek and gain IIP status over the next three years.

MONITORING EMPLOYEE ATTITUDES We recognise that the benefits of delivering culture change in a number of our businesses thereby ensuring that employees understand the behaviour and standards they need to adopt. In order to establish a foundation from which we can build in the future, we launched our first UK-wide employee survey to complement the existing employee survey that is undertaken annually within our North American businesses. Following a series of employee focus groups, we undertook the main survey in the Autumn. As expected, the findings have highlighted a number of areas where we can perform better. We will be seeking to improve our communications, particularly two-way communications with employees, and to enhance opportunities for training and development. On the back of the survey, each individual operating company is developing action plans to communicate their own individual operating company results. In the future we intend to carry out the survey regularly. Further details of the survey can be found in our Corporate Responsibility Report 2003 and on our website www.nationalexpressgroup.com.

We believe that our focus on recruiting, rewarding and retaining our people and an ongoing dialogue with our stakeholders will position the Group well for the future. This approach will ensure that we have high quality employees who have the skills and the personal qualities to deliver the standard of service that we expect – and which our customers deserve.

REVIEW OF OPERATIONS

BUSES

TRAVEL WEST MIDLANDS IS THE LEADING BUS OPERATOR IN THE WEST MIDLANDS INCORPORATING TRAVEL COVENTRY, TRAVEL MIDLAND METRO AND TRAVEL DUNDEE. THE DIVISION EMPLOYS OVER 5,500 EMPLOYEES AND OPERATES A FLEET OF 1,800 BUSES OVER 600 ROUTES.

Turnover for the period was £211.9 million (2002: £208.7 million) with operating profit of £47.2 million (2002: £49.8 million) principally impacted by the financing of new buses through operating leases. Overall, performance of this business remains strong. Following the completion of the development works in the centre of Birmingham in September, there have been a number of traffic flow issues concentrated around the main shopping mall resulting in extended journey times and delays to services. We are working with Centro and the City Council to resolve these matters as quickly as possible.

We have undertaken a series of successful joint marketing initiatives with the local authorities to promote key events and destinations within the West Midlands. Many of these promotions have been backed up by special travel offers giving added value to passengers. In addition, we have joined forces with Centro to open the latest one-stop shop for travel information and sales in the West Midlands. We have also supported Centro in their relaunch of Travelwise which promotes travel by public transport and launched our first internal journey planning facility as part of the West Midlands Traveline service. We actively encourage travel by bus as part of a journey through involvement in the PlusBus integrated rail-bus ticketing scheme.

We continue to invest in our bus operations. In Birmingham, we introduced 155 new vehicles during the year which has resulted in 60% of the fleet now being low-floor easy access, well above the industry average. We have a further 155 buses on order for our West Midlands operation for delivery in 2004. Nearly half of the fleet has CCTV installed and during the period we extended our involvement and promotion of the Operation Safer Travel initiative.

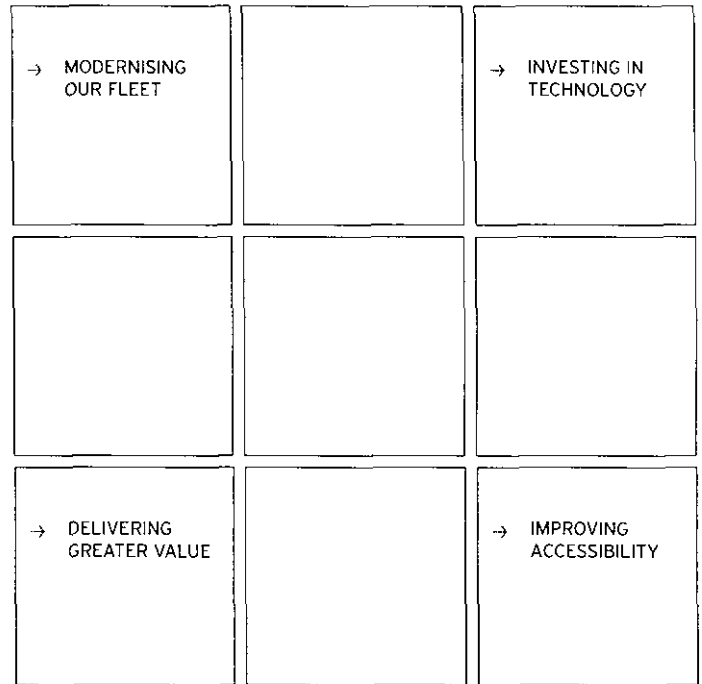
In Coventry, the roll-out of the new Travel Coventry brand was completed and feedback from customers and stakeholders has been very positive. In December we were the first bus operator to sign a Transport Partnership Concordat committing Coventry City Council, Centro and ourselves to work in partnership for the promotion and enhancement of bus services across the region. We believe that this is a major positive step by all parties for the future development of the network of services and believe that additional quality partnerships will be launched on the back of this.

To support this initiative we introduced nine new low-floor articulated vehicles into the Coventry fleet which has resulted in 14% growth in passenger numbers in the first eight months. In addition, the first phase of the smartcard scheme in Coventry, targeted at seniors, was launched with over 30,000 smartcards issued.

Travel Dundee performed well with an increase in patronage.

We remain committed to developing public transport services in the West Midlands and Dundee. We were pleased to be the first bus operator nationwide to adopt the Bus Forum Service Stability initiative which ensures that service changes are only undertaken on a maximum of twelve dates per annum. We remain strongly of the view that quality partnerships are the way forward for our bus operations as all our stakeholders are beneficiaries. We aim to be the first bus operator to sign a statutory quality partnership later this year.

We believe that the acquisition of Connex bus operations in London positions our bus division well for the future and provides the foundation for future growth opportunities.



“We were the first bus operator to sign a Concordat committing Coventry City Council, Centro and ourselves to work in partnership for the promotion and enhancement of bus services across the region.”

REVIEW OF OPERATIONS

TRAINS

WE OPERATE C2C, CENTRAL TRAINS, GATWICK EXPRESS, MIDLAND MAINLINE, SCOTRAIL, SILVERLINK, WAGN INCLUDING THE STANSTED EXPRESS AND THE WESSEX TRAINS FRANCHISES. THE DIVISION CURRENTLY EMPLOYS 12,800 PEOPLE.

Turnover for the year increased by 10% to £1,702.4 million (2002: £1,553.2 million). Normalised operating profit was £32.0 million (2002: £33.9 million). This reduction was due to increased headcount to improve operational performance, increased pensions and insurance costs as well as a subsidy reduction for our London and South East operations.

We are pleased that patronage across the division was up 5% on last year with particularly strong growth across the long distance and London and South East companies.

Operational performance has improved over the past twelve months through closer working relationships with Network Rail. We believe a more hands-on approach through joint Boards and a further investment in driver resources will deliver improvements. Within our own operations, we have introduced performance improvement plans designed to enhance performance control at all levels within the TOCs. At Midland Mainline and Central Trains we have brought the operations and engineering functions closer together through a reorganisation of these businesses.

We have strengthened our Trains division management teams over the past six months with a number of senior appointments from within the industry including the appointment of a new fleet engineering director and managing directors for the Midland Mainline and the Greater Anglia franchises. In February 2004 we appointed David Franks as the Chief Executive of the division.

LONDON AND THE SOUTH EAST Turnover for the period was £555.9 million (2002: £535.7 million). Normalised operating profit was £20.0 million (2002: £21.0 million). Patronage growth on these services was very encouraging at 7%, mainly from off-peak travel.

Both Wagn and c2c performed well with Stansted Express achieving strong patronage growth of 17%, reflecting the growth of the airport. We commenced the introduction of driver only operations at c2c towards the end of the year. Patronage on Gatwick Express is improving but this franchise continues to be impacted by the relocation of international flights from Gatwick airport.

LONG DISTANCE Turnover for the year increased to £207.0 million (2002: £156.1 million) with an operating profit of £12.4 million (2002: £8.2 million). This increase reflected the commencement of operations by Midland Mainline ("MML") of a new London to Manchester service, which started in May 2003 at the request of the SRA and additional compensation received as a result of engineering work. Passenger numbers on this service have been encouraging with many passengers transferring to the route following the West Coast Main Line blockade throughout the summer months. Overall there was a 6% increase in patronage.

→ FOCUSING ON PERFORMANCE		→ WORKING WITH PARTNERS TO IMPROVE RELIABILITY		→ INVESTING IN OUR PEOPLE
→ BUILDING A SERVICE FIT FOR THE 21ST CENTURY		→ MONITORING CUSTOMER SATISFACTION		→ WINNING THE GREATER ANGLIA FRANCHISE

“We are pleased that patronage across the division was up 5% on last year with strong growth across the long distance and London and South East companies.”

We continue to undertake the refurbishment of MML's 15 high speed trains. With half of the fleet already completed, it is anticipated that the whole fleet will be finished by Spring 2004. The first of the new Meridian trains is expected to come into operation later this year.

MML's performance continues to be impacted by the Channel Tunnel Rail Link development work at St Pancras. During the course of this year, its operations will be restricted by a reduction in the number of platforms at St Pancras and the opening of a temporary station.

REGIONAL SERVICES Turnover for the period was £939.5 million (2002: £861.4 million) with a normalised operating loss of £0.4 million (2002: profit £4.7 million).

As part of our two year extension at Central, £5.0 million will be invested over the next two years in passenger benefits including a new Customer Service Academy for all Central staff. Following the reopening of Birmingham city centre, Central's patronage has increased 3% year-on-year as shoppers from a wider catchment area are travelling to Birmingham by train. During the year, Central took over operation of the Birmingham to Cardiff and Liverpool services. Operational performance continues to be a challenge but we are making progress in this area.

Wessex Trains increased its operations significantly over the last twelve months following a transfer of selected services from Virgin Trains to Wessex. Patronage growth during the year was a very creditable 8%. In February 2004 a two year extension for Wessex was signed.

ScotRail's patronage grew by 7%. Operational performance has improved and recent passenger research has shown marked improvements in customer satisfaction. This month will see the delivery of 21 new turbostar trains. At the request of the SRA and the Scottish Executive, we are extending our existing franchise by seven months to October 2004 to assist with the refranchising process.

At the beginning of this month, we merged our Qjump operation with Trainline.com, creating a stronger, larger operation for rail ticket sales. As part of the merger we have acquired a 14% shareholding of the enlarged business. The combined business consolidates Trainline.com's position as the UK's leading rail ticketing retailer and we believe the enlarged entity will be more successful moving forward.

Earlier this month we signed two year extensions for our Great Northern and Wessex franchises. Moving forward a two year franchise extension is under discussion for Silverlink and we await the preferred bidder announcement for the ScotRail franchise. Plans are well underway for the launch of the Greater Anglia franchise at the beginning of April. We are also preparing ourselves for the next round of franchise bids including the Intercity East Coast rail franchise. We look forward to further improvements in operational performance across the division.

REVIEW OF OPERATIONS

COACHES

THE COACH DIVISION PROVIDES BRITAIN'S ONLY SCHEDULED NATIONAL COACH NETWORK AND SERVES MORE THAN 1,200 DESTINATIONS. THE AIRPORT SERVICES PROVIDE PREMIER, HIGH FREQUENCY SCHEDULED COACH SERVICES TO ALL THE UK'S MAJOR AIRPORTS, AS WELL AS AIRSIDE COACHING SERVICES. EUROLINES OFFERS VALUE FOR MONEY EUROPEAN TRAVEL BY COACH. THE DIVISION EMPLOYS 1,900 PEOPLE.

Turnover for the year was £186.6 million (2002: £184.5 million) with a normalised operating profit of £15.0 million (2002: £12.2 million). This was especially pleasing against a background of uncertainty in the tourist market. Progress in the second half was exceptional with patronage up 2% for the year. We have invested in better management systems, which has facilitated improved yield management, as well as focusing on cost control and increasing the proportion of direct sales.

Key routes have seen a significant growth in patronage and delivered well above average revenue growth. Widespread promotion of our scheduled services, particularly to major events such as the Glastonbury Festival, has delivered good results. Best value fares have been rolled out to our most popular routes and this has reduced costs with less duplication of services as passengers have transferred to non-peak services.

The concessionary travel scheme, launched in May in conjunction with the Department for Transport, provides all disabled customers and those over the age of 60 with up to half price travel on over 80% of our services. Over a million passengers have benefited from this scheme since it started.

The refocusing of our airport services and strengthening of management, has produced good growth despite the well publicised issues with which the airline industry has had to contend. We have improved coach links from Stansted into Central London. With the continuing strong growth in passenger numbers using Stansted and plans for an additional runway at the airport, we believe further growth will occur.

We look forward to the future with confidence following a successful 2003. We are extending our £1 best value fares across the network and continuing to invest in our coach facilities. We remain committed to investing in a new coach station in Birmingham as a key hub for our services.

→ VALUE FOR MONEY FARES		→ BRIGHTER FACILITIES
→ REFOCUSED SERVICES		→ ENCOURAGING GROWTH

Moving forward we aim to meet the coach travel needs of the future whilst continuing to provide a value for money product. We believe there is scope to improve further the product offering and consequently we are continuously reviewing vehicle design and on board facilities as well as investing in training and development of drivers and other front line staff.

“Progress in the second half was exceptional with patronage up 2% for the year.”

REVIEW OF OPERATIONS

NORTH AMERICA

THE NORTH AMERICAN DIVISION CONSISTS OF STUDENT TRANSPORTATION, PUBLIC TRANSIT OPERATIONS AND STEWART AIRPORT IN NEW YORK STATE. THE DIVISION EMPLOYS 21,000 EMPLOYEES, WITH 1,700 IN CANADA. STUDENT TRANSPORTATION PROVIDES SERVICES IN MORE THAN 260 SCHOOL DISTRICTS AND TWO CANADIAN PROVINCES. PUBLIC TRANSIT OPERATES IN 18 STATES.

Turnover in the student transportation division for the year was £228.1 million (2002: £219.6 million) and normalised operating profit was £32.4 million (2002: £30.9 million). In US dollars, turnover was \$374.1 million (2002: \$331.6 million) and normalised operating profit \$53.1 million (2002: \$46.6 million). Progress within this division has been encouraging, particularly in Canada, with underlying trading in the Canadian marketplace being very positive.

New routes were added at Durham School Services in spite of the slowing US economy and lower tax revenues which have impacted on school district budgets. New contracts were won in Arizona and Kansas and we added two new conversions in Natchez, Mississippi and Uvalde, Texas. Durham School Services has maintained its regional, targeted focus in bidding. In common with Stock Transportation, its strength is based on its attention to safety and provision of a quality service.

We are pleased with the performance of our Canadian business after its first full year of ownership. The quality of its management and their strong relationships with school boards has resulted in sustainable organic growth. Whilst many of the factors which are key to operating successfully in the United States student bus market are also common in the Canadian market, Canada has not experienced some of the significant cost pressures particularly increased workers' compensation and insurance claim costs. We continually focus on extracting synergy savings across the two businesses particularly in the areas of fleet and parts procurement.

Turnover in the public transit division was £172.0 million (2002: £188.4 million) and normalised operating profit was £4.6 million (2002: £1.7 million). In US dollars turnover was \$282.1 million (2002: \$284.5 million) and normalised operating profit \$7.6 million (2002: \$2.6 million). During the year we

→ AN INTEGRAL PART OF THE COMMUNITY		→ SAFETY IS NOT NEGOTIABLE
→ TAILORING SERVICES TO MEET EXACT NEEDS		→ ARRIVING AT SCHOOL, SAFE, ON TIME AND READY TO LEARN

“New routes were added at Durham School Services and Stock Transportation performed well in its first full year in the division.”

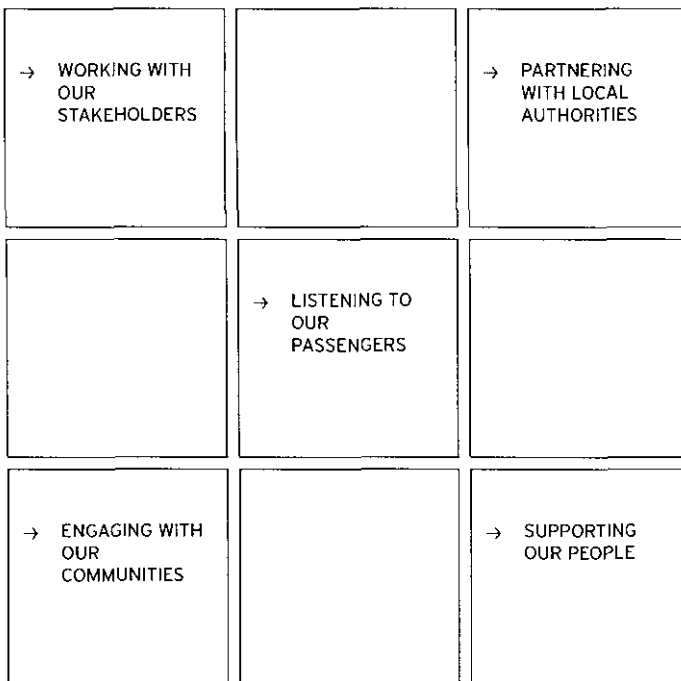
withdrew from a number of underperforming contracts and key contracts were retained at improved rates to address increasing insurance costs. Operating costs across the public transit division remain an area for focus. Following a benchmarking exercise across the engineering and maintenance functions, we are rolling out best practice across our depots. As part of our accident and claims initiative launched last year, all our safety programmes focus on preventability and reducing accident frequency through improved safety training. We are pleased to note that the accident frequency rates have fallen this year.

Moving forward Brian Stock, President and Chief Executive Officer of Stock Transportation, will head up our North American student bus operations working alongside John Elliott who has been Chief Operating Officer of Student Transportation for the past three years. Jim Long will continue to head up our public transit operations. During 2004 we will focus on retaining profitable contracts across the division, reducing the cost base further and improving the competitiveness of our bids. We will continue to look for share shift and conversion opportunities as well as bolt on acquisitions within student transportation.

REVIEW OF OPERATIONS

AUSTRALIA

THE GROUP OPERATES SIX BUS COMPANIES IN AUSTRALIA. OPERATIONS ARE IN BRISBANE, MELBOURNE, PERTH AND SYDNEY AND EMPLOY 1,800 PEOPLE.



“The range of services we run integrate public transport services thereby increasing the appeal of travel by public transport.”

Turnover for the Australian Bus division totalled £65.1 million (2002: £58.0 million) with a normalised operating profit of £3.4 million (2002: £2.3 million). Trading remains in line with expectations. The New South Wales Government review of bus services has recommended a reduction in the number of operator areas in the Greater Metropolitan area of Sydney. We believe that Westbus, as the largest private operator in New South Wales, will play a key role in the review.

CORPORATE RESPONSIBILITY

CORPORATE RESPONSIBILITY IS CENTRAL TO THE FUTURE SUCCESS OF THE NATIONAL EXPRESS GROUP:
IT'S ABOUT WHAT WE DO AND HOW WE DO IT.

The services provided by the National Express Group are at the heart of the development and support of sustainable and efficient public transport.

We provide public transport services that deliver a wide social benefit – carrying people every day from A to B in safety, on time, economically and with minimum impact on the environment. We support, direct and guide our people by providing systems and expertise which enable them to integrate responsible practices into their working day. This ensures we deliver services that meet the needs of the local communities we serve.

Our second Corporate Responsibility Report, which we have published alongside the Annual Report and Accounts 2003, explains how we are improving our services in order to encourage more customers to use public transport. Full details can be found on our website www.nationalexpressgroup.com. Whilst such an outcome is clearly good for business, it is also good for the environment and for local communities. In our view, there is nothing incompatible between corporate responsibility and profitability.

2003 was a year of rewarding progress, as we focused on improving the quality of our services, while also protecting our environment, enabling our people and supporting the local communities we serve.

As part of a devolved organisation, our local management teams are responsible for the day-to-day running of their operations. Our corporate team is there to set policy and standards, support the adoption of best practice and the implementation of improvement plans and to monitor and report on performance.

We are in regular contact with all our key stakeholders; customers, rail passenger groups (RPCs), local and regional government, transport bodies, employees, suppliers and shareholders. We also continue to meet investors interested in the Group's corporate and social policies. We are pleased to be a member of both the Dow Jones Sustainability and FTSE 4 Good Indexes, the first indexes which track the financial performance of the world's leading sustainability-driven companies.

Public transport has huge potential to deliver social and environmental benefits and we have made good progress against the environmental objectives we identified in last year's Corporate Responsibility Report. The most significant environmental issues that arise from our operations are

emissions of greenhouse gases and other atmospheric pollutants. We believe that public transport will play a key role in the transition to a low carbon economy and in meeting Government targets for reducing the emissions of greenhouse gases. As Government Policy to tackle climate change takes effect, the business environment will change. The cost of energy is likely to increase significantly but there may be considerable opportunities if transport projects that save carbon are permitted to enter into emissions trading schemes. The Group has recently formed a partnership with the Carbon Trust, an independent organisation set up by Government, to help organisations make business sense of climate change and to help the UK make the transition to a low carbon economy. We have been elected to participate in its carbon management pilot programme to develop a comprehensive carbon management strategy.

Our people operate at the front line of our businesses and make a huge contribution to the quality of our services. We are committed to making the National Express Group a safe and rewarding environment in which to work. This year we have carried out extensive communications with staff, including the first UK-wide employee survey. As committed in our Corporate Responsibility Report 2003, we have also developed our first UK-wide Equal Opportunities and diversity policy.

As local companies operating at a local level, National Express Group businesses play an important role in helping to overcome social exclusion by providing public transport services in their local communities. In 2003, we continued to invest in order to meet the requirements of the Disability Discrimination Act ("DDA") and to enable more citizens to access our services. We have now incorporated many DDA compliant facilities into our facilities and work closely with suppliers to achieve this.

At a local level, our operations provide expertise, funds and other support to a wide range of organisations. During 2003 we continued our support for the National Missing Persons Helpline. We provide travel facilities and sites where posters of missing persons can be displayed as well as financial support. Our efforts have helped to result in a number of positive outcomes for families whose loved ones have gone missing. This support will continue during 2004, most actively within our bus and coach divisions. To mark 2003 being the Year of the Disabled, the Group also developed an association with a number of disabled charities including Candoco, which promotes dance amongst both the able and less able. The Group also regularly contributes to a number of industry related bodies.

**I AM PARTICULARLY
PLEASED AT THE PROGRESS
THE GROUP HAS MADE FROM
A FINANCIAL VIEWPOINT
OVER THE PAST YEAR**

Adam Walker
Finance Director

Securing a number of two year extensions has provided more stability to our UK Trains profits and the acquisition of Connex Bus along with the new Greater Anglia franchise provides opportunities for further profit growth. Our business faces increasing cost pressures which we mitigate through long term pay deals, fuel hedging and tight financial procedures and controls.

“The strong cash performance of the Group demonstrates our ability to convert operating profits into cash and underlines the importance we attach to managing cash in our various businesses.”

YEAR AT A GLANCE

Normalised* Group operating profit was £134.6m (2002: £130.9m), on turnover of £2,566.1m (2002: £2,572.3m). Normalised profit before tax from continuing operations was £105.5m (2002: £106.7m). Normalised diluted earnings per share were 59.7p (2002: 60.3p), a small reduction caused by lower profits and a higher average number of diluted shares. Cash flow was strong with effective net debt** reducing by £26.8m to £307.8m after paying out the Australian Trains cash exit costs of £49.8m. Full year dividend per share increased by 6% to 26.0p (2002: 24.5p).

* Where we refer to a normalised result, this is defined as the statutory result before the following as appropriate: charges for goodwill amortisation, exceptional charges and tax relief thereon.

** Effective net debt is net debt excluding the £18.7m of cash deposits secured as a bond in respect of future rolling stock maintenance at ScotRail.

DIVISIONAL REVIEW

BUSES Turnover increased by 2% to £211.9m (2002: £208.7m). Operating profit fell to £47.2m (2002: £49.8m). The difficulty of operating in the centre of Birmingham as a result of the redevelopment of the Birmingham Bull Ring has dampened revenue growth. The fall in operating profit reflects the increasing number of buses financed by operating leases, now totalling 377, which is 20% of the fleet. The increase in the lease charges in the year of £2.7m compares with a notional saving on depreciation of £1.3m. As a result, the operating margin reduced to 22.3% (2002: 23.9%). We will continue to review the most cost effective way to finance our new bus purchases.

TRAINS Turnover increased by 9.6% to £1,702.4m with overall patronage growth of 5% across our portfolio of TOCs. Normalised operating profit fell to £32.0m (2002: £33.9m).

	Turnover 2003 £m	2002 £m	Normalised operating profit / (loss) 2003 £m	2002 £m
London and South East	555.9	535.7	20.0	21.0
Long distance	207.0	156.1	12.4	8.2
Regional services	939.5	861.4	(0.4)	4.7
	1,702.4	1,553.2	32.0	33.9

Normalised operating profit in our London and South East TOCs fell to £20.0m (2002: £21.0m). Turnover increased by £20.2m as strong passenger revenue growth offset the £12.2m net reduction in subsidy. The normalised operating margin fell to 3.6% (2002: 3.9%) reflecting increased passenger compensation payments.

Our long distance TOC increased turnover by 32.6% and normalised margins to 6.0% (2002: 5.3%), benefiting from the SRA's decision to strengthen London to Manchester services whilst the West Coast Route Modernisation was in progress. Margins were also assisted in part by performance compensation related to the Channel Tunnel Rail Link construction work at St. Pancras. This work continues throughout 2004 and will have a significant impact on

operational performance and therefore may restrict passenger growth during the year. We are expecting to receive the first of our new Meridian train fleet later this year.

The regional TOCs made a normalised operating loss of £0.4m (2002: £4.7m profit). From the beginning of April, Central Trains and ScotRail will operate on new improved terms. The former as part of the two year extension and the latter a seven month extension currently being finalised with the SRA. We ceased to operate Wales & Borders from 6 December 2003.

Since the year end we have undertaken two restructuring exercises. Qjump.co.uk, our on-line loss making ticketing service which we set up in January 2002, was merged with Trainline.com, the UK's leading on-line rail ticket provider, on 9 February 2004. Our train maintenance company, Maintrain, will cease to pursue maintenance work outside of the Group and instead concentrate on improving rolling stock performance for Midland Mainline and Central Trains.

Consequently, we have removed the 'Other' segmental disclosure for the Trains division, reallocating the profit or losses of Maintrain and Qjump to the division in which they conducted their activities.

COACHES Our Coach operations performed strongly increasing normalised operating profit by 23.0% to £15.0m (2002: £12.2m). Yield management on ticketing and the introduction of the concessionary fare scheme providing discounted travel to the over 60s increased turnover from continuing operations by 2.9% to £186.6m (2002: £181.4m). Investment in management systems during the year provided improved route by route profitability analysis enabling key strategic decisions to be implemented to target this growth. The normalised operating margin improved to 8.0% (2002: 6.6%) benefiting from the improved ability to avoid duplicate coaching costs as passengers switch journey times to the off peak.

NORTH AMERICA Normalised operating profit increased by £7.0m before a £2.6m adverse foreign exchange movement. Turnover fell by £7.9m, but at constant exchange rates increased by £24.5m.

	Turnover 2003 £m	2002 £m	Normalised operating profit 2003 £m	2002 £m
Student				
Transportation	228.1	219.6	32.4	30.9
Public Transit	172.0	188.4	4.6	1.7
	400.1	408.0	37.0	32.6
	\$m	\$m	\$m	\$m
Student				
Transportation	374.1	331.6	53.1	46.6
Public Transit	282.1	284.5	7.6	2.6
	656.2	616.1	60.7	49.2

Average US dollar exchange rate of 1.64 (2002: 1.51).

FINANCE DIRECTOR'S REPORT

Turnover in our Student Transportation business increased by £8.5m (and £25.2m at constant exchange rates) through the full year effect of Stock Transportation ("Stock"), acquired in July 2002, and new routes operated. Normalised operating margin improved to 14.2% (2002: 14.1%) through tight control of costs and the full year impact of Stock. The 2003 bid season was price competitive and we expect this to continue during the current bid season. Stock performed well. The evergreen nature of the Canadian market provides long term stability.

The normalised operating margin of our Public Transit business improved to 2.7% (2002: 0.9%). Whilst encouraging, this is still not at a level that we find acceptable. We are continuing with our policy of eliminating unprofitable contracts and negotiating new contracts at substantially higher rates to mitigate the effects of on-going claims and insurance cost pressures.

AUSTRALIA Our Australian Bus operations experienced an encouraging year, increasing normalised operating profit to £3.4m (2002: £2.3m) on turnover of £65.1m (2002: £58.0m). Normalised operating margin increased to 5.2% (2002: 4.0%).

ASSOCIATES

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

Altram has operated the Midland Metro since June 1999. Our share of the operating loss for 2003 was £0.5m (2002: £0.5m). We are in discussions with our fellow shareholders at Altram and Centro regarding a restructuring which may lead to the Group taking full ownership.

ICRRL is contracted to manage the operations of Eurostar UK to 2010. Our share of the operating loss for the year was £3.6m (2002: £3.5m), which represented a second half loss of £0.1m. Revenue performance at Eurostar UK improved markedly in the last quarter of 2003, after the opening of the first section of the Channel Tunnel Rail Link. The second half also benefited from settling several large claims with its partners. The cash outflow of £3.9m comprises the Group's share of funding for the 2002 losses. We continue to seek an exit from Eurostar which we believe is in the best interests of shareholders.

INTEREST

Net interest payable increased to £25.0m (2002: £20.1m) reflecting a higher level of net debt in the first half of 2003 following payments of £49.8m mainly to indemnify the providers of the performance bonds in respect of our withdrawal from Australian Trains. Interest payable was also impacted, but to a lesser extent, by higher interest rates. Normalised Group operating profit before depreciation (EBITDA) from continuing operations was £194.8m (2002: £191.5m) and EBITDA interest cover from continuing operations was 7.8 times (2002: 9.5 times).

GOODWILL AMORTISATION

The annual goodwill amortisation charge increased to £45.7m (2002: £45.2m) reflecting a full year amortisation charge for the Stock acquisition in July 2002, offset by the weakening of the US dollar.

EXCEPTIONAL ITEMS

Exceptional items comprise £5.3m (2002: £5.0m) of pre-contract bid costs incurred in the UK Trains refranchising process.

TAXATION

The tax charge on normalised profit of £105.5m (2002: £106.8m) was £24.3m (2002: £24.6m), which represents an effective rate of 23.0% (2002: 23.0%). Continuing low effective tax rates on overseas earnings maintain a low overall rate.

The total tax charge includes one off credits of £6.0m arising from a review of Group tax liabilities as a result of agreeing prior years' computations. It also includes tax relief on certain North American goodwill amortisation and UK Trains exceptional costs.

DIVIDEND

An interim dividend of 8.5p per share was paid in October 2003 and a final dividend of 17.5p per share will be paid in May 2004, bringing the total dividend for the year to 26.0p. This is a 6% increase in total dividends declared compared to 2002. This dividend is covered 2.3 times (2002: 2.5 times) by normalised profits after tax.

CASH FLOW

The strong cash performance of the Group demonstrates our ability to convert operating profits into cash and underlines the importance we attach to managing cash in our various businesses. We generated £156.9m (2002: £176.5m) of on-going operating cash flow* from continuing businesses and £139.7m (2002: £90.5m) after other items.

Strong working capital inflows in UK Coach and North America resulted from improved receivable collections and the on-going timing delays in settling accident claims in North America where the cash outgoings were £5.4m less than the claims. The working capital outflow in the UK Trains division includes a catch up payment of £43m on contractual and performance payments to Network Rail which was partially offset by timing differences of £2.5m which will reverse in 2004. £3.9m was paid to fund our share of Eurostar losses from the previous year.

Net capital expenditure of £43.1m from continuing operations (2002: £52.4m) includes £9.1m (2002: £0.3m) in UK Buses, £8.4m (2002: £17.3m) in UK Trains and £17.0m (2002: £19.0m) investment in North American school buses. Capital expenditure includes £8.0m (2002: £0.8m) of additions purchased under finance leases, comprising £0.1m (2002: £0.1m) in UK Buses, £0.3m (2002: £0.5m) in UK Coaches, £1.0m (2002: £0.2m) in UK Trains, and £6.6m (2002: £nil) in North American school buses. A further £7.6m of expenditure incurred in the year will be paid for in early 2004.

The reduction in capital expenditure this year reflects the reduced capital requirements of the Trains division as a large number of our franchises approach the end of the current contracts and North America where we have started a major exercise in fleet utilisation to improve efficiency.

Other items comprise £5.0m for a top up payment into the Coaches pension scheme, £4.9m for train bid costs, and £7.3m to unwind the working capital position upon exiting the Wales and Borders rail franchise.

Net funds inflow was £66.6m, before payments of £49.8m to settle the performance bonds and other costs relating to the exit from Australian Trains and a foreign exchange gain of £10.0m. Therefore, the effective net debt was reduced by £26.8m to

£307.8m, with the benefit of a favourable exchange movement of £10.0m arising principally from the translation of US\$ denominated debt. The published net debt of £289.1m is stated after taking into account £18.7m of cash deposits secured as a bond in respect of future rolling stock maintenance at ScotRail.

PENSIONS

The Group's principal defined benefit pension schemes are all in the UK. The most recent triennial actuarial valuations were carried out at 31 March 2001 and 31 March 2002 for the two Bus schemes, 5 April 2001 for Coaches and 31 December 2001 for the Train schemes. These valuations showed funding levels of 107% to 119% on the Bus schemes, 67% on the Coach scheme and 89% to 109% on the Train schemes. Approximately 1,750 (32%) Bus division employees are members of the two schemes, which have been closed for some years, and some 500 members of staff are members of the Coach division scheme. New employees in the Bus and Coach division are offered membership of defined contribution pension schemes. In the Trains division approximately 12,500 employees are members of the Train schemes. The Group injected £5.0m into the Coach scheme in March 2003 in order to enhance its funding position.

We continue to provide full disclosure, set out in note 29 to the accounts, of the FRS 17 position of the defined benefit schemes in the Group which includes the Train pension schemes, where our main obligation is to pay the contributions agreed with the scheme actuary.

Overall, the FRS 17 deficits have increased as the increased values of the financial assets, reflecting the improvements in global stock markets, have been more than offset by increases in the liabilities arising from decreases in the discount rate and higher inflation as well as the extra year of service. The deficit in the Bus schemes has increased to £38.7m (2002: £18.7m); the increase in liabilities of £32.7m compares with the asset increase of £12.7m. We expect to increase the Group's contribution to the Bus schemes in 2005 after the next actuarial valuation. In the Coach scheme the deficit reduced to £4.7m (2002: £9.5m), mainly as a result of the £5.0m injection in the year. In the Train schemes the deficit increased to £70.8m (2002: £53.8m) with the increase in liabilities of £82.7m being significantly more than the asset increase of £65.7m.

	UK Bus £m	UK Coaches £m	UK Trains £m	North American Bus £m	Australian Bus £m	Total £m
Normalised operating profit	47.2	15.0	32.0	37.0	3.4	134.6
Depreciation	10.0	4.8	21.8	24.4	3.7	64.7
Amortisation of fixed asset grants	—	—	(3.0)	—	—	(3.0)
Profit on disposal	(0.4)	—	(1.1)	0.3	(0.3)	(1.5)
EBITDA	56.8	19.8	49.7	61.7	6.8	194.8
Working capital movement	(3.7)	10.2	(7.0)	9.1	0.5	9.1
Eurostar	—	—	(3.9)	—	—	(3.9)
On-going net cash inflow from operations	53.1	30.0	38.8	70.8	7.3	200.0
Net capital expenditure	(9.1)	(6.0)	(8.4)	(17.4)	(2.2)	(43.1)
On-going operating cash flow	44.0	24.0	30.4	53.4	5.1	156.9
Other items						(17.2)
Operating cash flow						139.7

* Operating cash flow represents "Net cash inflow from operating activities" plus "Receipts from the sale of tangible assets" less "Finance lease additions" and "Payments to acquire tangible assets" as set out in note 32c and the cash flow statement.

FINANCE DIRECTOR'S REPORT

POST BALANCE SHEET EVENTS

On 9 February 2004 we merged our train on-line ticketing service, Qjump.co.uk, with Trainline.com. We have acquired 14% of the equity in Trainline, which will be classified as a trade investment.

On 25 February 2004 we acquired the entire issued share capital of Connex Bus UK Limited for a nominal consideration.

We will take over the new Greater Anglia train franchise from 1 April 2004. This will be the first franchise operated under the new franchise template agreement and will be for an initial period of seven years with an extra three years if performance targets are achieved in the first five years. The performance bond requirement will be £5m at inception rising to £22m by April 2006. There will be a share capital cash subscription of £15m and we will maintain an amount of cash in the company calculated in accordance with the financial covenants. It is estimated that the franchise will commence with season ticket bonded cash of approximately £43m of which £9m will come from the present West Anglia franchise.

ACCOUNTING POLICIES

UK GAAP We continue to apply the transitional arrangements of FRS 17 "Retirement Benefits" and plan to move directly to the International Accounting Standard equivalent (IAS19) in 2005 following the Accounting Standards Board's decision to defer full adoption of FRS17. UITF 38 "Accounting for ESOP trusts" will be adopted from 1 January 2004, resulting in own shares held as fixed asset investments at 31 December 2003 being deducted in the calculation of shareholders' funds.

IFRS The Council of the European Union announced in June 2002 that all listed companies would adopt International Financial Reporting Standards (IFRS), formerly known as International Accounting Standards (IAS), from 1 January 2005. The adoption of IFRS will be first reflected in the Group's financial statements for the half year ending 30 June 2005 and the year ending 31 December 2005. The Company has established a project team to manage the convergence to IFRS. Throughout this process we have worked closely with our auditors, Ernst & Young LLP.

At the date of this report, the Group has made good progress on converting to IFRS. Whilst the Group has undertaken an exercise to understand the differences between IAS/IFRS and the Group's current policies, the conversion project is on-going. A number of new standards were only issued by the IASB in December 2003 and the IASB have indicated they will not issue all the standards which will apply for adoption in 2005 until March 2004. The IASB are also expected to continue to issue further new standards during 2004, 2005 and beyond, for which the Group will consider early adoption on a case by case basis. In addition, the International Financial Reporting Interpretations Committee are expected to continue to issue interpretations which will apply to the standards that are mandatory for 2005.

TREASURY

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

LIQUIDITY AND FUNDING Our policy is to ensure that we have access to sufficient medium and long-term committed credit facilities to be able to meet all our current and forecast financial requirements as cost effectively as possible. As at 31 December 2003, the Group had committed credit facilities of £653m of which £277m were undrawn. Since the year end we have cancelled £140m of our £200m 364 day bank facility and extended the remaining balance until 28 February 2005. In addition, we have a £400m bank facility which expires in February 2008. While we centralise these facilities to minimise cost of funds, we also have access to uncommitted working capital facilities in the UK, USA and Canada to help maximise funding flexibility. Cash deposits and derivative instruments are transacted only with banks, which have as a minimum an "A" long-term credit rating.

INTEREST RATES It is our policy to maintain an appropriate balance between fixed and floating interest rates on borrowings in order to provide certainty as to the level of our interest expense in the short term and to reduce the year on year impact of interest rate fluctuations over the medium term. Interest on the Group's debt is based on LIBOR and, to achieve the above objectives, we have entered into a series of interest rate swaps. The net effect of these transactions was that as at 31 December 2003, the Group was hedged against interest rate movements on £234.3m of gross debt, for an average of 5.1 years. Based on the year end debt, each 1% increase in interest rates would cost the Group approximately £1.5m.

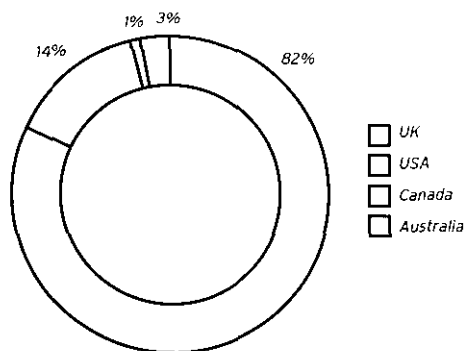
CURRENCY RATE RISK Our investments in overseas operations, which are primarily in the USA, Canada and Australia, expose us to translation risk on net assets and on earnings denominated in foreign currency. The geographic spread of operations is illustrated by the charts on page 33. It is our policy to hedge between 50% and 100% of our investment in foreign currency denominated net assets. This is achieved in the first instance with foreign currency denominated debt, the interest on which reduces our translation exposure on net earnings in that currency, and then with forward foreign currency contracts. As at 31 December 2003, the Group had hedged 85% of its investment in US dollar denominated net assets, 82% of its investment in Australian dollar denominated net assets and 100% of its investment in Canadian dollar denominated net assets.

The average exchange rates for the year for the US dollar were US\$1.64 (2002: US\$1.51), for the Australian dollar were A\$2.53 (2002: A\$2.78) and for the Canadian dollar were C\$2.31 (2002: C\$2.47). Each 1% weakening of the US dollar exchange rate would reduce the Group's operating profit by approximately £0.3m. A 1% weakening in either the Canadian or Australian dollar exchange rates would not alter the Group's operating profit by a material amount.

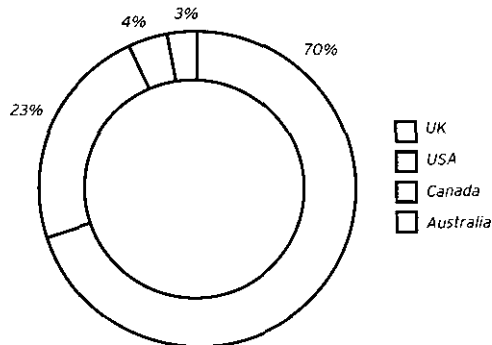
The Group also has transactional currency exposures. With the exception of fuel purchases, as noted below, we believe that these exposures are immaterial.

COMMODITY PRICES We are exposed to commodity price risk as a result of fuel usage. It is our policy to hedge this exposure in order to provide certainty as to the level of fuel costs in the short term and to reduce the year on year impact of price fluctuations over the medium term. This is achieved by entering into fuel swaps and purchase contracts. As at 31 December 2003, the Group had hedged approximately 84% of its 2004 expected usage, 48% of its 2005 expected usage and 30% of its 2006 expected usage.

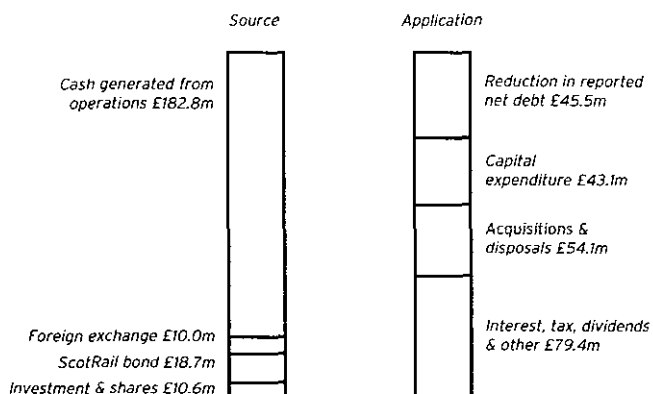
Turnover by geographic market



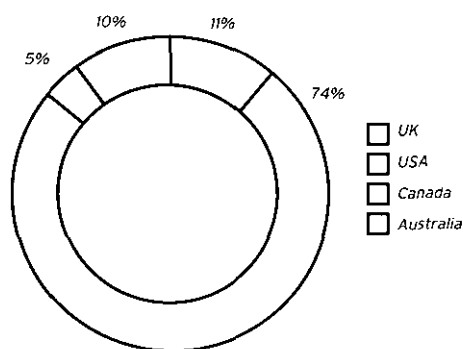
Operating profit before goodwill and exceptional items by geographic market



Source and application of funds statement



Net operating assets by geographic location



FINANCIAL HIGHLIGHTS OF 2003

- **TURNOVER FROM CONTINUING OPERATIONS IS UP 6% TO £2.6 BILLION (2002: £2.4 BILLION)**
- **NORMALISED OPERATING PROFIT UP 3% TO £134.6 MILLION (2002: £130.9 MILLION)**
- **NORMALISED PROFIT BEFORE TAX OF £105.5 MILLION (2002: £106.8 MILLION)**
- **NORMALISED DILUTED EARNINGS PER SHARE OF 59.7 PENCE (2002: 60.3 PENCE)**
- **FINAL DIVIDEND INCREASED BY 6.7% TO 17.5 PENCE**
- **STRONG OPERATING CASHFLOW FROM CONTINUING BUSINESSES OF £139.7 MILLION (2002: £105.5 MILLION)**
- **EFFECTIVE NET DEBT REDUCED TO £307.8 MILLION (2002: £334.6 MILLION)**

BOARD OF DIRECTORS AND COMPANY SECRETARY

MICHAEL DAVIES

Chairman

Michael Davies has been Chairman since 1992. During a long and successful career, Michael has been a director of a number of public companies. He has served as Chairman of Calor Group plc, Perkins Food plc, Simon Group plc and as Deputy Chairman of GPA plc. He was a non executive director of British Airways plc until his resignation in 2002. Aged 69.

PHIL WHITE

CBE Chief Executive

Phil White has extensive experience of the transport business over many years. He is a chartered accountant and worked for South and West Yorkshire Passenger Transport Executive and Yorkshire Rider in various senior finance roles. In July 1994 he was appointed Group Finance Director of West Midlands Travel Limited becoming Managing Director in November 1995. He was appointed to the Board of National Express Group in January 1996 and became the Group's Chief Executive in January 1997. Aged 54.

ADAM WALKER

Finance Director

Adam Walker joined the Board as Finance Director in March 2003. Since joining the Group in October 2001 as Corporate Development Director he has worked closely with the Group's operational subsidiaries on developing their financial strategies. Prior to joining the Group he was Director of Corporate Finance at Arthur Andersen and an Associate Director at NatWest Markets. He is a chartered accountant. Aged 36.

BARRY GIBSON

Non Executive Director

Barry Gibson joined the Board in November 1999. He served on the Board at BAA plc as Group Retailing Director and was also involved in the Heathrow Express rail link development team. Until October 2001 he was the Group Chief Executive of Littlewoods Organisation plc. He is also a non executive director of William Hill PLC. Aged 52.

SUE LYONS

OBE Non Executive Director

Sue Lyons joined the Board in May 2001. Her career has principally been with Rolls Royce in engineering and manufacturing. She left Rolls Royce to join Precision Castparts Corp. as Managing Director in 1986. In 1989 Sue returned to Rolls Royce and from 1998 to 2001 held the position of Managing Director, Defence (Europe). In 1999 she was awarded the European Woman of Achievement Award – Business Category. Sue is a non executive director of Wagon plc and AWG Plc. Aged 51.

RAY O'TOOLE

Chief Operating Officer

Ray O'Toole joined the Board in November 1999 as Chief Operating Officer. He has considerable operational experience in transport. He spent the early part of his career in various engineering management positions at Greater Manchester Passenger Transport Executive. He joined National Express from FirstGroup plc, where he was responsible for its operations in Yorkshire and the North West as both Divisional Director and Group Engineering Director. Aged 48.

LARRY DURHAM

Chief Executive Officer, NEC

Larry Durham was appointed to the Board in March 2003. He has over 30 years' experience in transport and was the owner and Chief Executive Officer of Durham School Services from 1976 until its acquisition by the Group in 1999. Since that time, he has successfully led the Group's North American Division. He is active in several industry associations and is a member of the American Consultants League and the National Safety Council in the United States. Larry retired from the Board on 25 February 2004. Aged 60.

TIM STEVENSON

Non Executive Director

Tim Stevenson joined the Board in February 2001 as the Senior Independent Non Executive Director. He had a 25 year career at Burmah Castrol PLC, retiring as Chief Executive in August 2000. He is Chairman of Travis Perkins plc. Tim is also a non executive director of the Department for Education and Skills, Partnerships UK PLC and Deputy Chair of Governors of Oxford Brookes University. He is a qualified barrister. Aged 55.

DAVID ROSS

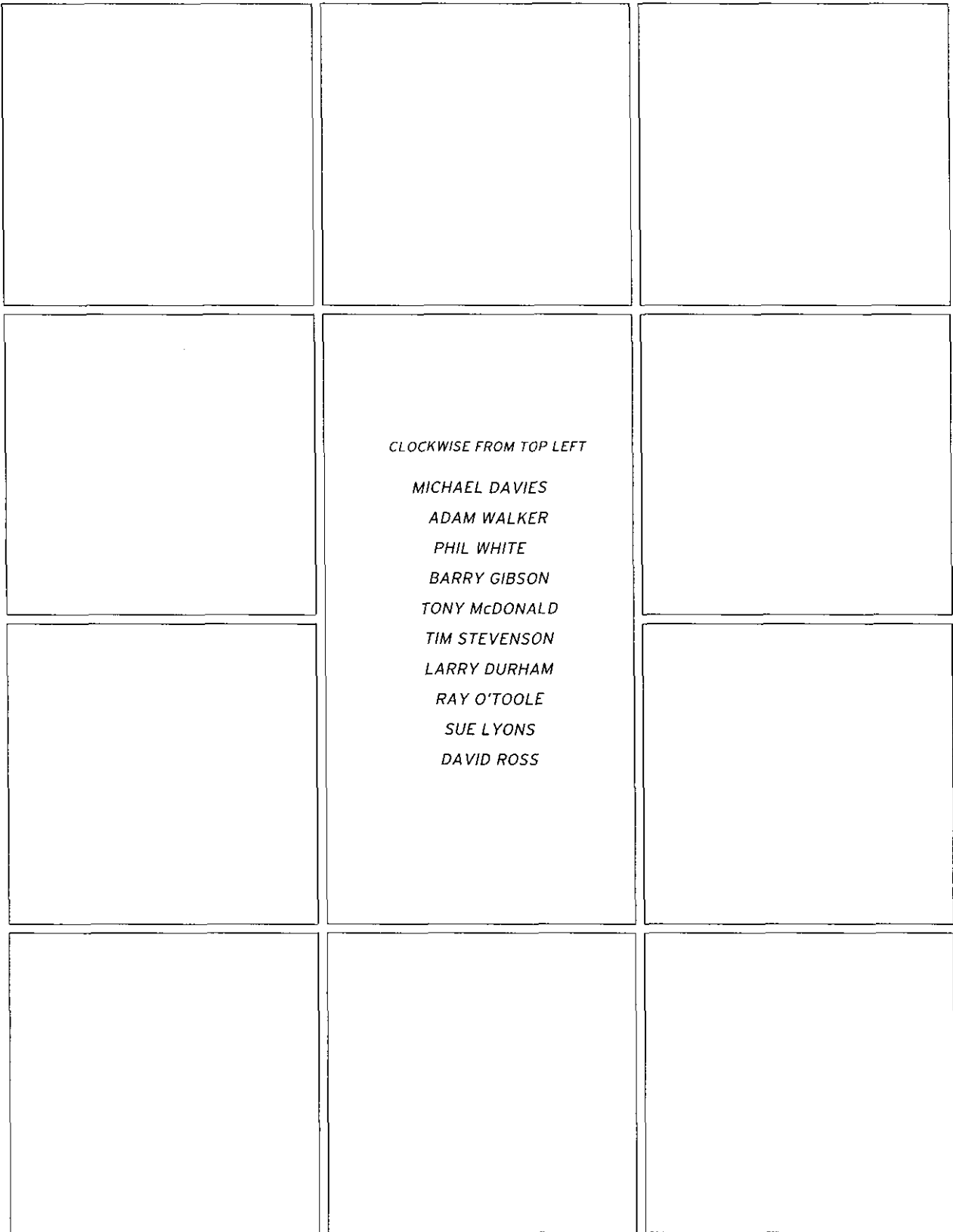
Non Executive Director

David Ross joined the Board in February 2001. He is Chief Operating Officer of The Carphone Warehouse Group PLC, which he joined in 1990, where he is primarily responsible for European development. He is also a director of Big Yellow Group PLC and is a member of the English Sports Council. He is a chartered accountant. Aged 38.

TONY MCDONALD

Company Secretary

Tony McDonald was appointed Company Secretary in May 2000. Prior to joining the Group he held senior legal positions with the in-house legal teams at Guardian Royal Exchange and BP and in private practice with Slaughter and May. He is a qualified solicitor. Aged 43.



STRENGTH THROUGH PEOPLE

CORPORATE GOVERNANCE

THE BOARD AND ITS PRINCIPAL COMMITTEES

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

The current committee structure shown below was put in place in March 2003 following a review by the Board after publication of the Higgs review in January 2003. Prior to this date members of these committees were Michael Davies, Barry Gibson, Sue Lyons, David Ross and Tim Stevenson.

The Board of Directors

Michael Davies (Chairman) (15)
Barry Gibson (Non Executive Director) (14)
Sue Lyons (Non Executive Director) (14)
David Ross (Non Executive Director) (13)
Tim Stevenson (Senior Independent Director) (15)
Phil White (Chief Executive) (15)
Larry Durham (Chief Executive Officer, NEC) (12)†
Ray O'Toole (Chief Operating Officer) (15)
Adam Walker (Finance Director) (13)†

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

Number of meetings during the year: Fifteen

† Larry Durham and Adam Walker joined the Board on 4 March 2003. Larry Durham resigned as a Director of the Company on 25 February 2004.

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

Remuneration Committee

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

Number of meetings during the year: Four

Principal Duties: The Committee is responsible for determining broad policy for the remuneration of the Executive Directors (including the Chief Executive), the divisional Chief Executives, the Chairman of the Company and the Company Secretary. Within the terms of the agreed policy the Committee will determine the total individual remuneration package of each Executive Director including, where appropriate, bonuses, incentive payments, pension arrangements and share options. The Committee will select, appoint and set the terms

of reference for any remuneration consultants who advise the Committee. The Committee will ensure that contractual terms on termination, and any payments made, are fair to the individual and the Company, that failure is not rewarded and that the duty to mitigate loss is, where appropriate, fully recognised.

Audit Committee

Tim Stevenson (Chairman) (3)
Barry Gibson (2)
David Ross (3)

Number of meetings during the year: Three

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

Nomination Committee

David Ross (Chairman) (1)
Michael Davies (1)
Sue Lyons (1)

Members from January 2004

Sue Lyons (Chairman)
Michael Davies
Tim Stevenson

Number of meetings during the year: One

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

Safety Committee

Sue Lyons (Chairman) (4)
Michael Davies (4)
Barry Gibson (3)
David Ross (3)
Tim Stevenson (4)

Number of meetings during the year: Four

Principal Duties: The Safety Committee reviews the Group's safety practices, procedures and safety record.

CORPORATE GOVERNANCE

The Board supports the highest standards of corporate governance and ethical practices within its businesses. The review of the role and effectiveness of non executive directors by Derek Higgs and a review of the responsibilities of audit committees by Sir Robert Smith led to the publication in July 2003 of the revised Combined Code on Corporate Governance (the "Revised Code") by the Financial Reporting Council. The Financial Services Authority will replace the existing Code of Best Practice on corporate governance (the "Existing Code") with the Revised Code which will be effective for reporting years beginning on or after 1 November 2003. Following publication of the Revised Code the Board has reviewed its corporate governance practices and confirms that it complies with the majority of the Revised Code provisions. The Board will continue to review and develop its corporate governance practices during the forthcoming year.

The statement of compliance below is in relation to the Existing Code of Best Practice which is applicable for the Company's reporting year to 31 December 2003. However the Board has widened its reporting to cover additional aspects included in the Revised Code provisions in advance of the reporting requirement.

STATEMENT OF COMPLIANCE WITH THE CODE OF BEST PRACTICE

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

APPLICATION OF PRINCIPLES OF GOOD GOVERNANCE

The Board of Directors, Chairman and Chief Executive

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

During the year the Board consisted of four Executive and five Non Executive Directors. The offices of Chairman and Chief Executive are held separately and the division of responsibilities between the Chairman and Chief Executive is shown below.

Principal responsibilities of the Chairman include:

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

Principal responsibilities of the Chief Executive include:

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

Tim Stevenson is the Senior Independent Director. The Board considers all the Non Executive Directors, including the Chairman, Michael Davies, to be independent. Michael Davies has been Chairman since 1992, serving alongside a number of Chief Executives and Executive Directors during that time. The Board considers that the Chairman remains independent of management and free from any business or other relationship which could materially interfere with the exercise of his judgement. All the Non Executive Directors bring 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 34.

The Board meets at least eight times during the year. There is a formal schedule of matters reserved for the Board's decision, the principal terms of which are shown on page 38 together with the attendance record of the Directors. During 2003 the Chairman met with the Non Executive Directors without the Executive Directors present to allow informal discussion on any issues of concern. Going forward the Senior Independent Director will chair a meeting of the Non Executive Directors without the Chairman present to appraise the Chairman's performance.

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

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

CORPORATE GOVERNANCE

COMMITTEES OF THE BOARD

The Board has established a number of committees with defined terms of reference and receives reports of their proceedings. The principal committees are the Remuneration Committee, the Nomination Committee, the Audit Committee and the Safety Committee. The members of each committee, attendance and main duties are shown on page 38.

APPOINTMENTS TO THE BOARD

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

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

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

THE WORK OF THE NOMINATION COMMITTEE

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

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

An example of the recruitment process used during the year was that of the recruitment of a new Finance Director early in 2003. External consultants and advertising were used for the appointment together with consideration of a number of internal candidates. Following selection of a short list of potential candidates and a rigorous interview process an internal candidate was put to the Board for approval. The Board was pleased to approve the appointment of Adam Walker who had the qualities and skills necessary for the role.

INFORMATION AND PROFESSIONAL DEVELOPMENT

Reports from the Executive Directors, which include in-depth financial information, are circulated to Board members prior to every Board meeting. Senior management and advisers give presentations to the Board on significant matters during the year as appropriate. Under the direction of the Chairman, the Company Secretary is responsible for ensuring that Board procedures are followed and applicable rules and regulations are complied with and advises the Board on governance matters. All Directors have access to the advice and services of the Company Secretary and the appointment and removal of the Company Secretary is a matter for the Board as a whole. There is a procedure in place for any Director to take independent professional advice where considered necessary.

On appointment, Directors are offered an appropriate training course and are thereafter encouraged to keep abreast of matters affecting their duties as a Director and to attend training courses relevant to their role. The induction process for new Directors was reviewed during the year and a more formal procedure established. The induction process will in future comprise:

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

PERFORMANCE EVALUATION

During the year the procedure for evaluation of the Board, its committees and individual Directors was reviewed. The resulting performance evaluation process will be carried out in the forthcoming year.

RE-ELECTION

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

REMUNERATION AND SERVICE CONTRACTS

The report on Directors' remuneration including details of remuneration policy and service contracts is set out on pages 43 to 47.

CORPORATE GOVERNANCE

ACCOUNTABILITY AND AUDIT

Statements of the respective responsibilities of the Directors and Auditors are set out on pages 48 and 49.

Internal Control

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

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

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

In particular, there are clear procedures for:

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

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

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

All subsidiaries are required formally to identify and assess the key risks they face, reviewing them on a regular basis through various management forums and reporting on an annual basis. Each risk is assessed based on its likely impact on shareholders' investments and the Company's assets and its probability of occurrence. The risk mitigation activities in place are then applied to the initial rating to produce a final risk categorisation which is reported up through the management chain.

Based on this and the risk analysis performed, local management provide an overall conclusion on whether appropriate controls are in place and operating effectively, and confirm that action is being, or has been, taken to eliminate any weaknesses identified during the period.

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

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

Audit Committee and Auditors

The members of the Audit Committee, attendance and main duties are shown on page 38.

THE WORK OF THE AUDIT COMMITTEE

The Committee meets at least three times a year and receives papers for consideration in advance of the meeting. The papers reflect the agenda prepared by the Secretary in conjunction with the Committee Chairman. There are a number of standing items considered during the year such as consideration of the internal and external audit reports, review of the preliminary and interim announcements, and review of the Annual Report and Accounts. Other items that have been considered and discussed during the year include, amongst other matters, a review of risk management processes, consideration of major risks identified by this process, consideration of the external auditors' fees and split between audit and non audit work, agreement to prepare proposals to appraise the services provided by the external auditors and proposals to assess the effectiveness of the Committee. At the invitation of the Committee, and as appropriate to the matters under discussion, meetings may be attended by the Executive Directors and internal and external auditors. Full minutes are kept by the Secretary of the matters considered and decisions taken by the Committee. Outside of the meeting process the Committee Chairman has regular contact with the Executive Directors, other committee members and the auditors on a variety of topics.

CORPORATE GOVERNANCE

The Audit Committee assesses and reviews on a regular basis the independence of the external auditors. Nearly all non audit work undertaken by the external auditors during the year relates to tax advisory services which the Committee believes would be impractical and costly to provide through another party. Any significant non audit work proposed to be undertaken by the external auditors, apart from tax advisory services, must be approved by the Committee in advance.

The Committee is reviewing the arrangements for 'whistle blowing' by employees to ensure that there is a consistent policy across the Group to enable employees to voice concerns particularly in respect of possible financial reporting improprieties.

RELATIONS WITH SHAREHOLDERS

Dialogue with Institutional Shareholders

The Company maintains a regular dialogue with its institutional shareholders and fund managers through a variety of meetings and presentations throughout the year. Presentations are given by the Executive Directors following the full year and half year results to institutional investors, analysts and brokers which the Non Executive Directors may attend. In addition, the Company's brokers provide confidential feedback to the Company on the views of the major institutions following the interim and preliminary results. Biennially the Board commissions an independent review to ascertain the views of the Company's major investors on its financial performance and management. The next review will be undertaken in 2004. During the year, written responses are given to correspondence received from shareholders and all shareholders receive copies of the Interim Report and the Annual Report and Accounts. The Company has introduced an electronic communications facility to enable shareholders to receive documentation such as the Annual Report and Accounts electronically and also to cast their vote by proxy electronically. The Company's website, www.nationalexpressgroup.com, houses wide ranging information about the Group, including the Preliminary and Interim announcements, Annual Report and Accounts, Interim Report, press releases, share price data and links to subsidiary company websites. This site was upgraded in February 2004 to meet the requirements of the Disability Discrimination Act.

The Annual General Meeting

The Annual General Meeting provides an opportunity for all shareholders to question the Chairman and Directors on a variety of topics, and information is provided at the meeting on different aspects of the Group's activities. All of the Company's directors are present at the Annual General Meeting. Proxy votes, including the number of abstentions, are displayed on the resolutions following the result on a show of hands. Notice of the Annual General Meeting and related papers are sent to shareholders at least 20 working days before the meeting.

REPORT ON DIRECTORS' REMUNERATION

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

THE REMUNERATION COMMITTEE

The members of the Remuneration Committee throughout the year (the Committee) and their attendance at meetings are shown on page 38. The Committee is responsible for determining the remuneration and conditions of employment of the Executive Directors, the Chairman, the Company Secretary and the Divisional Chief Executives. In addition the Committee reviews the salaries of a group of senior operational and head office management.

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

The Committee's recommendations in 2003 were all accepted and implemented by the Board.

REMUNERATION OF NON EXECUTIVE DIRECTORS

The fees of the Non Executive Directors are set by the Board as a whole following an annual review. The review takes account of fees paid for similar positions in the market, together with any additional responsibilities undertaken by the Director, such as acting as Chairman to one of the Board committees. Non Executive Directors are not eligible to receive pension entitlements or bonuses and may not participate in share option schemes. For 2003 the basic fee for acting as a Non Executive Director was £30,000 a year. An additional fee of £5,000 was paid for chairing one of the Board Committees. Tim Stevenson received an extra fee of £5,000 for acting as Senior Independent Director.

REMUNERATION POLICY FOR EXECUTIVE DIRECTORS

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

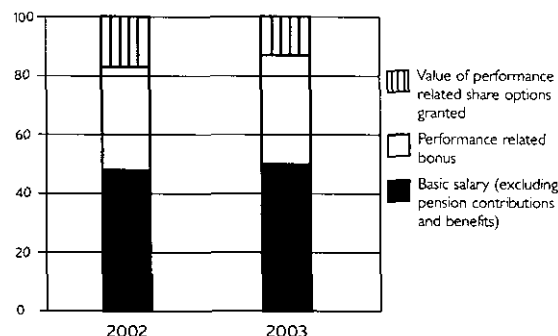
- to provide a competitive remuneration package to attract and retain quality individuals;
- to align remuneration to drive the overall objectives of the business;
- to align the interests of management with the interests of shareholders; and
- to provide the foundation for overall reward and remuneration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

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

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

ELEMENTS OF REMUNERATION

A substantial proportion of the Executive Directors' pay is performance related. The split for 2002 and 2003 was as follows:



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

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

(i) Basic salary

The salary of individual Executive Directors is reviewed at 1 January each year. Account is taken of the performance of the individual concerned, together with any change in responsibilities that may have occurred and the rates for similar roles in a comparator group of companies. The comparator group for the 2003 financial year was made up of three distinct groups of companies. These were a group of transport sector companies drawn from the FTSE 250 with a median market capitalisation of £644m, a group of companies drawn from the FTSE 250 generally with a market capitalisation range from £395m to £1,015m, and a sub-group of the transport sector containing companies more directly comparable to the Company in terms of turnover, staff numbers and/or scope of operations. For 2004 the same policy and comparator groups will be used.

(ii) Performance-related bonus

A discretionary bonus scheme is in operation for the Executive Directors. Payments for 2003 were based on the Group's profit before tax, goodwill and exceptional items with the extent to which budget is exceeded being the factor that determined the level of bonus awarded. For 2003, the Committee set the maximum bonus payable at 75% of basic salary for achieving 116% of budget. Between 100% and 116% of budget the amount of bonus payable was on a straight-line basis.

Payments for the 2004 bonus scheme will be based on profit before tax, goodwill and exceptional items. The maximum bonus payable is 75% of basic salary for achieving 113.6% of budget. Between 100% and 113.6% of budget the amount of bonus payable will be on a straight-line basis.

(iii) Other benefits

Executive Directors receive a fully expensed car, private health insurance and long-term sickness insurance. Larry Durham participated in a life insurance scheme for which National Express Corporation paid a premium, payable by the employee, of US\$46,415 (£25,994) on behalf of Mr Durham. This amount was outstanding at the year end and has been subsequently reimbursed by Mr Durham.

REPORT ON DIRECTORS' REMUNERATION

ELEMENTS OF REMUNERATION (continued)

(iv) Pensions

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

UK Directors

Phil White and Ray O'Toole are members of the WM Pension Scheme. This is an approved money purchase scheme. The pension received on retirement will depend on the total contributions paid, the investment return and the cost of buying an annuity. Adam Walker is a member of the National Express Group Staff Pension Plan which is a defined benefit scheme and with effect from 1 January 2004 Ray O'Toole will become a member of this scheme. The benefits from approved pension plans are subject to Inland Revenue limits. Benefits agreed with the Directors which exceed these limits are provided through unfunded unapproved arrangements for Ray O'Toole and Adam Walker and a funded unapproved arrangement for Phil White. Only basic salary is pensionable. Life assurance of four times basic annual salary is provided.

US Director

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

(v) Share options

(a) Executive share options

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

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

The performance conditions attached to future option grants have been reviewed by the Remuneration Committee. The Committee was mindful in its review of the views of institutional shareholders on re-testing provisions and consequently the proposed conditions dispense entirely with any form of re-testing. The following performance conditions will be put to shareholders at the 2004 Annual General Meeting for approval. If approved they will apply to any options granted in 2004 and thereafter.

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

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

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

Performance conditions attached to earlier option grants are shown on page 47.

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

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

(b) Savings Related Share Option Scheme (Sharesave Scheme)

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

Performance criteria

The Committee believes that budgeted profit and/or earnings per share (EPS) growth as performance measures for the discretionary bonus scheme and executive share option schemes provide a transparent and accessible method of gauging the performance of the Company. The Company calculates performance against these performance measures by reference to the profit or earnings per share figures appearing in the Company's audited accounts, which the Company believes to be the most transparent and objective measure of the Company's profit or earnings per share.

REPORT ON DIRECTORS' REMUNERATION

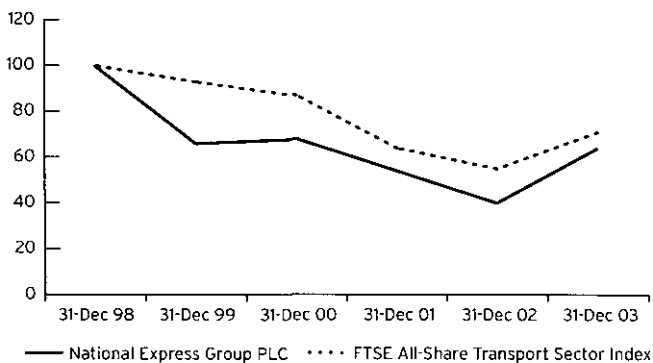
The Committee also monitors the Group's Total Shareholder Return (TSR) against both the Transport All-Share Index as a measure against its peer group and the FTSE Mid 250 Index, representing a broad equity market index of which the Company is a constituent member.

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

TOTAL SHAREHOLDER RETURN

Graph 1

Source: Datastream

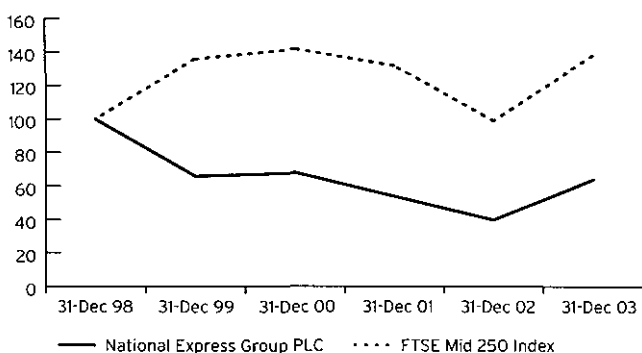


Graph 1 looks at the value, by the end of 2003, of £100 invested in National Express Group PLC on 31 December 1998 compared with £100 invested in the FTSE All-Share Transport Sector Index. The other points plotted are the values at intervening financial year-ends.

TOTAL SHAREHOLDER RETURN

Graph 2

Source: Datastream



Graph 2 looks at the value, by the end of 2003, of £100 invested in National Express Group PLC on 31 December 1998 compared with the value of £100 invested in the FTSE Mid 250 Index. The other points plotted are the values at intervening financial year-ends.

DIRECTORS' SERVICE CONTRACTS

UK Directors

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

US Director

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

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

Non Executive Directors

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

The appointment dates of the Non Executive Directors are:

Barry Gibson – 17 November 1999

David Ross – 1 February 2001

Tim Stevenson – 1 February 2001

Sue Lyons – 23 May 2001.

REPORT ON DIRECTORS' REMUNERATION

INFORMATION SUBJECT TO AUDIT: DIRECTORS' REMUNERATION

DIRECTORS' EMOLUMENTS	Salary/fees £000	Performance related bonus £000	Benefits' £000	Pension contributions £000	Total 2003 £000	Total 2002 £000
Executive Directors						
Phil White	450	330	220	40	1,040	753
Larry Durham ² (appointed 4 March 2003)	\$457	\$364	\$94	\$66	\$981	-
	£278	£222	£57	£40	£597	
Ray O'Toole	300	220	66	60	646	467
Adam Walker (appointed 4 March 2003)	182	161	17	- ³	360	-
Non Executive Directors						
Michael Davies	135	-	-	-	135	125
Barry Gibson	35	-	-	-	35	30
Sue Lyons	35	-	-	-	35	30
David Ross	35	-	-	-	35	30
Tim Stevenson	40	-	-	-	40	38

1 Benefits in kind include a company car, fuel and health insurance and pension contributions payable above the earnings cap to Phil White (£185,109) and Ray O'Toole (£42,000).

2 Larry Durham receives his remuneration in US dollars. For comparison purposes amounts shown in US dollars and pounds sterling are converted at the average exchange of £1 = \$1.64 for 2003.

3 See below for details of Adam Walker's pension

The following information relates to Adam Walker (appointed 4 March 2003) who participates in a defined benefit pension scheme:

	Age	Accrued benefit at 1 Jan 2003 £000	Increase in pension (net of indexation) £000	Transfer value of increase in period £000	Accrued benefit at 31 Dec 2003 £000	Transfer value at 1 Jan 2003 £000	Transfer value at 31 Dec 2003 £000	Movement in transfer value during period less director's contributions £000
Adam Walker	36	2.0	6.5	35.2	8.6	6.8	46.4	27.7

DIRECTORS' INTERESTS AND TRANSACTIONS

The beneficial interests of the Directors in office as at 31 December 2003 are shown below:

DIRECTORS' SHAREHOLDINGS	At 31 December 2003	At 31 December 2002*
Executive Directors		
Larry Durham (appointed 4 March 2003)	3,000	-
Ray O'Toole	11,500	1,500
Adam Walker (appointed 4 March 2003)	4,300	-
Phil White	165,408	115,408
Non Executive Directors		
Michael Davies	90,000	90,000
Barry Gibson	3,000	3,000
Sue Lyons	2,072	2,072
David Ross	100,574	574
Tim Stevenson	5,773	5,773

* As at 31 December 2002 or date of appointment if later

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

REPORT ON DIRECTORS' REMUNERATION

EXECUTIVE DIRECTORS

Directors' Share Options

	Note	At 1 Jan 2003 ⁺	Granted	During year Exercised	Lapsed	At 31 Dec 2003	Exercise price	Market price at date of exercise	Date from which exercisable	Expiry date
Phil White	(i)	130,000	-	-	(117,130)	12,870	540.0p	-	27.04.03	27.04.10
	(i)	83,478	-	-	-	83,478	862.5p	-	19.04.04	19.04.11
	(ii)	5,128	-	-	-	5,128	585.0p	-	05.07.05	05.07.12
	(iii)	97,436	-	-	-	97,436	585.0p	-	05.07.05	05.07.12
	(iii)	-	169,598	-	-	169,598	398.0p	-	18.03.06	18.03.13
Larry Durham (appointed 4/3/03)	(i)	30,000	-	-	-	30,000	793.0p	-	26.09.03	26.09.10
	(i)	63,417	-	-	-	63,417	862.5p	-	19.04.04	19.04.11
	(iii)	50,708	-	-	-	50,708	585.0p	-	05.07.05	05.07.12
	(iii)	-	113,065	-	-	113,065	398.0p	-	18.03.06	18.03.13
Ray O'Toole	(i)	85,000	-	-	(76,585)	8,415	540.0p	-	27.04.03	27.04.10
	(i)	57,971	-	-	-	57,971	862.5p	-	19.04.04	19.04.11
	(ii)	5,128	-	-	-	5,128	585.0p	-	05.07.05	05.07.12
	(iii)	62,820	-	-	-	62,820	585.0p	-	05.07.05	05.07.12
	(iii)	-	113,065	-	-	113,065	398.0p	-	18.03.06	18.03.13
	(iv)	453	-	-	-	453	417.0p	-	01.12.05	01.06.06
Adam Walker (appointed 4/3/03)	(ii)	5,128	-	-	-	5,128	585.0p	-	05.07.05	05.07.12
	(iii)	14,530	-	-	-	14,530	585.0p	-	05.07.05	05.07.12
	(iii)	-	75,377	-	-	75,377	398.0p	-	18.03.06	18.03.13

Notes

+ or date of appointment if later

- (i) Options granted under the 1996 National Express Group Executive Share Option Scheme
- (ii) Options granted under the 2002 National Express Group Executive Share Option Plan Part 1 Approved
- (iii) Options granted under the 2002 National Express Group Executive Share Option Plan Part 2 Unapproved
- (iv) Options granted under the 2002 National Express Group Savings Related Share Option Scheme.

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

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

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

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

Notes:

Larry Durham is deemed to have an interest in 84,329 executive share options granted to his spouse by virtue of her employment with National Express Corporation at option prices between 398.0p

and 862.5p between the period September 2000 and March 2003. These options also subject to performance conditions. In addition to their individual interests in shares the Executive Directors were, for Companies Act purposes, regarded as interested in the following shares:

- (i) 83,633 shares held at 24 February 2004 by the National Express Group QUEST (QUEST), established for satisfying exercises under the Group's Sharesave Scheme. All employees (including Executive Directors) are potential beneficiaries under this Trust.
- (ii) 1,756,919 shares held at 24 February 2004 by the National Express Group Employee Benefit Trust in respect of the Executive Share Option Plan and Sharesave Scheme.

No change occurred in any of the interests held by Directors in office between 31 December 2003 and 24 February 2004. The Register of Directors' Interests maintained by the Company contains full details of the Directors' holdings of shares and options over shares in the Company. None of the Directors exercised share options during the year.

The mid-market price of the Company's ordinary shares at 31 December 2003 was 61 1p (2002: 402p) and the range during the year ended 31 December 2003 was 34 1p to 64 1p.

By Order of the Board

J M B Gibson
Director and Chairman of the Remuneration Committee
26 February 2004



STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

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

TEN YEAR SUMMARY

Year ended 31 December	2003 £m	2002 £m	2001 £m	2000 £m	1999 £m	1998 £m	1997 £m	1996 £m	1995 £m	1994 £m
Turnover	2,566.1	2,572.3	2,464.2	2,002.6	1,476.7	1,322.4	1,133.5	482.5	317.7	170.0
Operating profit before goodwill and exceptional items	134.6	130.9	157.8	155.1	113.2	95.8	83.6	66.1	46.9	16.3
Operating profit	83.6	67.2	32.1	101.8	95.2	84.9	66.1	62.3	44.0	16.3
Share of operating losses of associated undertakings	(4.1)	(6.6)	(1.9)	(1.8)	–	(0.2)	–	–	–	–
Profit on sale of investments	–	–	–	–	0.2	5.4	–	–	–	–
Release/(creation) of provision against fixed asset investment	–	–	–	–	–	4.8	(10.8)	–	–	–
(Loss)/profit on closure/sale of businesses	–	(126.1)	112.0	(1.0)	–	–	–	–	–	–
Net interest (payable)/receivable	(25.0)	(20.1)	(26.7)	(34.0)	(5.8)	2.1	(0.5)	(2.2)	(2.5)	(1.1)
Profit/(loss) on ordinary activities before taxation	54.5	(85.6)	115.5	65.0	89.6	97.0	54.8	60.1	41.5	15.2
Tax on profit/(loss) on ordinary activities	(12.5)	(20.3)	(1.2)	(12.9)	(22.8)	(22.8)	(18.8)	(18.7)	(14.0)	(5.0)
Minority interest	1.0	0.6	0.1	(0.7)	(0.2)	–	–	–	–	–
Dividends	(35.1)	(32.4)	(28.6)	(26.3)	(21.0)	(18.1)	(14.6)	(11.5)	(9.6)	(3.5)
Retained profit/(loss)	7.9	(137.7)	85.8	25.1	45.6	56.1	21.4	29.9	17.9	6.7
Statistics										
Basic earnings/(loss) per share	32.1p	(80.0p)	88.4p	43.4p	58.3p	66.5p	34.2p	42.9p	35.5p	25.5p
Normalised diluted earnings per share*	59.7p	60.3p	66.0p	57.7p	52.2p	47.1p	38.3p	26.6p	19.7p	12.6p
Dividends per ordinary share	26.0p	24.5p	22.0p	20.7p	18.2p	16.0p	13.5p	11.5p	10.0p	8.7p
Net assets										
Intangible fixed assets	404.6	467.7	508.3	523.7	242.6	9.1	–	–	–	–
Tangible fixed assets and investments	418.1	445.8	539.2	680.9	518.8	300.6	249.5	221.0	201.3	71.2
Net current liabilities	(143.0)	(186.5)	(120.8)	(349.5)	(62.5)	(33.6)	(61.3)	(41.1)	(34.1)	(9.1)
Creditors falling due after one year	(347.3)	(360.0)	(405.1)	(458.2)	(408.8)	(50.4)	(30.1)	(23.8)	(51.5)	(16.5)
Provisions for liabilities and charges	(58.8)	(104.4)	(119.5)	(19.6)	(23.1)	(13.8)	(12.0)	(10.1)	(9.7)	(2.1)
	273.6	262.6	402.1	377.3	267.0	211.9	146.1	146.0	106.0	43.5
Capital and reserves										
Share capital and share premium	51.9	51.4	50.3	47.0	41.5	36.1	30.5	28.6	28.2	6.1
Other reserves	217.0	206.4	346.5	325.8	221.3	175.8	115.6	117.4	77.8	37.4
Equity shareholders' funds	268.9	257.8	396.8	372.8	262.8	211.9	146.1	146.0	106.0	43.5
Equity minority interest	4.7	4.8	5.3	4.5	4.2	–	–	–	–	–
	273.6	262.6	402.1	377.3	267.0	211.9	146.1	146.0	106.0	43.5
Net (debt)/funds										
Cash at bank and in hand	97.0	93.7	92.3	53.8	101.0	94.2	55.9	30.0	39.5	18.9
Loan notes	(8.4)	(9.1)	(10.0)	(10.3)	(10.3)	(10.6)	(14.2)	(12.5)	(15.5)	(3.2)
Bank and other loans	(324.4)	(361.2)	(359.7)	(585.4)	(383.4)	(42.0)	(13.1)	(10.0)	(43.9)	(15.5)
Bank overdrafts	(0.2)	–	(0.5)	(0.4)	(4.5)	(2.0)	(3.1)	(1.2)	(5.4)	–
Finance lease obligations	(53.1)	(58.0)	(37.1)	(14.3)	(18.7)	(4.5)	(7.5)	(9.4)	(12.5)	(2.6)
	(289.1)	(334.6)	(315.0)	(556.6)	(315.9)	35.1	18.0	(3.1)	(37.8)	(2.4)
Net gearing	106%	127%	78%	148%	118%	(17)%	(12)%	2%	36%	6%

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

SHAREHOLDER INFORMATION

SHAREHOLDER ENQUIRIES

For additional copies of the Annual Report and Accounts or further information about the Group, please contact the Company Secretary at National Express Group PLC, 75 Davies Street, London W1K 5HT.

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

REGISTRAR

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

PAYMENT OF DIVIDENDS TO MANDATED ACCOUNTS

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

SHAREHOLDER ELECTRONIC COMMUNICATIONS

Log on to www.shareview.co.uk if you would like to:

- check the balance of your shareholding;
- register your e-mail so that future shareholder information can be sent to you electronically; or
- submit your vote on-line prior to a general meeting.

UNCLAIMED ASSETS REGISTER

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

SHAREGIFT

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

ANALYSIS OF ORDINARY SHAREHOLDINGS AT 24 FEBRUARY 2004

	Number of accounts	Per cent of total number of accounts	Number of shares '000	Per cent of ordinary capital
By size of holding				
1 - 500	8,564	52	1,428	1
501 - 1,000	2,841	17	2,090	2
1,001 - 5,000	3,503	21	8,024	6
5,001 - 50,000	1,383	9	14,251	10
50,001 - 1,000,000	161	1	35,502	26
Over 1,000,000	29	—	75,560	55
	16,481	100	136,855	100
	Number of accounts	Per cent of total number of accounts	Number of shares '000	Per cent of ordinary capital
By investor type				
Individuals	15,276	93	21,378	16
Institutional Investors	1,103	6	106,590	78
Other Corporate Investors	102	1	8,887	6
	16,481	100	136,855	100

DIVIDENDS AND FINANCIAL CALENDAR

<i>DIVIDENDS</i>	<i>EVENT</i>	<i>DATE</i>
	Final dividend record date	13 April 2004
	Final dividend payment date	7 May 2004
	Interim dividend record date	September 2004
	Interim dividend payment date	October 2004
	Final dividend record date	April 2005
	Final dividend payment date	May 2005

<i>FINANCIAL CALENDAR</i>		
	Annual General Meeting	5 May 2004
	Interim results announced	July 2004
	Preliminary results announced	February 2005
	Annual report circulated	March 2005
	Annual General Meeting	April/May 2005

CORPORATE INFORMATION

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